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103		House of Commons.	
H7		Standing Committee on	
1964/65		Public Accounts.	
P8		Minutes of proceedings	
A1	DATE	and evidence.	NAME - NOM
v.2			

CANADA. PARLIAMENT.
HOUSE OF COMMONS.
STANDING COMMITTEE ON
PUBLIC ACCOUNTS.

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HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, JULY 16, 1964

WITNESSES:

From the Department of Transport: Messrs. G. A. Scott, Acting Deputy Minister; R. W. Goodwin, Director of Civil Aviation; H. J. Williamson, Chief, Technical & Policy Co-ordination, Telecommunications Branch and W. A. Ramsay, Chief Architect, Air; and Mr. A. M. Henderson, Auditor General and Mr. D. A. Smith, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Grégoire,	Prittie,
Cameron (<i>High Park</i>),	Gray,	Regan,
Cardiff,	Harkness,	Rinfret,
Choquette,	¹ Horner (<i>Acadia</i>),	Rock,
Côté (<i>Chicoutimi</i>),	Leblanc,	Rondeau,
Crouse,	Legault,	Ryan,
³ Danforth,	Lessard (<i>Saint-Henri</i>),	Smith,
Drouin,	Loiselle,	Southam,
Dubé,	Mandziuk,	Stefanson,
Fane,	McLean (<i>Charlotte</i>),	² Stenson
Fisher,	McMillan,	Stewart,
Forbes,	Muir (<i>Lisgar</i>),	Tucker,
Francis,	Nowlan,	Wahn,
Frenette,	O'Keefe,	Whelan,
Gendron,	Pigeon,	Winch—50.
Grafftey,	Pilon,	

M. Slack,
Clerk of the Committee.

¹Replaced Mr. Ricard on Wednesday, July 15.

²Replaced Mr. Chaplin on Wednesday, July 15.

³Replaced Mr. Valade on Wednesday, July 15.

ORDER OF REFERENCE

HOUSE OF COMMONS,
Wednesday, July 15, 1964.

Order,—That the names of Messrs. Horner (*Acadia*) Stenson and Danforth be substituted for those of Messrs. Ricard, Chaplin and Valade on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

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MINUTES OF PROCEEDINGS

THURSDAY, July 16, 1964
(22)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Vice-Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Berger, Cameron (*High Park*), Cardiff, Crouse, Fane, Francis, Frenette, Hales, Leblanc, Legault, McLean (*Charlotte*), McMillan, O'Keefe, Nowlan, Pilon, Stefanson, Stenson, Stewart, Tardif, Tucker, Wahn, Winch (22).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and *From the Department of Transport:* Messrs. G. A. Scott, Acting Deputy Minister, R. W. Goodwin, Director of Civil Aviation, H. J. Williamson, Chief, Technical & Policy Coordination, Telecommunications Branch, and W. A. Ramsay, Chief Architect, Air; and Messrs. Smith, Hayes and Laroche of the Auditor General's office.

The Committee resumed its consideration of the 1962 carryover items and the 1963 Report of the Auditor General.

The Vice-Chairman introduced Mr. Scott, who in turn, introduced Messrs, Ramsay, Goodwin and Williamson of his Department.

Paragraph 100, 101 and sub-paragraphs 20, 21 and 22 of paragraph 115 of the 1962 Report, and paragraph 84 and 85 of the 1963 Report, relating to the Department of Transport, were reviewed by Mr. Henderson.

Mr. Scott was examined, assisted by Messrs. Ramsay, Goodwin and Williamson.

The examination of the witnesses still continuing, at 10.50 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(23)

The Committee resumed at 3.40 p.m. The Vice-Chairman Mr. Paul Tardif, presided.

Members present: Messrs, Berger, Cameron (*High Park*), Cardiff, Crouse, Danforth, Fane, Frenette, Hales, Harkness, Leblanc, Legault, Lessard (*Saint-Henri*), McLean (*Charlotte*), O'Keefe, Nowlan, Ryan, Stefanson, Stenson, Tardif, Tucker, Whelan, Winch (22).

In attendance: Same as at morning sitting.

The Committee resumed consideration of the 1963 Report of the Auditor General.

On paragraph 86, *Montreal International Airport construction costs*, Mr. Henderson commented briefly. Mr. Ramsay was then examined and explained the design changes.

The Vice-Chairman tabled a report from the Minister of Finance on the Exchange Fund Account, which will be considered at the next sitting on Tuesday, July 21; copies of this report were distributed to members of the Committee.

On paragraph 87, *Catering contract, Montreal International Airport*, Mr. Henderson commented briefly, and was examined thereon, assisted by Mr. Smith.

Messrs. Scott, Ramsay and Goodwin were examined and supplied additional information.

Mr. Winch suggested that the steering subcommittee consider whether the Minister of Transport of that day should be requested to appear before the Committee. The Vice-Chairman advised that the suggestion of Mr. Winch would be considered by the steering subcommittee.

On paragraph 98, *Non-productive payments*, relating to the Department of Transport, Mr. Henderson commented on these payments and was examined thereon, together with Mr. Scott.

The questioning of the witnesses from the Department of Transport being concluded, the Vice-Chairman thanked them for the information supplied to the Committee.

At 5.15 p.m., the Committee adjourned until 9.30 a.m. on Tuesday, July 21, 1964.

M. Slack,
Clerk of the Committee.

Note—The evidence, adduced in French and translated into English, printed in this issue, was recorded by an electronic recording apparatus, pursuant to a recommendation contained in the Seventh Report of the Special Committee on Procedure and Organization, presented and concurred in, on May 20, 1964.

EVIDENCE

THURSDAY, July 16, 1964

(Text)

The Vice-CHAIRMAN: Gentlemen, we have a quorum. Would you please come to order.

First of all, I would like to welcome Mr. Stenson, who has been appointed a new member on the committee.

Second, I would like to introduce to you Mr. Scott, the acting deputy minister of transport, who is going to be the main witness this morning.

I would ask Mr. Scott if he would be kind enough to introduce the officials he brought with him in order to make his task and ours easier.

Mr. G. A. SCOTT (*Acting Deputy Minister, Department of Transport*): Mr. Chairman, I would like to introduce Mr. Goodwin, director of civil aviation; Mr. Ramsay, who is the chief architect of the department, and Mr. Williamson from the telecommunication branch of the department.

The Vice-CHAIRMAN: Thank you very much.

For the information of those who are going to use the simultaneous translation system may I say that the tables are wired but the chairs are not, so if you plug into the table you will know what is going on.

We are going to sit until 11 o'clock this morning and then again at 3.30 this afternoon. We will have to leave this room at 11 o'clock because the defence committee is sitting here.

The first item on the agenda this morning is paragraph 100 of the 1962 report.

I would ask Mr. Henderson at this time to make his comments in respect of that paragraph.

Mr. A. N. HENDERSON (*Auditor General of Canada*): Mr. Chairman, we have several paragraphs left in the 1962 report before we move over to the 1963 report.

As the Chairman stated, the first paragraph is number 100, entitled route facility fees receivable from air lines. Now, we discussed this subject in committee on June 16, and the evidence is available in the minutes of proceedings at pages 146 and 147. You may recall that I told you that subsequent to this paragraph appearing in my 1962 report the unpaid accounts had increased to \$5½ million up to March 31, 1963 when 22 air lines were involved. Some months later the Department of Justice expressed doubts concerning the legal validity of the regulation under which these fees were being assessed and in October, last year, the governor in council authorized the remission or return of fees paid or payable.

Perhaps you may recall that in December last year the Minister of Transport introduced a measure, Bill No. C-117, entitled an act to amend the Aeronautics Act which, in part, was intended to provide authority for the charging of such fees. However, to date this legislation has not been dealt with in the House.

The Vice-CHAIRMAN: Are there any questions on this particular paragraph?

Mr. McMILLAN: Mr. Chairman, I would like to put this question. Are our fees which we have been charging comparable to those of other countries?

Mr. HENDERSON: Perhaps Mr. Scott should answer your question.

Mr. SCOTT: Well, this was a particular type of fee which normally is not applied by countries in respect of aircraft. It had to do with aircraft which were operating across the north Atlantic and which, in fact, were overflying Gander. But, they were using the Gander facilities other than landing. Now, quite some few years ago the landing fees were based on the cost of providing the landing facilities plus the provision of facilities for area navigation. Of course, if the aircraft does not land you do not collect and as the government of Canada was supplying a very expensive facility and we were not recovering through the landing fee for the provision of these services, then this overflight charge was put into effect, and this was the \$64 fee.

Mr. McMILLAN: Is there any corresponding fee for planes going the other way across the Atlantic?

Mr. SCOTT: Do you mean transatlantic flights westbound?

Mr. McMILLAN: I mean on the European side.

Mr. SCOTT: No, there is no similar fee.

The VICE-CHAIRMAN: Gentlemen, are there any further questions on paragraph 100?

Mr. HALES: Do you feel there is anything further which can be done in respect of this until the necessary legislation is passed?

Mr. HENDERSON: I would think not, Mr. Hales. The bill is coming before the house for discussion which, presumably is, as I say, to provide authority for charging of such fees. I have been informed by Mr. Scott that there was a resolution put forward in parliament to introduce the bill but it has not proceeded any farther in the house. I understand it provides, in part, authority for the charging of such fees.

Mr. HALES: Would we be able to make these fees retroactive?

Mr. HENDERSON: I am not sufficiently familiar with the proposed legislation. Perhaps Mr. Scott would say a word in that connection.

Mr. SCOTT: I do not think that would be possible, sir.

The VICE-CHAIRMAN: We will now proceed to the next paragraph, which is number 101, which deals with expenditure incurred without treasury board approval.

Mr. Henderson, would you care to make your comment on this paragraph.

Mr. HENDERSON: Mr. Chairman, we discussed this matter in committee on June 16 and the evidence is available in the minutes of proceedings at page 148.

The comment here explains how a \$35,000 saving by the Department of Transport on sculpture planned for the lobby of the new Montreal international airport was subsequently expended on additional drapes and other furnishings not originally provided for in the original specifications. This was done without obtaining further treasury board approval. I was later informed by the secretary of the board that the saving should not have been used without prior reference to the board. However, the department felt they were entitled to do this without obtaining any further treasury board approval, having achieved a saving in the first instance. Hence, an important principle is involved here, as several of the members will recall when we discussed it on June 16. Therefore, the committee might like to discuss the point with Mr. Scott.

Before Mr. Scott speaks I might remind you we shall be discussing the over-all costs of construction of the new Montreal international airport today with Mr. Scott under paragraph 86 in my 1963 report.

The VICE-CHAIRMAN: Does the committee feel that this paragraph should be left over until we discuss the construction of the Montreal international airport at a later time today?

Mr. HALES: I think this is an individual and special case and it should be handled separately.

The VICE-CHAIRMAN: Then, are there any questions in respect of paragraph 101?

Mr. WINCH: Mr. Chairman, could we have the explanation from Mr. Scott.

Mr. SCOTT: Well, Mr. Chairman, we, in the department, felt we had secured approval of a program, which included the furnishings and the completion of the interior of the terminal building. We did not feel that the item of sculpture should be treated differently from the items of furnishings, fixtures or drapes because these all had been in the program we put up and we were given approval for that program. Therefore, within the limits of the approval given when it was decided not to go ahead with the item of sculpture, in view of the fact we were going to need additional fixtures and furnishings, this money being available and the fact it was in the over-all approval, it appeared odd to us to have to go back to treasury board to ask for additional money for additional furnishings in the building when we were sitting with \$35,000 under what we considered a general approval. Treasury board felt the item of sculpture was a particular item and if there was any change in respect of this we should have gone back to them. It was just the difference between the way the department considered it and the way treasury board looked upon it.

The VICE-CHAIRMAN: As Mr. Nowlan was on treasury board at this time I wonder whether he would be familiar with this particular paragraph.

Mr. NOWLAN: I do not recall it, Mr. Chairman.

The VICE-CHAIRMAN: I presume the Chairman is not supposed to ask questions but I am a little curious in this connection. I am wondering whether that \$35,000 was earmarked for this particular purpose.

Mr. SCOTT: I am advised not.

Mr. WINCH: In a situation such as has been outlined when there is a difference of opinion between the department and treasury board which has the authority as to the opinion?

The VICE-CHAIRMAN: I do not think this opinion actually was submitted to treasury board for approval.

Mr. WINCH: But treasury board said they should have obtained approval.

Mr. NOWLAN: Yes, afterward.

Mr. WINCH: Yes, I realize that, and it seems to be a bad habit with some departments to confront us with a *fait accompli*, and then get approval of something that is done.

The VICE-CHAIRMAN: Have you a question, Mr. Hales?

Mr. HALES: Mr. Scott, no doubt your department would estimate your furnishings and so on which this \$475,000 was to be made up of, so you would have all the furnishings, and so on, listed. You say in this estimate there was not a figure of \$35,000 for sculpture work.

Mr. SCOTT: Subject to confirmation, I believe an estimate was made of the cost of furnishings and fixtures that would be put in, and this would come to \$475,000, which is the approval we asked of treasury board.

Mr. HALES: Was there an item in this estimate you prepared for \$35,000 for art or sculpture?

Mr. SCOTT: I do not think we list any of the particular items that go in, but within our own planning within the department—

Mr. HALES: If I may interrupt, how did you arrive at the figure of \$475,000?

Mr. SCOTT: Because the architect made up an estimate based on what was to go into the building and, therefore, in their own figures in the department they would have the item of sculpture listed.

Mr. HALES: The architects have the item of sculpture listed.

Mr. SCOTT: Yes.

Mr. HALES: Well then, this sculpture was singled out as \$35,000 by the architect?

Mr. SCOTT: This is right, yes.

Mr. HALES: I thought we were just told that it was not.

Mr. SCOTT: Not when it was put up to treasury board, sir. It was put up to treasury board on the basis of the approval of the expenditure contemplated.

Mr. HALES: There would appear to be a pretty fine line drawn here.

Mr. SCOTT: Well, this is it; we feel, being responsible for the carrying out of these projects, that we should have freedom of management within the authority given by treasury board, and that if \$475,000 was approved for furnishing the building, then we should have some leeway in here to change and to do certain things as best we see fit but still staying within the limits of approval. If you carried this to a ridiculous extreme it would mean that if we changed the type of chairs that we were putting in we would be required to go back to treasury board for approval, and this would seem a rather difficult way to administer a project like this.

Mr. HALES: Did you accept the architect's suggestions in respect of furnishings?

Mr. SCOTT: The department did, yes.

Mr. HALES: And, in that list the architect suggested a figure of \$35,000 approximately for the sculpture?

Mr. SCOTT: Yes.

The VICE-CHAIRMAN: You are next, Mr. Wahn.

Mr. WAHN: I would like to be entirely clear on this. As I understand from the evidence the accepted tender included \$35,000 for sculpture. It says here:

The accepted tender included \$35,000 for a work of sculpture to be located in the lobby of the building.

Mr. SCOTT: I am advised there was no tender called on the sculpture.

Mr. WAHN: In any event, I gather from the preceding answers, whether or not a tender was called, the architect listed this particular item at \$35,000. Am I right in this assumption?

Mr. SCOTT: Yes, in the estimates.

Mr. WAHN: Was there any reference whatsoever to the item of sculpture, not necessarily specifying the amount, in the submission to treasury board.

Mr. SCOTT: Yes.

Mr. WAHN: So, there was a reference to the item of sculpture in the submission to treasury board but a price tag merely was not put on it?

Mr. SCOTT: That is right.

Mr. WAHN: Mr. Chairman, I could see quite clearly that if the department wanted to change the colour of the drapes from blue to gold, or to red, quite obviously they should be allowed to do so, or if they wanted to change one type of door to another type of door this is surely something in which they should exercise some discretion; but, an item of sculpture is something which presumably lasts indefinitely, whereas drapes and other furnishings are more

temporary in nature. So, I think there is quite a difference between an item of sculpture and items of drapes and furnishings. On the other hand, two types of drapes are in the same category.

In the Toronto airport there are many items of sculpture, paintings and welded objects hanging from the ceiling, some of which are attractive and interesting and others which may not be; nevertheless, they represent quite a substantial investment. I realize the amount here is \$35,000, whereas in respect of the Toronto airport half a million dollars might have been spent. Is it suggested that you could delete all these paintings and sculpture in the Toronto airport, these murals and so on, and replace them by additional drapes, chairs, tables and furnishings?

It seems to me there must have been some discussion within the department in respect of treasury board's authority before they made this decision. This did not concern a switch from one drape to another but a change of category. I think perhaps the department decided they would run the risk of making the switch. This might be an unfair statement to make but it would appear to me that this must have been discussed by your officials in the department.

The VICE-CHAIRMAN: If I understand what you mean, Mr. Wahn, you are suggesting that this type of leeway should not have existed in this particular case or in similar cases.

Mr. WAHN: Well, I think there certainly is a difference between ordinary items such as drapes and so on and a piece of sculpture.

Mr. SCOTT: You must remember this was the first case. You made reference to art in the other terminal buildings. At that time we had no general policy approval whatsoever from treasury board in respect of artistic work and, as I say, at the time we looked upon this purely as part of the furnishings. At least, this was the department's view. However, since that time treasury board has looked upon the art aspect separately and has given a general policy in respect of it. So, the situation today is certainly different from what it was before, and it affirms what you have stated. But, this case in Montreal was the first.

The VICE-CHAIRMAN: Would you proceed, Mr. Winch.

Mr. WINCH: Mr. Chairman, I have one question. Would I be correct in assuming that your idea was to drop the \$35,000 in respect of sculpture and apply it to other furnishings because there was that amount unestimated in respect of drapes and other furnishings and, in view of that fact, you spent the \$35,000?

Mr. SCOTT: No.

Mr. WINCH: Then, why did you need the extra \$35,000 for drapes?

Mr. SCOTT: It was decided not to go ahead with the sculpture.

Mr. WINCH: Then why did you use the money on drapes and other furnishings when under the architect's estimate he must have included the cost of drapes and furnishings.

Mr. SCOTT: I am not sure what the additional money was spent on. It could have been because the cost of the other items being put in was somewhat more than the estimate.

Mr. WINCH: This is exactly what I was referring to. But, a clear decision was made not to go ahead with the item of sculpture and it was not on the basis of a saving.

The VICE-CHAIRMAN: It is the difference in cost between ordinary furniture and prestige furniture.

Mr. WINCH: I am wondering why they spent the \$35,000 which they did not need for the sculpture.

The VICE-CHAIRMAN: It was the difference between ordinary furniture and prestige furniture.

Mr. WINCH: Well, obviously either they put in more expensive things or they underestimated what it was going to cost.

The VICE-CHAIRMAN: You are next, Mr. Cameron.

Mr. CAMERON (*High Park*): Between Mr. Wahn's and Mr. Winch's questioning and your ability to condense a large problem into a nutshell my questions have been pretty well answered. It would strike me, however, that they did not take a hard enough look at this item of \$35,000. They just found this extra amount of \$35,000 to spend and they went ahead and spent it. I do not think you really could have spent very much time thinking out the problem when you went ahead and used this \$35,000 for other items when the item of sculpture was cancelled. I think this would be outside the leeway which should be given to anyone who is furnishing a building. In my opinion, this is something special. I think this is a matter of not thinking the problem through to a logical conclusion.

Mr. SCOTT: If I might comment on this, I think if we had gone ahead with the sculpture we would have had to go back to treasury board for some additional money in order to cover the cost of the other items of equipment. The decision had been taken not to go ahead with the sculpture and when we found we needed the additional money to complete the furnishings we did so because we felt this money was included in an approved program.

Mr. CAMERON (*High Park*): But I think you are bypassing the issue. It might have been so that you would have had to go back to treasury board. You might have had to do that in any event. But, in my opinion, it would have been much better if you had gone back and obtained their approval than to say: "we have \$35,000 normally allotted for an item; as we are not going to put that item in we will use that extra money to keep us within our estimate."

Mr. SCOTT: Well, there is a policy in existence now which takes care of this.

Mr. CAMERON (*High Park*): The general public will get the idea that as we had \$35,000 on our hands which was covered by treasury board approval we just went ahead and spent it and there is no control over it.

The VICE-CHAIRMAN: Would you proceed, Mr. Hales.

Mr. HALES: I think my question has been answered, Mr. Chairman. If I may sum up, it would appear that in the first place the department did get permission to spend \$35,000 on a piece of sculpture.

Mr. SCOTT: Not as a separate item.

Mr. HALES: Well, the architect gave you a list of furnishings, including sculpture to the extent of \$35,000, and you or the department accepted the architect's recommendations.

Mr. SCOTT: Yes.

Mr. HALES: Then there was \$35,000 included in his recommendations for a piece of sculpture?

Mr. SCOTT: Yes.

Mr. HALES: We have established that the department then decided not to spend the money on sculpture so your department then took it upon itself to spend it for something else. I think this is where the committee feels that a rather dangerous precedent is being set. It is our job as members of this public accounts committee to see that this does not occur too often or, in fact,

does not occur at all. I think we have established that point, Mr. Chairman. I have nothing further to add at this time.

The VICE-CHAIRMAN: Have you a question, Mr. Pilon?

Mr. PILON: My question has just been answered, Mr. Chairman.

The VICE-CHAIRMAN: Would you proceed, Mr. Nowlan.

Mr. NOWLAN: Mr. Chairman, I was going to ask if the department approached treasury board only once for the over-all amount in respect of the building or if, in fact, they approached it on several occasions with increased amounts?

Mr. SCOTT: Just once for the furnishings.

Mr. NOWLAN: But, I am referring to the over-all building, the building and furnishings.

Mr. SCOTT: Oh, there were changes in the building and other costs in respect of which we had to go back to treasury board.

Mr. NOWLAN: You had to go back to treasury board?

Mr. SCOTT: Yes.

Mr. NOWLAN: And, on more than one occasion.

Mr. SCOTT: Yes.

The VICE-CHAIRMAN: You are next, Mr. Stewart.

Mr. STEWART: Would it be relevant at this time to ask what the present procedures are. How would the present procedures have applied if they had been in effect when this particular instance came to the attention of the department?

The VICE-CHAIRMAN: Would you care to answer that question, Mr. Scott.

I do not know whether or not your question is clear to Mr. Scott; it certainly is not clear to me.

Mr. STEWART: Mr. Scott has told us that certain changes have been made and I am asking him now what, in fact, in practice, would have been the result if the present procedures had been in effect at the time this particular instance took place.

Mr. SCOTT: Well, this definitely would have been a separate item, for which we would have had approval, to begin with, and it would not be included in the other items.

Mr. STEWART: In other words, you are telling the committee that when you went initially to treasury board you would have given them a much more specific breakdown of the items being authorized by treasury board?

Mr. SCOTT: Yes. There certainly would be a division between furniture and drapery and things like this on the one hand and works of art, if you like, on the other hand.

The VICE-CHAIRMAN: If I may, I would like to ask a question. If the treasury board had been requested to change the amount of \$35,000 from an item of sculpture to drapes, or other furnishings, and they had said no, would the Montreal airport have had the sculpture, or would the \$35,000 have been returned to treasury board?

Mr. SCOTT: I think the practical answer must be that only part of the \$35,000 would have been returned to the treasury board, because if you take the \$35,000 out of the program which was approved, we were short the funds to complete the inside furnishings.

The VICE-CHAIRMAN: Are there any further questions on paragraph 101?

Mr. CARDIFF: Do you intend to ask for the money for this work of sculpture, or has the matter been dropped?

Mr. SCOTT: It has been dropped.

Mr. CARDIFF: You do not intend to have it?

Mr. SCOTT: No.

Mr. CARDIFF: The amount of \$475,000, including \$35,000 for sculpture, was approved, and then the department decided it was not going to spend this on sculpture, but spend it on something else without approval. As I see it, that is the only point. They did not spend more money than was approved by treasury board, but they spent it in a different way without approval?

Mr. SCOTT: Yes, sir; it was without specific approval, but as I say this was the first case we had had where an item of art of any type was involved and we considered this to be part of the interior furnishings of the building. When it was decided within the department not to go ahead with the sculpture, we shifted the interior decorations, and this is the result. We felt that so long as we kept within the over-all amount authorized by treasury board we were all right.

Mr. WINCH: What is important is that it does not happen again.

Mr. STENSON: Mr. Scott said that he felt they would have had to go back for some more money. Would you have gone back for \$35,000?

Mr. SCOTT: It was less than \$35,000.

Mr. STENSON: It would have been less than \$35,000.

Mr. SCOTT: At that time, yes.

Mr. STENSON: Where did the remainder of the \$35,000 disappear to; did it go into some furnishings which probably you did not need?

Mr. SCOTT: In total we spent the \$475,000.

The VICE-CHAIRMAN: We will turn now to paragraph 115 dealing with non-productive payments.

Mr. HENDERSON: We now turn to the listing, non-productive payments, which is paragraph 115 on page 54 in the 1962 report, which you will recognize is the listing we were discussing the other night.

We might now deal with the three items on page 60, items 20, 21 and 22, which are the three cases involving a total of \$52,140 paid out by the department, arising from deficiencies in plans and specifications at Kenora, a re-assessment of space requirements at Victoria, British Columbia air terminal, and postponement of original installation plans at the Halifax air terminal.

Mr. WINCH: Mr. Chairman, in view of the fact that these all appear to be based on what the contractors maintain were faulty plans and specifications, might we hear from Mr. Scott in respect of why the plans were wrong and he might tell us who does the drafting of them. Do you have a department which does this, or do you hire outside architects?

Mr. SCOTT: We have architects within the department. With regard to standard buildings or other buildings which we need at airports, our own architects do this, and we have so-called general plans which can be modified or changed slightly for different circumstances. When it concerns a major terminal building, preliminary plans are drawn up by the architects of the department and an outside architect is brought in to further develop plans, working along with the architects of the department.

Mr. WINCH: It is alleged that the plans here were faulty.

Mr. SCOTT: I think the circumstances are a little different in each case. In respect of Kenora, item 20, this is a case where some double houses and some other small things were concerned. The plans, as drawn up by the department, showed facilities on one side of the double houses, which would be standard, because on double houses they must be duplicated on the other side. Tenders were called. One tenderer bid substantially lower than the other three.

Then, before the contract was signed he claimed he did not understand that there would have to be plumbing facilities put in both sides of the double houses, and therefore he wanted to renegotiate. It was proposed that this might be at somewhat more than he had tendered, but nevertheless less than the second lowest tender.

Now, on this point the department is very careful, because obviously at this stage the tenders have been opened and everyone knows the bids. If you negotiate on a basis like this, then, of course, the other higher tenderers feel they have been prejudiced and are at an extreme disadvantage. When we looked at the tendered bids, it was obvious that the lowest tender was considerably lower than the others. Therefore, rather than negotiate, the department thought it would be prudent to call again for tenders; this was done. The result of the tender call was that a new price was obtained which was higher than the first very low tender, which was not accepted, but was less than the second lowest tender of the first group of bids.

Mr. WINCH: Do I understand what seems to be an entirely extraordinary situation. By the way, my trade is in the construction industry. Do you mean that when your department sets out the plans and specification for a duplex building, you show only the plumbing installation in one of the units and that you do not have a complete set of plans for a duplex house?

Mr. SCOTT: I understand this has been the practice.

The Vice-CHAIRMAN: I never heard of that before.

Mr. WAHN: My question is on item 1. Is it in order to switch?

The Vice-CHAIRMAN: Yes.

Mr. STEWART: May I ask a question on this item first?

The Vice-CHAIRMAN: Yes.

Mr. STEWART: Am I to understand that all the other tenderers understood that the facilities were to be those suitable for a double dwelling?

Mr. SCOTT: Yes, sir.

Mr. STEWART: It is just this one bidder who did not understand your plans?

Mr. SCOTT: Yes, sir.

Mr. HALES: Mr. Scott, if it is a fact that all the other contractors understood the plans and specifications included both sides of the houses, why then could you not hold the tenderer to his tender which was accepted?

Mr. SCOTT: Well, looking at the difference in the tendered bid and the other three tenders, there was such a difference here that it was felt this man certainly had bid extremely low and would not be able to complete the contract at that price. He, himself, was the one who wanted to renegotiate and escalate it into a higher price.

Mr. WINCH: I have a supplementary question. I think this is something which must be in the minds of all members of the committee. What kind of contractors do you deal with if they think they can put up a duplex house and only have the plumbing in one unit?

Mr. SCOTT: We try to deal with very few like that.

Mr. STENSON: It seems that there was a loophole here so that the people could get out of it; the plans did not specify plumbing in the other side which let this fellow out. Do you not think this is a fault in your own department or in the department which drew up the plans?

Mr. SCOTT: We certainly will not allow the same thing to take place again.

The VICE-CHAIRMAN: Was the deposit confiscated or was it returned to the lowest bidder who asked to be let out?

Mr. SCOTT: I believe the deposits were returned and new tenders were called.

Mr. HALES: Who drew the original plans and specifications?

Mr. SCOTT: The architects of the department.

Mr. HALES: Of the Department of Transport?

Mr. SCOTT: Yes, sir.

Mr. HALES: Who was responsible for that department?

Mr. SCOTT: I beg your pardon?

Mr. HALES: Who is chief of that department?

Mr. SCOTT: My Ramsay, who is here, is our chief architect.

Mr. HALES: Would Mr. Ramsay like to speak to this subject?

Mr. W. A. RAMSAY (*Chief Architect, Air, Department of Transport*): Mr. Chairman, I do not have anything to add further to Mr. Scott's comments; they were to the point.

Mr. HALES: You agree that the plans and specifications were in such a form that this original tenderer could get out of his contract?

Mr. RAMSAY: Yes, I do. The architect in charge of this work was an elderly gentleman. He is no longer with the department. He did not check it. It should have been checked, but was not.

Mr. HALES: As chief of the department, do you feel that he should have checked these plans?

Mr. RAMSAY: Yes, he should have checked them.

Mr. WAHN: May I query an item which I do not quite understand? In the first paragraph it says that the department entered into an agreement to supply natural gas to take effect on November 1, 1960—

Mr. HENDERSON: May I point out that I think you are referring to an item which we discussed the other evening, which had to do with the pipe line company at Cold Lake. This is with reference to the Department of National Defence and not the Department of Transport. We are now dealing with the Department of Transport an items 20, 21 and 22 on page 60.

Mr. CAMERON (*High Park*): I notice a slight discrepancy between Mr. Scott's statement and the statement made by Mr. Ramsay. I understood Mr. Scott to say that they prepare the plans showing the facilities on one side only, on the assumption that any tenderer would know that you have to duplicate them on the other side. Mr. Ramsay, however, said that it was the architect's fault. If it is as Mr. Scott has stated it, then I would say that the department was not at all at fault; they prepared the plans, sent them out, and the man should have known that facilities had to be provided on both sides. However, I understand from Mr. Ramsay that it should have been pointed out on the plans that the plumbing was required for the two houses, and that this had not been done. On one theory I would say the department was not to blame, and, on Mr. Ramsay's explanation, I would say you were to blame.

Mr. SCOTT: While the plans always were drawn up in this way and most contractors understand them, the prudent thing is to have a notation right on there stating that this is to be in duplicate.

The VICE-CHAIRMAN: Is it not the policy in your profession that when anything is not marked on the specifications, plans, or both, it becomes an extra?

Mr. RAMSAY: Yes, indeed.

The VICE-CHAIRMAN: If there are no further questions on paragraph 115, we will go on to the 1963 report.

Mr. CARDIFF: After the second tender had been called, a tender was accepted at \$141,712 and it cost \$142,096. The contractor claims this is because

of deficiencies in the specifications. This is the second time, then, in one contract where there have been deficiencies. Why is this?

Mr. RAMSAY: I do not understand the question.

The VICE-CHAIRMAN: Would you rephrase your question?

Mr. CARDIFF: The second time the contractor tendered for \$141,712 and the work was completed at a figure of \$142,096, and he claimed the difference is owing to deficiencies in the specifications. Why did this happen in the second case?

Mr. RAMSAY: The difference between the tendered price and the final payment was owing to the fact that some additional work was added on at unit prices. This was included in the contract.

Mr. LEGAULT: Perhaps I should direct my remarks to Mr. Winch who told us that this was his particular line of business in life. I think the department certainly made a good move in retendering because otherwise the error would have been much more serious had the contractor started work on the original contract. Definitely, as Mr. Winch has indicated, the specifications should have indicated that the plumbing was to be in the two units. Therefore, I do believe it was quite normal to readjust. However, the error was not very serious and is something which was corrected; otherwise it could have been much more serious.

The VICE-CHAIRMAN: Mr. Francis.

Mr. FRANCIS: I would like to speak to item 21.

Mr. WINCH: Over the years, on a great many occasions, I have had to deal with plans in which there was a duplication, but on the actual blueprint there always was a notation in the specifications that there had to be a duplication. I take it from what Mr. Ramsay has said that this was not indicated on the plans or in the specifications.

The Vice-CHAIRMAN: I think Mr. Ramsay already has told us that once.

Mr. LEGAULT: I would like to ask Mr. Winch—

The Vice-CHAIRMAN: I do not wish to interrupt you, but you must direct your question to the witness. Mr. Winch is a member of the committee and not a witness.

Mr. LEGAULT: It is a very normal procedure to have these adjustments as you go along; I am referring to the difference between the \$141,712 and the \$142,096. That would be very normal?

Mr. SCOTT: Yes.

Mr. FRANCIS: My questions have to do with item 21 in paragraph 115, in respect of the Victoria international airport. The firm of architects which was engaged to design and supervise construction apparently worked on three sets of plans for which they were paid \$29,660. Were there any negotiations? I am commenting on the Auditor General's statement:

At the year-end the same architects had been engaged to prepare plans for a still more modest project.

Was there any modification of the usual terms in the later re-engagement, taking into consideration the fact that already they had been paid \$30,000 and presumably might have been in possession of information concerning this project which might have permitted them to proceed at a rate slightly less than the usual rate for the third and final version. Was there any negotiation with regard to a reduction in the scale of fees?

Mr. RAMSAY: When an architect is engaged to prepare plans, he has a contract which pays him a proportion of his total fee for the preparation of study plans and sketch plans to start with. When the scheme was changed,

this proportion of the total cost was studied and compared against the time spent by the staff of the architect, and the costs, and the settlement was made on that basis, having in mind that the settlement would carry through into a reduced fee on the succeeding work.

Mr. FRANCIS: You anticipated a fee on the succeeding work which would be less than the full scale of fees had the firm been engaged anew?

Mr. RAMSAY: Yes.

Mr. FRANCIS: I think it is normal that when there has been an abandonment and further plans are prepared, it is slightly less.

Mr. RAMSAY: Yes.

Mr. WINCH: I think the logical question here on which we would like to have a definitive answer is what type of planning goes on in your department when you draft a set of plans and then discard them, and draft another set of plans, discard them, and then have a third set of plans. What kind of original thinking is done in your department when a situation like this occurs?

Mr. SCOTT: Mr. Chairman, the planning for the Victoria terminal building began about 1958-59. At that time there was a tremendous volume of air traffic moving between Vancouver and Victoria. The trend indicated that in all likelihood this was going to increase. Therefore, estimates were made on the basis that this air traffic was increasing. I believe there were flights in the order of 18 and 20 a day, and the load factor was very high. This is a basic factor which must be taken into account in your planning, because you have to consider how many customers you are catering to, the facilities you will provide, and how you will route the customers through the terminal building. If you have a large number, you have an entirely different problem than if you have a small number.

At this time, the ferry services between Vancouver and Victoria were almost going out of business. There was no indication whatsoever of any change taking place in the direct Vancouver-Victoria service. There were other ferry operations there, but not directly into Victoria. However, when we were part way through the plans the service between Vancouver and the island did change and there was a drop in the air traffic. This immediately meant that if we continued with the first plan, we would substantially overbuild. A re-assessment was made, and this led to the second plan. The ferry service which was put in was an extremely good one and was very well patronized. The amount of air traffic dropped considerably. Over a period of two to three years the traffic dropped as much as 68 per cent. Therefore, it was quite evident, even on the second plan, that we should not go ahead on that basis. Just because there was some sort of a commitment it would be foolish to go ahead, and it would be a waste of funds. The terminal building plan had to be scaled back again and re-scheduled to handle the lesser volume of traffic. This basically is it.

Mr. McLEAN (*Charlotte*): Well then, you saved the taxpayer quite a lot of money by wasting a little with the architects.

Mr. SCOTT: Yes, that is correct.

Mr. FRANCIS: I understand that the airport is quite a substantial distance away; it is at the other side of the island.

Mr. SCOTT: Yes.

Mr. FRANCIS: Then it does not compete with the ferry?

Mr. SCOTT: It is an excellent ferry service.

The VICE-CHAIRMAN: Have you a question, Mr. Stenson?

Mr. STENSON: Yes. I would like to ask Mr. Ramsay if this was a fair fee to pay to an architect when you withdraw plans in a case like this?

Mr. RAMSAY: Yes. This is a general arrangement not only within the government service but outside of the government service.

Mr. HALES: Mr. Scott, what is the present situation? Where do we stand at the present time in respect of this terminal building?

Mr. SCOTT: It is just about completed, sir.

Mr. HALES: I do not suppose you could give any thought to discontinuing it entirely. We still have to have it.

Mr. SCOTT: There is still a fair volume of traffic there.

The VICE-CHAIRMAN: If there are no further questions in respect of this paragraph we will proceed to paragraph 84 in the 1963 report, which reads:

84. *Radar equipment acquired but not put into service.* In 1958-59, airway and airport surveillance radar systems were placed in commission at 15 Canadian airports in order to provide improved facilities for air traffic control. The individual installations required considerable construction at some airports in order to provide accommodation for the radar terminal equipment in the control towers, and related facilities.

At the lakehead airport, due to the nature of the terrain, it was found necessary to instal the surveillance system on a height of land about 12 nautical miles from the airport and to have a communication link to relay the radar information from there to the airport control tower. In March 1959 the Department of Transport acquired a microwave radar relay system at a cost of \$182,000 to provide the necessary link between the surveillance system and the airport control tower. As space in the terminal building was not available to house all the airport radar equipment, it was decided to construct a temporary building at the remote site to accommodate some of the equipment and to provide a link to the airport control tower by radio circuit until such time as the terminal building facilities were enlarged to accommodate all the radar terminal equipment. It was regarded as impracticable to put the microwave link into service until this had been done.

At March 31, 1963, four years after acquisition of the microwave radar relay system, it was still in storage, and the preparation of working drawings and tender documents for enlarged terminal facilities had not yet reached the final stage. It would now appear that at least five years will have elapsed between the time of acquisition of the microwave system and its being put into service. Thus, equipment valued at \$182,000 and of a kind subject to rapid technological improvement will have remained in storage for five years because of failure to provide necessary equipment accommodation.

Mr. STEWART: There is subparagraph 22 here. In connection with this paragraph, I would like to know why it was decided to modify the design for the air conditioning system. I am sure the climate did not change. What was the factor that led to this change in planning?

The VICE-CHAIRMAN: Mr. Scott, would you answer that question. Perhaps it would be better answered by Mr. Ramsay.

Mr. RAMSAY: Mr. Chairman, the Halifax terminal building was designed with what is known as a split system of ventilation and heating. The ducts which carry the air through the building were designed to carry either hot air or cooling. In the original tender call the cooling coils were not included; it was designed so that the cooling coils could be subsequently installed. Part way through the construction of the building the department decided that in line with installations of air conditioning at the Montreal terminal building and the Ottawa terminal building we also should instal air conditioning at Halifax. The consultants were advised to complete the plans and designs for air con-

ditioning at Halifax. But, a further study indicated that at that time it was not absolutely necessary and the department saved the money in respect of the air conditioning installation. However, this represents the fee to the consultants for the design which was subsequently abandoned.

The VICE-CHAIRMAN: If there are no further questions we will go to paragraph 84 at page 52 of the 1963 report, which deals with radar equipment acquired but not put into service.

Would you make a comment in respect of this paragraph, Mr. Henderson.

Mr. HENDERSON: Paragraph 84 in the 1963 report outlines the circumstances under which a microwave radar relay system costing \$182,000 remained in storage for five years because lack of accommodation for associated facilities at the lakehead airport prevented its being placed in operation.

Mr. McMILLAN: Has this been placed in operation yet?

Mr. H. J. WILLIAMSON (*Chief, Technical and Policy Co-Ordination, Telecommunications Branch, Department of Transport*): Mr. Chairman, in reply to Dr. McMillan's question, the equipment is in the process of being installed at the present time. It was related to the completion of the modifications to the terminal building which had been delayed for various reasons, as mentioned in the report.

I would like to correct what is perhaps a misinterpretation of phraseology in that it is not radar equipment but only the remote link, which is a microwave connection from the remote point to the airport which had not been used, and this particular equipment was purchased in anticipation of the building having been completed earlier than has been the case. Also, it was to take advantage of a mass production price, which we were able to use, by getting one of a large production of similar type of equipment which was manufactured for the F.A.A. in the United States. We felt there was considerable economy in purchasing the equipment at the time it was purchased because if we had bought one of a kind it would have cost us more.

The VICE-CHAIRMAN: When you speak of economy, do you consider the cost of carrying that in respect of the capital investment? After all, it is being carried for five years. In this case was there still an economy?

Mr. WILLIAMSON: Yes.

The VICE-CHAIRMAN: Was it large?

Mr. McMILLAN: Did any of the equipment become obsolete in the meantime?

Mr. WILLIAMSON: No, sir. It is being utilized now.

Mr. HALES: Is it usable?

Mr. WILLIAMSON: It is being installed and is quite satisfactory.

Mr. HALES: I do not believe it is unusual to be four years out since there is normally four years between the buying of the equipment and getting the building to put it in.

Mr. WILLIAMSON: This is partly answered by the discussion on the previous item in respect of the delays and changes that have to be effected in terminal buildings and the question of when they can be implemented. But, when it was bought we did not anticipate any delay in the completion of the terminal building.

Mr. HALES: Where have you been storing it?

Mr. WILLIAMSON: On the site.

Mr. HALES: Did you pay storage?

Mr. WILLIAMSON: No, sir, not that I am aware.

Mr. HALES: This was not a matter of accelerated buying in respect of the estimates of your department, that this money was allotted to the department in the estimates and you went ahead and bought it because the money had been allotted?

Mr. WILLIAMSON: No, sir. It was part of the regular thing, and also to take advantage of the fact there was a chance to buy at a good price because of the large F.A.A. order. But, at the same time, it was anticipated what our needs would be in the normal lead time in respect of the procurement of equipment because we needed the other radar equipment which was put in use, and the actual radar equipment was utilized by operating it without the remote facility. The staff were located at a point some distance from the airport and operated the facility on that basis during the interim.

Mr. HALES: Perhaps Mr. Scott could tell the committee why we delayed four years in this building? What were the factors involved?

Mr. SCOTT: I think maybe Mr. Ramsay knows the situation better than I do. I am not too familiar with the terminal building problem there.

Mr. RAMSAY: A new terminal building had been completed in 1953 or 1954 and just following that the air lines moved into an era of a newer type of aircraft and there was no indication whether or not this type of aircraft was going to overfly the lakehead area, and until the operation of newer type of aircraft became clarified the planning of the terminal building was deferred until we knew what the traffic load was going to be.

Mr. WAHN: Mr. Chairman, I am not entirely clear in respect of the amount of \$182,000. I gather there was a piece of equipment that was in use for a period of time. Was the cost of that \$182,000?

Mr. SCOTT: Yes.

Mr. WAHN: So, the actual piece of equipment that was not used at all cost \$182,000?

Mr. WILLIAMSON: Yes.

Mr. WAHN: If you had bought that as a single item at that time what would the cost of that piece of equipment have been?

Mr. WILLIAMSON: Approximately twice that.

Mr. WAHN: And, by ordering at that time you saved \$182,000?

Mr. WILLIAMSON: Somewhere in that neighbourhood.

Mr. WAHN: Well, then, that purchase seemed to make sense because the interest on the money at 5 per cent would amount to \$10,000 a year for a total of about \$50,000 for interest charges, and you saved \$180,000?

Mr. WILLIAMSON: Yes.

Mr. WAHN: And the equipment is still useful?

Mr. WILLIAMSON: Yes.

Mr. WAHN: Then, the question is what were you using there in the meantime if you did not use this piece of equipment. How did you carry on without it?

Mr. WILLIAMSON: As I mentioned, the mode of operation was entirely different. The purpose of this particular piece of apparatus is to provide a connection between the airport terminal and the radar equipment which is mounted on the mountain which is at the back of the cities there, and during the interim the staff, who normally would be controlling traffic from a point on the airport and performing other traffic control functions, were split so they could put some of them at the site on the mountain, and they operated from there using equipment which now will be moved from the mountain as the remote control apparatus can be connected by this stored equipment to the equipment on the mountain.

Mr. WAHN: And, that will effect an economy in the future, will it?

Mr. WILLIAMSON: Yes, from a staff point of view and general operations. It is a type which is used in standard practice across the country.

The VICE-CHAIRMAN: Have you a question, Mr. Stenson?

Mr. STENSON: Yes, Mr. Chairman. Did I understand Mr. Williamson to say that this piece of equipment is worth twice as much today as when you purchased it?

Mr. WILLIAMSON: No, sir. I said it would have cost us approximately twice the price we paid had we bought it as one, even at that time.

The VICE-CHAIRMAN: Does that answer your question. If so, are there any further questions on this particular paragraph. If not, we will proceed to paragraph 85 which appears on page 53 expenditure arising out of an accident resulting from improper installation of air traffic control equipment.

85. *Expenditure arising out of accident resulting from improper installation of air traffic control equipment.* On March 26, 1962 a Trans-Canada Air Lines airplane, while taxiing at the Montreal international airport, came into contact with a precision approach radar reflector which had been recently installed close to the edge of the holding area beside the runway. Subsequently the airline presented a claim to the Department of Transport for costs of \$82,552 "attributable to engine ingestion of temporary P.A.R. aluminum reflector and post". Payment of the claim was authorized by the governor in council on an *ex gratia* basis, the charge being to the transport appropriation for "airport and other ground services—operation and maintenance" (vote 145).

An investigation by the department revealed that the reflector giving rise to the accident had, with other reflectors, been installed at a distance of only 25 feet from the side of the runway instead of at the distance of 50 feet recommended by the equipment manufacturer and approved by departmental headquarters. Furthermore, the poles supporting the reflectors had been temporarily installed with their bases above the prescribed height because the surface of the ground was frozen at the time. The accident occurred because the outboard engines of the aircraft involved in the accident, which were lower than the reflectors, projected about 33 feet from the side of the runway when its wheels were on the edge of the paved area.

Mr. HENDERSON: This paragraph explains the circumstances under which a claim of \$82,552 had to be paid by the department as a result of an accident at the Montreal international airport in March 1962.

The VICE-CHAIRMAN: Are there any questions on this paragraph?

Mr. HALES: Mr. Chairman, it would appear that this large sum of \$82,552 was paid out by the taxpayers of this country because of a faulty installation at this airport. I do not know whether or not Mr. Scott can answer this question but I would like to know who installed this and who would give the instructions as to how and where it should be installed.

Mr. SCOTT: Perhaps Mr. Goodwin would answer this question.

Mr. R. W. GOODWIN (*Director of Civil Aviation, Department of Transport*): Mr. Chairman, I do not know how much detail the members would like me to make available to them.

The VICE-CHAIRMAN: As much as possible, in brief form.

Mr. GOODWIN: Well, it might be well to give some background information to indicate to the committee what the purpose of this installation was.

Precision approach radar, which is probably more familiar to the committee in terms of ground control approach or G.C.A., had been installed by the telecommunications branch for use by air traffic control at Montreal. There were some deficiencies in its performance. The electronic engineers decided that a system of reflectors which would provide good targets for the radar should be installed along the edges of the runway so that the radar operator bringing the aircraft in under instrument conditions clearly could pinpoint the extremities and design of the runway. Of course, the design of the reflectors was a matter for the electronic branch. When it came to installation the plan was submitted by the manufacturer of the equipment and it was approved in so far as the distance out from the edges of the runway and the height of the poles were concerned.

Subsequent to the approval of this plan the engineer in charge took this plan, which was not related to any specific runway at any specific airport, and overlaid the plan on runway 24 left of Montreal. Now, the plan was still good except at the extremity of this particular runway there is a turning bay. The plan was given to a works foreman at the airport directly by the engineer in charge and the foreman was told to instal according to the plan. Being a good foreman he followed the engineer's plans exactly. The main reason that this was not picked up by airport management was that there was no co-ordination service between the installers and the airport operators.

Mr. HALES: Mr. Goodwin, did the Department of Transport and the manufacturer both agree on the plan of installation?

Mr. GOODWIN: Yes, but not related directly to that particular runway. This was a case of approving the sighting suggestion by the manufacturer in so far as the distance out from the edge of the runway is concerned or, in other words, down wind from the end. That was approved in Ottawa by our airways people from a safety and zoning point of view. Had this been a straight runway this would not have happened. It was a case of following instructions to the letter without applying practical considerations to it on the part of a maintenance foreman.

Mr. HALES: Did your department realize that there was this curve in the runway? Did they know that it existed?

Mr. GOODWIN: Oh, yes, indeed, sir.

Mr. HALES: Well, knowing that why were instructions not given accordingly?

Mr. GOODWIN: Well, as the investigation revealed—and, there was a very intensive and exhaustive investigation in this particular instance—the people who approved the plan approved it from a zoning point of view without relation to any specific runway. In other words, the approved plan was quite satisfactory from the edges of the runway for these reflectors, which are made up of a hole with a disc fan on them, but when it was sent back to the Montreal region there was a lack of co-ordination at that point between the airport operators and the telecommunications engineers carrying out this installation. The main break in the chain occurred when the installation, which was a temporary one, was not co-ordinated with airport management and air traffic control.

Now, at a large airport there are continual operations going on and we have not been able to account for the breakdown in the line of communication at this particular time. The job was finished just before dusk. Had it been daylight the pilots would have seen this pole, which is six feet above the ground and is either a four by four or six by six, which was supplied by the manufacturer. But, there was definitely a breakdown in the communications.

The VICE-CHAIRMAN: Gentlemen, because it is nearly five minutes to eleven o'clock and the defence committee wishes to use this room, may I ask you to return at 3.30 this afternoon, when we will take up the expenditures in respect of the Montreal air terminal, which should prove to be very interesting.

AFTERNOON SITTING

Thursday, July 16, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. Before taking up clause 86 which deals with the Montreal international airport cost, I take time out to welcome Mr. Danforth who has been appointed a member of this committee. I am sure he will make a valuable contribution to our work. We are now on paragraph 86.

86. *Montreal international airport construction costs.* In 1953 preliminary planning by the Department of Transport indicated that expenditure of about \$6 million would be required for the construction of an air terminal building and a separate "finger" building at the Montreal international airport. The concept of a separate "finger" building was abandoned in the face of adverse criticism by prospective commercial users of the facilities, some of whom also criticized the inadequacy of space provided for their use.

In July 1954 two firms of architects were engaged to work jointly on the project and were instructed to have specifications for the new terminal building ready for tender by March 1955, considerably in advance of what would have been expected normally in connection with a project of this magnitude. The revised plans prepared by the architects differed materially from those originally contemplated and the cost of the project was estimated at \$11 million, including \$1.5 million for the "fingers" which were now to be extensions of the terminal building itself.

In order that the work could proceed with a minimum of delay, and notwithstanding the fact that final decisions had not been reached with regard to a number of important matters, it was decided that the work could be divided into a number of stages and separate contracts awarded for each stage. It was felt that this approach, rather than having a contract for the entire project placed with one contractor who would subcontract for a number of construction stages, would enable the architects to work on the detailed specifications for one stage while work was proceeding on the previous one. It was also hoped that a saving could be effected through the placing of individual contracts. The contract for the first construction stage was authorized in August 1955; and the terminal building was substantially completed and opened to the public in December 1960.

Total costs actually incurred in the construction of the terminal building and related facilities had amounted to \$30,591,000 at March 31, 1963, as follows:

Terminal building	\$22,348,000
Fingers and aeroquay	6,048,000
Furnishings etc.	676,000
Architects' fees and expenses	1,519,000
	<hr/>
	\$30,591,000
	<hr/>

Reasons underlying these heavy costs, far in excess of those estimated, have been reviewed by the department with us, the principal reasons advanced being:

- (a) the undertaking was the first of such magnitude undertaken by the department and raised a number of problems which were either under-estimated or unforeseen in the planning stage because of the size and complexity of the project;
- (b) it was considered necessary to proceed with the various stages of the work as rapidly as possible without, in some cases, having complete plans available (a result was that prices covering much of the work had to be obtained through negotiation with the contractors already on the job, rather than through tendering);
- (c) construction took place during the period when the first major thinking was going into the planning of terminal buildings to be used by jet aircraft, and this was responsible for a great many changes in the planning as work proceeded, making advance cost estimates unrealistic; and
- (d) the architects fell behind schedule in their preparation of plans.

Mr. Henderson.

Mr. HENDERSON: The purpose of this note is to explain the factors which carried the cost of this construction from the estimate of \$6 million in 1953 to an actual outlay of over \$30 million in the ensuing ten years. It must, of course, be recognized that the job was the first of its type undertaken by the department. I think a discussion with Mr. Scott and his associates concerning the underlying reasons causing these heavy costs may assist the committee to understand situations where the government undertakes construction work of this magnitude. That is all I have to say in introducing this subject.

The VICE-CHAIRMAN: Are there any questions from members of the committee pertaining to this paragraph?

(Translation)

Mr. LEBLANC: In French.

The VICE-CHAIRMAN: Mr. Leblanc.

We will take a few minutes off to see if the sound system is working.

Mr. LEBLANC: Mr. Chairman, being from Montreal, what strikes me most in this is that the works, or at least...

The VICE-CHAIRMAN: Mr. Leblanc, one moment please.

Mr. LEBLANC: I was saying, Mr. Chairman, that the works, or at least the preliminary plans, were started in 1953, and finally the airport was opened to the public in 1960, which means a lapse of seven years.

At the beginning, the preliminary estimates were \$6,000,000, and they ended by being \$30,591,000. We were given all sorts of reasons. That was not the first airport built by the department of Transport, and the reasons they gave do not entirely satisfy me. Could we elaborate further on all the explanations given on this point?

The CHAIRMAN: Mr. Leblanc, in order to save time, it might be preferable that you ask questions you wish to be answered, questions you are interested in.

Mr. LEBLANC: Firstly, are the architects who were hired at the beginning, the same who handled the contract from 1953 until 1960?

(Text)

The VICE-CHAIRMAN: Do you wish to answer that, Mr. Scott?

Mr. SCOTT: No. Mr. Ramsay will answer.

Mr. RAMSAY: Yes, they were.

(Translation)

Mr. LEBLANC: When the contractors began the work, after the architects had called for tenders, did they obtain the contract upon the first call for tenders and were they the same until completion, or were the contractors subsequently changed?

(Text)

The CHAIRMAN: Mr. Ramsay?

Mr. RAMSAY: In answer to that question there were numerous tenders and numerous contractors from the commencement of the construction until the completion.

(Translation)

Mr. LEBLANC: According to the explanations given at page 54 of the English version, it seems that many contracts were awarded without the calling of tenders. What is the amount of contracts you awarded without tenders being called?

(Text)

The VICE-CHAIRMAN: Would Mr. Scott care to answer?

Mr. SCOTT: No, Mr. Ramsay.

Mr. RAMSAY: Mr. Chairman, we had contractors on site who were completing one phase of the work and it was found to be expeditious and economical to have the same contracting company's contract expanded to include the additional work, provided it came below our estimate, and it did in each case.

The VICE-CHAIRMAN: Now, Mr. Hales.

Mr. HALES: Maybe if we went back to the start of this it would be better because I am addressing my question to Mr. Ramsay. The preliminary planning and so on was done by the Department of Transport and was estimated at \$6 million. Yet one year later—mind you, just one year later—the architects who were called in estimated it to be \$11 million; so there is a difference of \$5 million between the estimate of the Department of Transport and the estimate of the architects who were called in within a space of just one year. Maybe Mr. Ramsay could enlarge on this difference.

Mr. RAMSAY: The planning of the Montreal terminal building was commenced in 1951. It was some years later before consulting architects were engaged in order to establish a financial account for the building arbitrarily. This sum of \$6 million was put in the estimates. There were no plans completed at the time. This \$6 million was an arbitrary figure. The first estimate was made on preliminary sketch plans and was in the neighbourhood of \$12 million. This did not include the central heating plan, the heating lines, the tunnels, the furnishings, and so on which were outside of that, and which go to make up the \$30 million.

There were some 200 to 300 extra work orders for changes in the building during construction owing to the fact that the air lines, when they were setting up these preliminary designs, did not anticipate that in the life of some of the executives they would be operating jet aircraft as a civil operation. It was their opinion that jet operation would remain with the military at least until 1970. But jet aircraft came into operation and plans of the building had to be modified in order to accommodate this type of aircraft operation.

Neither did the air lines consider at the time of planning of the original building that automation was something with which they were too much con-

cerned. But during construction they became more aware of the importance of automation, and this required further changes. I could give you one or two more examples. The original building was planned for a type of customs inspection that required the baggage to be brought in behind the counter from the customer, placed on the counter, cleared by customs and taken over the counter, out the door.

This was the way the building was first designed at the request of the air lines that this was the only way it could work.

But on the opening of the New York international airport it was proven that international air line operations could be done with a cafeteria style, so the building was subsequently changed and additional baggage equipment installed to accommodate this cafeteria style or function. These were some examples.

Mr. HALES: It would appear that the estimate of \$6 million that was requested in 1953 by the department was just in order to get the project started and that it was not really a true figure.

Mr. RAMSAY: That is right.

The VICE-CHAIRMAN: Now, Mr. Frenette.

(Translation)

Mr. FRENETTE: Mr. Ramsay, do you think that all the work is done and that the construction is completed? In your opinion, was the method used in awarding the contracts or for the achievement of the work the right one and the most economical one in the circumstances?

(Text)

The VICE-CHAIRMAN: Mr. Ramsay?

Mr. RAMSAY: Mr. Chairman, under the circumstances of attempting to erect a building for specialized tenants who had not at that time been convinced of the kind of operation they were going to be involved with, the method of construction under the conditions that existed was certainly the best thing that could be done.

The VICE-CHAIRMAN: Are there any further questions?

Mr. HARKNESS: Mr. Chairman, it does not seem to me that if we start out with the first estimate actually made which was \$12 million, and you add another \$3 million, for the heating which was not included in that short time, it still seems to me that we have not had any real explanation or any satisfactory explanation why the final cost was 100 per cent more than that, that is, \$30 million instead of the maximum of the original estimate which was \$15 million. You mention changes that would be required, because you are going to handle jet aircraft rather than piston aircraft. You as the man who would be responsible for very much of this cost would handle passengers just the same from a terminal building. Your terminal building does not need to be very much different because of the use of jet aircraft rather than of piston aircraft, of which you are still handling a large number.

Mr. RAMSAY: When I gave you one or two examples, I did not give you the complete details. The estimate of \$12 million for the terminal building did not include the heating plant, and it did not include the fingers. The heating plant cost somewhere near \$2 million with the underground distribution tunnels, but it did not include the fingers which finally came out to \$6½ million. It did not include the approach roads, the aprons surrounding the building, the furnishings and the other items which would add up to the \$30 million. The

\$12 million did not include the estimate for the fingers and the tunnels to the fingers; and it did not include the air conditioning which was added subsequently.

The VICE-CHAIRMAN: Are there any further questions? If not, let us go to paragraph 87 on page 54:

87. *Catering contract, Montreal International Airport.* In March 1960 the Department of Transport invited public tenders for the rental of the restaurant and other dining facilities in the new terminal building at the Montreal international airport, on the basis of a percentage of gross revenue from sales of food and beverages. Three of the bids received were given serious consideration, two being from large, well-established concerns in the catering field. The third, which contained a slightly better offer than the other two, came from a group of Montreal citizens with varied backgrounds, including some experience in restaurant operations, who proposed to incorporate a company to operate the facilities if they were successful in obtaining the concessions.

Executive approval was given in August 1960 for entry into an agreement with this group but only on condition that it, at its own expense, furnish, equip, and decorate the cocktail lounge and bar and spend a minimum of \$350,000 as the initial cost of furnishing, equipping and decorating the several concessions. The condition was agreed to by the group.

The group thereupon formed themselves into a limited company and signed a lease indenture dated January 31, 1961. The indenture contained the condition referred to previously and in addition required that the specified amount of at least \$350,000 to be spent on furnishings, etc., was to be evidenced by certified copies of receipted vouchers furnished to the department within 60 days of the effective date of the lease. This requirement was not met and the department later explained to the audit office that a general awareness of what had been installed made it seem unnecessary to invoke the relevant clause.

Financial statements produced by the company to the department in May 1961, giving the financial position at the date of the lease indenture, revealed that the company was proceeding to make commitments for expenditures called for in the lease, but it was also revealed that the company was under-capitalized in that only \$150,000 equity capital had been introduced. Interim financial statements provided to the department by the lessee as at July 31, 1961, i.e., after six months operation under the lease, revealed that:

- (a) no further equity capital had been introduced,
- (b) \$73,000 had been borrowed by the company,
- (c) there was a deficiency of working capital, and
- (d) furniture and fixtures had been largely obtained on credit.

Although partially reorganized in July 1961, the financial position of the company continued to deteriorate. Operations for the first eight months to September 30, 1961 resulted in a loss which was in excess of the paid-in equity capital. Financial statements prepared as at June 30, 1962 revealed that further losses had occurred without any additional equity capital having been introduced.

On October 1, 1961 the company ceased to make the rental payments to the department called for by the lease indenture and these were not resumed until almost a year later. Following a general assessment of the situation in February 1962, the department decided that a proposal made by the company for a major re-writing of the lease and a substan-

tial reduction in the operation of the facilities was unacceptable and that the only solution to the situation was to seek a successor by direct negotiation. The department therefore invited proposals from the two well established catering concerns whose bids had also received consideration in March 1960. One of these concerns showed interest in taking over the catering company provided that "the department would make some adjustments both with respect to the financial crisis which had developed and the fee formula for continued operation of the restaurant". With the department's approval the concern entered into discussions with the directors of the company holding the catering contract. However, before much progress could be made by this concern, the directors and principal shareholders of the company holding the catering contract suddenly sold out their interest in the company to a fresh group of local citizens in October 1962.

In November 1962, after current rental payments had been resumed, but without reducing the backlog of indebtedness, the new directors of the company holding the catering contract came forward with a proposal that the basis for the payment of rental in so far as food sales were concerned be substantially adjusted downward and made retroactive to February 1, 1961, the effective date of the basic lease indenture.

Notwithstanding the unsatisfactory performance of the lessee company over the two years of its operation, the treasury board early in 1963 approved the financial reductions sought by the new directors and the department was authorized to amend the lease indenture retroactively on that basis. Although it is obvious that this will result in a substantial reduction of the company's unpaid indebtedness to the department, which amounted to \$167,400 at March 31, 1963, the actual amount of the reduction has not yet been finally determined by officers of the department.

This has to do with the extra catering contract for the Montreal international airport. Before we get to the questioning I would like to advise the committee that a report from the Minister of Finance in connection with the exchange fund account is ready today and is being tabled. It will be up for discussion at the next meeting of the committee. But the minister and Mr. Henderson were of the opinion that the members of the committee should receive it now so that they might peruse it before the next meeting, and that this would make for speedier action in the questions. Only English copies are available today because the report was not finished until late yesterday. But French copies will be made available on Monday and will be distributed to those who wish to have them in French.

(Translation)

The VICE-CHAIRMAN: Today, the report of the minister of Finance will be tabled. It is printed in English only, but the French version of the report will be available Monday and will then be distributed to the French-speaking members of the committee. That is why this report is handed to you today, so as to facilitate your work, because it will be examined at our next meeting.

(Text)

Mr. Henderson.

Mr. HENDERSON: The sequence of the unfortunate findings is set out here on pages 54, 55, and 56. Members may want to put a number of questions to Mr. Scott and his associates. We discussed and reviewed this matter in some considerable detail last year with Mr. Baldwin the deputy minister, who was most co-operative in furnishing me with full details. I understand that the

company's unpaid indebtedness to the department was reduced from \$167,400 at March 31, 1963, as mentioned on page 56, to \$107,921 by the amendment to the lease that is referred to. The amount has since been further reduced to \$31,568 by applying against it the value of certain installations, which I understand have since been acquired by the Department of Transport. That is all I have to say.

The VICE-CHAIRMAN: Are there any questions on clause 87?

Mr. LEBLANC: We note here that the first group who tendered was comprised of two well known catering companies. When they got the initial tender for themselves, they formed a limited company and they then signed a lease or an indenture with the Minister of Transport. Now, was the lease signed by the limited company under the name of the limited company, and were the directors held responsible with the company for the lease itself?

Mr. HENDERSON: I shall ask Mr. Smith to speak to this.

Mr. D. A. SMITH (*Audit Director, Office of the Auditor General*): The lease was with the limited company.

Mr. LEBLANC: The directors were not involved personally with financial responsibilities?

Mr. HENDERSON: The lease was signed by the limited company which they formed.

Mr. LEBLANC: What was the percentage that they gave in order to get the tender? You have in your notes that you asked for tenders on the basis of a percentage of the revenue from the sale of food and beverages.

Mr. HENDERSON: I am afraid I do not understand.

Mr. LEBLANC: When the tender was asked for you mentioned here that the Department of Transport invited public tenders for the rental of the restaurant and other dining facilities on the basis of a percentage of the gross revenue from the sale of food and beverages. Now, the question is, what was that percentage?

Mr. HENDERSON: Mr. Smith, I think you have that information.

Mr. SMITH: The percentage was the greater of 11.5 per cent of the gross food sales or a minimum of \$100,000 per annum. Later arrangements were made for the percentage of 15 per cent to apply to bar sales.

Mr. LEBLANC: I understand they did not receive a licence for the sale of beverages for quite some time; is that right?

Mr. HENDERSON: That is right.

Mr. LEBLANC: When was the licence granted originally? Was it granted when the group changed?

Mr. SCOTT: It was granted in the fall of 1961.

Mr. LEBLANC: Thank you.

Mr. HALES: Mr. Scott, I presume tenders were called for operating the food facilities?

Mr. SCOTT: Yes.

Mr. HALES: You received three tenders?

Mr. SCOTT: Yes.

Mr. HALES: The lowest tender was accepted?

Mr. SCOTT: It is really the highest tender, sir, in these cases.

Mr. HALES: The highest tender was accepted in this case. Who recommended that that tender be accepted?

Mr. SCOTT: In all these cases the decision is made on the basis of a recommendation of the minister to treasury board.

Mr. HALES: Who would advise the minister?

Mr. SCOTT: The department.

Mr. HALES: There is an indication in this paragraph that executive approval was given. What does that mean?

Mr. SCOTT: That means that treasury board approval was given to an entering into an agreement.

Mr. HALES: Who made the recommendation that this tender be accepted?

Mr. SCOTT: The minister.

Mr. HALES: He made that on the advice of whom?

Mr. SCOTT: In making a decision in respect of a concession like this there is a great deal more taken into account than just the percentage of the gross offered, or the minimum floor that might be suggested. One of the considerations, of course, is the experience of the company and the initiative one might expect the company to put into the business. There are many other intangible factors which really cannot be assessed, such as standards of food the company proposes to provide and things of that sort.

Mr. HALES: The minister was advised by the department to accept this tender and those who gave the advice knew that this company tendering was not a recognized company, is that right?

Mr. SCOTT: The department's advice was really in respect of the other two tenders.

Mr. HALES: Was there any consideration given to requiring this firm to put up a bond in view of the fact it was being asked to equip and decorate to the extent of a minimum of \$350,000?

Mr. SCOTT: Not that I am aware of, no.

Mr. HALES: Do you not think that would have been something the firm should have been asked to do?

Mr. SCOTT: I do not think such a thing has ever been done, sir.

Mr. HALES: In view of the fact you were dealing with a company that had no previous experience in this business whereas the other two firms did have experience, and in view of the fact you were taking a gamble to the extent of \$350,000, did it not occur to the department that a bond should be required?

Mr. SCOTT: Apparently not.

Mr. WINCH: Mr. Chairman, perhaps I should apologize at the outset for the question I intend to ask, because in all the years I have been a member of the public accounts committee I do not think I have found it necessary to ask a question of this kind. In view of what the Auditor General has stated in his report to the House of Commons in paragraph 87, considering the intricacies and implications involved, I feel I must pose the following question.

As Mr. Hales suggested a moment ago this paragraph in part states:

Three of the bids received were given serious consideration, two being from large, well-established concerns in the catering field. The third, which contained a slightly better offer than the other two, came from a group of Montreal citizens—

That group until that time apparently had not had any experience in the catering business. The contract involved a major catering job. We are told by the Auditor General that two of the bids were received from well established concerns in the catering field but the contract was given to a group of Montreal

citizens who at that time had not even been incorporated as a company, who proposed to be incorporated as a company as indicated by the information contained in paragraph 87 but who, as indicated by further information in this paragraph, were completely unable to meet their obligations.

I think I have two logical questions to be asked by members of this committee.

The first is, why was a decision made not to give the contract to a concern which had experience in the business but rather to a group of citizens who had not even at that time been incorporated?

Second, and this question I think naturally follows the question just asked, was there political pressure or implication in the granting of this contract in respect of catering facilities at the Montreal airport? Can we receive a definitive answer to that question?

The VICE-CHAIRMAN: Mr. Winch, I suggest your first question is in order but that your second question is out of order. If you intend to ask the second question, then you should ask it of that individual who was the minister of transport and responsible at that time. Certainly you should not direct it to an employee of the government.

Mr. WINCH: I am directing the question to the deputy minister of transport, and I should like to know how far he can go in an attempt to obtain that information in regard to what I maintain is an absolutely extraordinary situation for this committee.

The VICE-CHAIRMAN: You may maintain that, and I have no objection, but I do not think your second question should be asked of an employee of the government, and it is definitely out of order.

Mr. WINCH: Perhaps we could have an answer to my first question.

Mr. SCOTT: In respect of your first question, sir, the company claimed it would have no problem in respect of the operation of hiring a competent manager.

Mr. WINCH: To which company are you referring?

Mr. SCOTT: I am referring to this company.

Mr. WINCH: According to the information we have, at the time the contract was let the group only proposed to incorporate as a company and there was actually no company in existence.

Mr. SCOTT: I should refer to the group, if you like.

Mr. WINCH: Is that information incorrect?

Mr. SCOTT: There is nothing wrong with the information, Mr. Winch. As it is stated here, it is quite correct.

Mr. WINCH: There was no company in existence at that time?

Mr. SCOTT: That is right.

Mr. WINCH: I refer to the time the contract was let.

Mr. SCOTT: That is right. The proposal was that the group could hire adequate management and make this operation a success.

Mr. WINCH: Is it your usual practice or policy as a deputy minister in a situation like this, where a catering operation of this kind is to be let by contract, to turn down two tenders sent in by concerns in the catering business and award the contract to a group not in the business and which proposes to form a company if they receive the contract? Is that a fair question to ask you? Is that how you normally proceed in letting your contracts?

Mr. SCOTT: No, that is not how we proceed. The department normally makes an assessment of any submission that is received and refers that assess-

ment to the minister. It is up to the minister to decide in respect of the tenders and it is on the basis of the departments' assessment that he makes a recommendation or proposal.

Mr. WINCH: I ask you this question as the deputy ministre because I presume the minister acts on the information you give to him.

Mr. SCOTT: I am only acting deputy minister sir.

Mr. WINCH: Did you make a recommendation to the minister in respect of these tenders?

The VICE-CHAIRMAN: I must correct you, Mr. Winch. Mr. Scott is the acting deputy minister and he should not appear on the record as the deputy minister until he is promoted to that job.

Mr. WINCH: As the result of observing how he conducts himself, sir, I am sure he will make a good deputy minister.

The VICE-CHAIRMAN: I am sure your contribution is accepted with pleasure.

Mr. WINCH: Did you yourself, the department or the deputy minister make any recommendations to the minister in respect of the awarding of this contract?

Mr. SCOTT: We did not make any recommendation other than the assessment.

Mr. WINCH: May I ask what your assessment was?

Mr. SCOTT: I believe the majority opinion in the department favoured the Hilton bid.

Mr. WINCH: In other words, the department favoured an established catering firm?

Mr. SCOTT: That is right.

Mr. WINCH: That assessment was not accepted by the minister and he, on his own responsibility, made the decision to grant the contract to a firm not yet in existence?

Mr. SCOTT: The final decision really is made by the treasury board.

The VICE-CHAIRMAN: Mr. Winch, I do not want to interrupt your questioning but a civil servant cannot answer for an elected representative.

Mr. WINCH: Mr. Chairman, I am trying to find out the procedure followed, and I think I have the answer at this time. The three tenders were received by the deputy minister or yourself, or the department?

Mr. SCOTT: Yes.

Mr. WINCH: You received three tenders. The department made a recommendation to the minister, recommending a firm which was in the catering business. The minister therefore made the decision, or made a recommendation to the treasury board; is that right?

Mr. SCOTT: That is quite correct.

Mr. WINCH: The treasury board accepted the recommendation of the minister rather than the assessment of the department; is that right?

Mr. SCOTT: Yes.

Mr. WINCH: Mr. Chairman, you are ruling that I cannot ask a question in respect of the basis upon which the minister made such a recommendation; is that right? You are going to rule me out of order if I ask whether the recommendation was made on a political basis; is that right?

The VICE-CHAIRMAN: I do not wish to stop you from asking that question, but it is not possible for a civil servant to explain the action of a minister who is an elected representative.

Mr. WINCH: I think we have the answer at this time.

The VICE-CHAIRMAN: I think you do have the answer.

Mr. WINCH: The responsibility for the decision was not the responsibility of the department, the deputy minister or the acting deputy minister. The decision was made by the minister himself that the contract should be granted to a firm not yet in existence.

The VICE-CHAIRMAN: I think that fact has been established.

Mr. LEBLANC: The other question I wanted to ask follows along the subject involved in questions asked by the previous speaker.

What were the names of the directors of that company?

Mr. WINCH: Are you referring to a time after the company received the contract?

(Translation)

The VICE-CHAIRMAN: The firm to which the contract was awarded?

(Text)

Mr. LEBLANC: I am referring to the first group which entered a tender including that form of incorporation proposition.

Mr. SMITH: I have the names of the officers of the company as given by the deputy minister of transport in April of 1963. The names are: Mr. David Belhumeur, president and a chartered accountant; Mr. Jean P. Dionne, vice president and sales director of Dionne Limited, retail chain stores, Montreal, and Mr. Paul O. Parent, the secretary treasurer and general manager of A.F.C. Limited the company with which we are concerned here.

Mr. LEBLANC: According to the information I have, the group would not be made up of those individuals. I am referring to the first group which received the favour of the tender, and that is the group that bid on the tender as a group and not as a company. You probably have the names of that group.

Mr. SMITH: The answer to your question would have to be obtained, sir.

Mr. LEBLANC: Thank you.

The VICE-CHAIRMAN: Presumably you will be willing to obtain that information and send it to this committee for the next meeting, or send it to Mr. Leblanc so that he has the information he is seeking?

Mr. HENDERSON: Mr. Chairman, I think the information is contained in the department's records because Mr. Smith was quoting from a letter I received from Mr. Baldwin in answer to these questions. Perhaps it could be obtained from the records of the department.

Mr. SCOTT: That is possible.

The VICE-CHAIRMAN: If that is the case, Mr. Leblanc, that question must be asked on the Orders of the Day in order that the documents relating to that transaction may be produced. The same thing would apply to Mr. Winch's question.

Mr. WINCH: Mr. Chairman, if I may now, I should like to make a request of this committee and then will not say any more.

I should like to ask that the steering committee, in view of the importance of this situation and the implications, consider making a request that the minister of that day appear before this committee and explain why he made a recommendation to the treasury board in respect of granting this most significant contract involving catering at the Montreal airport, against the recommendation of his departmental officials, that the contract should be granted to a group not yet incorporated and not in the business. I request that you refer this suggestion to the steering committee.

The VICE-CHAIRMAN: You are requesting that we refer this to the steering committee?

Mr. WINCH: I suggest we refer the suggestion to the steering committee that the minister of that day appear before this committee to give some explanation.

The VICE-CHAIRMAN: Your request will be taken into consideration by the steering committee, I can assure you of that.

Are there any further questions in respect of paragraph 87?

Mr. DANFORTH: I should like to ask two questions, Mr. Chairman. The first question has reference to a statement in paragraph 87 to the effect that the third tender contained a slightly better offer. I wonder whether it is possible for this committee to obtain some explanation of the meaning of that phrase, "slightly better offer".

Mr. HENDERSON: Mr. Danforth, I think Mr. Smith mentioned the figures but perhaps he could elaborate on them. You have that information there, Mr. Smith.

Mr. SMITH: I said that the tender of the successful group was, the greater of 11.5 per cent of the gross food sales or a minimum of \$100,000 per annum.

The offer of the second company was, the greater of 11.15 per cent of gross food sales up to \$2 million and 12 per cent of the gross revenue over \$2 million, or a minimum of \$130,000 per annum.

The third company, and this was an amended bid by the way, was, the greater of ten per cent of the gross food sales except staff cafeteria sales, plus five per cent of the gross staff cafeteria sales, or a minimum of \$100,000 per annum.

The first two I have mentioned offered a percentage of 15 per cent of the gross liquor sales, and the third offered 16 per cent.

Mr. DANFORTH: I have one further question, Mr. Chairman. In the second paragraph of paragraph 87 there is reference to the fact that executive approval was given but only on the condition that at its own expenses an expenditure of \$350,000 had to be made in respect of furnishings, equipment and decoration. Was this condition a part of the original tender or was it in addition to the qualifications of the original tender?

The VICE-CHAIRMAN: Mr. Smith, can you answer that question?

Mr. RAMSAY: The answer to the question is that the original tender called for the successful contractor to furnish the areas to the approval of the department, but there was not a specific sum mentioned. Subsequently there was a specific sum determined, which is the \$350,000.

Mr. WINCH: May I ask a supplementary question in that regard?

The VICE-CHARMAN: Yes, Mr. Winch.

Mr. WINCH: Was the basis upon which the Auditor General made this report to the House of Commons, that the original contractual tender stated that the furnishings and equipment should be provided on an ownership basis and not a credit basis? I understand from my reading of this that it was done on credit. What is the actual cash delinquency of this group which finally became a cost to the federal treasury?

Mr. HENDERSON: That is a rather tall order. In this paragraph you will notice that the department required the group to undertake at its own expense to spend a minimum of \$350,000 immediately on furnishings, equipping and decorating for the several concessions.

Mr. WINCH: Is that cash or credit?

Mr. HENDERSON: I am going on to explain that. When the agreement was signed, the agreement or indenture contained the condition requiring that at

least \$350,000 be spent on furnishings, and so on, and that it was to be evidenced by certified copies of receipted vouchers furnished to the department within 60 days of the effective date of the lease.

I then go on to point out that this requirement was not met and the department later explained to the audit office that a general awareness of what had been installed made it seem unnecessary to invoke the relevant clause. However, I go on to say that financial statements produced by the company to the department in May, 1961, giving the financial position at the date of the lease indenture, revealed that the company was proceeding to make commitments for expenditures called for in the lease—that is the \$350,000—but it was also revealed that the company was undercapitalized in that only \$150,000 equity capital had been introduced.

Mr. WINCH: May I stop you at this point? I think this will help. May I ask the meaning of "certified copies of receipted vouchers"?

Mr. HENDERSON: Evidence that they had spent the money and production of receipts to show they had spent the money on the furnishings—

Mr. WINCH: And that they had paid for them.

Mr. HENDERSON: Yes. In this paragraph I go on to say that interim financial statements provided to the department by the lessee as at July 31, 1961—that is after six months operation under the lease—revealed—and then I list the items. First of all, no equity capital had been introduced; second, they had borrowed \$73,000; third, there was a deficiency of working capital and, fourth—and this is your point—furniture and fixtures had been largely obtained on credit.

Mr. WINCH: How did they get it by vouchers?

Mr. HENDERSON: They did not get them; that is why at the top of page 55 I show that we had asked the department why that requirement was not met.

The VICE-CHAIRMAN: Why was that requirement necessary?

Mr. HENDERSON: I think the department was very wise in making a stipulation that they spend a sum of money like this on furnishing, equipping, and decorating the concessions, if only as evidence of the seriousness of their intent to perform under the indenture. This is a very logical businesslike requirement to have made.

Mr. WINCH: Had the original tender contract agreement been lived up to, what would you say is the amount they are delinquent to the federal treasury, or the department?

Mr. HENDERSON: I think the best way to answer that question is invite you to read the balance of the comment on pages 55 and 56 where you will see there were a number of changes made, and in point of fact a new contract was entered into; this group packed up and a new group was formed.

Mr. WINCH: Was this new group composed basically of the same members as in the old group?

Mr. HENDERSON: No. I believe it was a new group of local citizens. They said, in effect, "we will take it on provided you give us a better deal". At the top of page 56 I point out that this new arrangement with the new group was made in 1963, but in the meantime the company at March 31, 1963—the original company—stood indebted to the department for \$167,400. As I mentioned in my opening remarks, this \$167,400 has since been reduced to \$31,568 as a result of the amendment to the lease and certain installations made by the company having been taken over by the department. This is a compromise situation which had to be made in order to keep the facilities going at the Montreal international airport.

Mr. WINCH: When the second group took over, did they accept the debt of the first group or who paid off that indebtedness?

Mr. HENDERSON: Mr. Scott may correct me, but it is my understanding that the second group were prepared only to accept the debt and to operate the restaurant provided they had a new deal in respect of the amount of profit or commissions they were going to have to pay to the department.

Mr. WINCH: I am sorry; that is not my question. I am referring now to the money which was delinquent by the first group. When the second group took over, did they accept any responsibility for the money owing by the first group?

Mr. HENDERSON: That is described on page 55. You will see a paragraph where I say on October 1, 1961, the company—the original company—ceased to make the rental payments to the department called for by the lease indenture, and these were not resumed until almost a year later. Following a general assessment of the situation in February 1962, the department decided that a proposal made by the company—the original company—for a major re-writing of the lease, and a substantial reduction in the operation of the facilities was unacceptable and that the only solution to the situation was to seek a successor by direct negotiation. The department, therefore, invited proposals from the two well established catering concerns whose bids had also received consideration in March, 1960. Those are the two to which Mr. Scott referred. One of these concerns showed interest in taking over the catering company provided that the department would make some adjustments, both with respect to the financial crisis which had developed and the fee formula for continued operation of the restaurant. With the department's approval, the concern entered into discussions with the directors of the company holding the catering contract. However, before much progress could be made by this concern, the directors and principal shareholders of the company holding the catering contract suddenly sold out their interest in the company to a fresh group of local citizens in October 1962. So another outfit came in.

Mr. WINCH: May I ask one question now? I have read this most carefully, and that is why I am so interested. Has the Auditor General anything to say beyond what is contained in paragraph 87 with reference to how this committee might consider bringing in a recommendation which would take care of this most unusual development.

Mr. HENDERSON: Well, it is a very regrettable state of affairs. I know Mr. Scott and Mr. Baldwin share the same view. However, this type of thing does come along in the course of any well organized business.

Mr. WINCH: If it were a well organized business in free enterprise, I would say they would be broke in two months.

The VICE-CHAIRMAN: In private enterprise they would not be there.

Mr. CAMERON (*High Park*): At the inception did you make any inquiries to find out whether they had the money and had spent the \$350,000 which they were supposed to spend in order to acquire the equipment?

Mr. SCOTT: Well, this became part of their undertaking.

Mr. CAMERON (*High Park*): But you took no precautions to see that they had the money?

Mr. SCOTT: This is hard for me to answer, because I was not involved in this at that time.

Mr. GOODWIN: Mr. Chairman, I recall the meetings on the various particulars and indeed the original four or five citizens did provide excellent bank references, for what they were worth; mind you, it was not a guarantee from the bank. However, the original group, which consisted of approximately four persons,

one of whom—I believe the president—was, in fact, a very well established restaurant operator in the city of Montreal. The other gentlemen concerned also were very highly regarded citizens in business in Montreal. So, at the time the bids were reviewed, and subsequent to the original review, the original group did present what the department at that time considered to be satisfactory bank references, but not a bond or anything of that nature.

Mr. CAMERON (*High Park*): Then you relied on these bank statements and the reputations of the individuals who were proposing to enter into this contract in your assessment of their tender?

Mr. GOODWIN: I would not agree with that. I think Mr. Scott has made quite clear the official stand.

Mr. CAMERON (*High Park*): There must be something on which you relied. The only thing you have presented so far are statements in respect of the banking reputations of the people who made the tender. You relied on that to establish it was a bona fide solid, substantial group of persons who were behind this, and in dealing with them you believed you were not dealing with any fly by night sort of organization. Is that right?

The VICE-CHAIRMAN: I think I should point out that the recommendation made by the department was not the recommendation that was made by the minister to the treasury board.

Mr. WINCH: It should be noted on the record that the recommendation of the department was not that which was accepted by the minister.

Mr. CAMERON (*High Park*): When they entered into the contract with this group they had bank statements and knowledge of the character and reputation of these men. Probably, if they had not had the bank statements and if the men were not of the character as indicated, they would have given it a much closer look.

Mr. SCOTT: I think that is right, sir.

Mr. CAMERON (*High Park*): Having got that far, why did the department waive the requirements calling for certified copies of the vouchers for the equipment, and so on, that under the contract they were required to deliver? Was that a decision of the department, or was it a decision made outside your scope? Mr. Henderson, in his statement, says the general awareness of what had been installed made it seem unnecessary to invoke the relevant clause. Was that a decision of the department, or whose decision was it?

Mr. SCOTT: I really would not put that on the basis of a decision, sir. I think the fact was that these people were putting in the facilities in accordance with their undertaking, and the local people at the airport watched this and saw it going in. This seemed to be evidence of the good faith of the caterer.

Mr. CAMERON (*High Park*): They were putting in the equipment which indicated a value to you of something approaching \$350,000; but, why did you waive the condition that they produce receipts to show this equipment was being paid for?

Mr. WINCH: That is a top notch question.

Mr. SCOTT: This way only over a relatively short period, because during that period the company started getting into difficulties, and we had our financial service people audit their operations.

Mr. CAMERON (*High Park*): The effective date of the contract was February 1, 1961?

Mr. SCOTT: Yes.

Mr. CAMERON (*High Park*): And these receipts were to be produced within 60 days after the goods were put on the premises. By May 1 you knew that the company was proceeding to make expenditures called for in the lease, but

that the company was undercapitalized, and the interim financial statement provided to the department as of July 31 indicated that no further equity capital had been introduced, that \$73,000 had been borrowed by the company, that there was a deficiency of working capital, and furniture and fixtures had been largely obtained on credit. What did the department do under these circumstances?

Mr. SCOTT: I am advised that during this 60-day period the facilities actually were not put in. They did not have a licence.

Mr. CAMERON (*High Park*): So they still did not operate as of the first of February?

Mr. SCOTT: Not the bar; the food concession was in operation.

Mr. CAMERON (*High Park*): Then their position apparently continued to worsen. Did the department do anything at all about it?

Mr. SCOTT: Oh, yes; we were very much concerned with this, because basically it was turning out that the patronage that the concessionaire was getting was not what had been anticipated.

Mr. NOWLAN: Why?

Mr. SCOTT: One of the reasons was that it did not have a liquor licence.

Mr. CAMERON (*High Park*): Under the tender did you not have the right to cancel their contract?

Mr. SCOTT: This could have been done.

Mr. CAMERON (*High Park*): Was that ever considered?

Mr. SCOTT: Yes; I think it was considered, but there was also the problem of maintaining facilities in operation during a period of time. Even the food side of this was not turning in the revenue which had been anticipated. It was becoming evident to the department that new terms would have to be negotiated with whoever came in.

Mr. CAMERON (*High Park*): You made a general assessment of the situation in February, 1962, and at that time decided the only solution was to bring in someone else to operate the concession. Why did you not follow through with that? It seems to me it was a very wise assessment.

Mr. SCOTT: At this time the original group came back. Prior to this they were thinking of withdrawing and it was the thought of their withdrawal which prompted us, with treasury board's approval, to go and talk to the other two bidders to see whether we could bring them back, but then the operation changed hands and it became a practically new question.

Mr. CAMERON (*High Park*): Do you not think it was a rather peculiar thing that this first company sold out at that time without any warning at all to the department?

Mr. SCOTT: You have no control over transfer of shares in the company.

Mr. CAMERON (*High Park*): I am not asking about the question of having any control; I am asking whether you did not think it was a peculiar thing for them to do.

Mr. SCOTT: It was not a very viable undertaking at that time.

Mr. CAMERON (*High Park*): Notwithstanding that, you continued to negotiate with this new group that was taking it over.

Mr. SCOTT: It was considered that the new group might be more experienced and have better financing.

Mr. CAMERON (*High Park*): In what way were they considered to be more experienced and to be more financially sound? In what way were they going to manage this concession in a manner satisfactory to the department?

Did you get a bank statement? Did you get biographies? Did you get character references behind these people to show whether they were eminent businessmen or not?

Mr. SCOTT: Well, when they came back with another proposal, it was a somewhat different group. They were prepared to continue if they got a renegotiation of the undertaking. The minister considered that this would be all right.

Mr. CAMERON (*High Park*): Then the minister is back in the picture again?

Mr. SCOTT: The minister is always in the picture.

Mr. CAMERON (*High Park*): With all these different discussions, and there must have been very many of them, the minister was fully informed about them?

Mr. SCOTT: Yes, sir.

Mr. CAMERON (*High Park*): He knew about the fact I assume, and that they were interested to come back a second time?

Mr. SCOTT: You mean Aero caterers?

Mr. CAMERON (*High Park*): Yes, Aero caterers, and he knew about the fact that they were negotiating with the original tenderers?

Mr. SCOTT: He knew that the department had the approval of the treasury board to go back to the original tenderers to see if they were interested to come back and take over the operation.

Mr. CAMERON (*High Park*): Who made the recommendation to the treasury board?

Mr. SCOTT: It was done on the basis of the discussions we were having at the time. This was put up to the treasury board at the time.

Mr. CAMERON (*High Park*): What was the position of the department itself in the matter? What was their solution to the problem? Did they go along with it, or did they have a different solution?

Mr. SCOTT: I think on the whole the view of the department was in favour of another firm. We have had experience with this one, we knew Aero caterers and that they were able operators, and we felt that they might be the ones who could go in and do something about getting more patronage for these facilities.

Mr. CAMERON (*High Park*): The opinion of the department was passed on to the minister?

Mr. SCOTT: When this was being discussed with Aero caterers, that is when the change took place in the other company. The view was that the other company would be on a better financial basis, and that they were going to have a new deal to start with, and that they were not going to have the same obligation of expense.

Mr. CAMERON (*High Park*): The fact that a new group of persons took over the existing contract would not enter into your decision about the qualifications of Aero carrying on the contract?

Mr. SCOTT: No.

Mr. CAMERON (*High Park*): What inquiries did you make about the qualifications of the new group to carry it out?

Mr. SCOTT: I certainly presume that inquiries were made.

Mr. CAMERON (*High Park*): I do not think it is a matter of presumption.

Mr. SCOTT: I did not make them myself.

Mr. CAMERON (*High Park*): Probably someone else can tell us.

Mr. SCOTT: I think it can be accepted that they would be assessed on the same basis as the original ones.

Mr. CAMERON (*High Park*): I would like to know what the assessment was. I would like to have a statement. Is there anyone here from your department who can give us that information?

Mr. SCOTT: I am sorry but we have no one here from property management.

Mr. CAMERON (*High Park*): Who recommended it? Was there an assessment made in making the authorizations that were made in the contract to reduce the liability?

Mr. SCOTT: Yes, there was on the basis of the department's appraisal of the difficulties of the operator.

Mr. CAMERON (*High Park*): What was the department's appraisal of them? What advice did they give to the minister who in turn would have to take it to the treasury board, as opposed to Aero?

Mr. SCOTT: Whoever came in would have to have a better financial deal than the old company had.

Mr. CAMERON (*High Park*): What about the financial responsibility of whoever came?

Mr. SCOTT: That they would meet it.

Mr. CAMERON (*High Park*): Did you set any standard of what that financial responsibility would be?

Mr. SCOTT: No, there was no fixed standard. They are meeting it now, as Mr. Goodwin has pointed out.

Mr. CAMERON (*High Park*): Perhaps we should have it in a little more detail. I mean the form as to how the new organization is carrying on.

Mr. GOODWIN: The statement indicates that the indebtedness has been reduced.

Mr. CAMERON (*High Park*): That would be by reason of the change in the tenderers, and the department absorbed the loss, or the money which it might have got, and set it out to reduce the amount.

The VICE-CHAIRMAN: Is it to be an adjustment or a payment? Is that what you want to find out?

Mr. GOODWIN: I am under the impression that both entered into it.

Mr. HENDERSON: At March 31 the indebtedness was \$167,400; that would be under the original indenture.

Mr. SMITH: That is right.

Mr. HENDERSON: I understand that figure of indebtedness to the department has been reduced by \$60,000 to \$107,921 by the amendment to the lease, that is to say, the new lease that was entered into with the new group. It is an adjustment. They wrote down the amount of the fees that they would charge the new group, and accordingly credited it to reduce the amount of indebtedness. Since then that \$107,921 has been further reduced by the value of certain installations which had been made by the company. They presumably consist of furnishings, which the department has taken over; that is, they took over ownership. They took it over from the company and applied it against the indebtedness which is now only \$30,000 odd.

Mr. FRENETTE: Was it done by adjustment or by cash?

Mr. HENDERSON: That is what I have said—by adjustment.

Mr. WINCH: In other words they have not paid a cent.

Mr. NOWLAN: If you take their property, do they not then pay?

Mr. CAMERON (*High Park*): I have one concluding question. In your opinion, and in that of the department, is this new organization carrying on, doing a satisfactory job, and living up to the contract in every respect, or have you any complaints whatsoever?

Mr. SCOTT: So far as I am aware they are doing quite well.

(Translation)

The VICE-CHAIRMAN: Mr. Leblanc.

Mr. LEBLANC: I would like to speak in French, Mr. Chairman, because it is easier for me. What was the duration of the lease between the minister and the first group, signed on January 3, 1961?

(Text)

The VICE-CHAIRMAN: Mr. Smith?

Mr. SMITH: The lease is supposed to be for a period of five years with provision for an opportunity for two further renewals of five years each.

(Translation)

Mr. LEBLANC: Did that lease contain provisions granting more protection to the Department of Transport than to the first group which obtained the contract? So far, it seems that all the advantages were in favour of the first group and not in favour of the Department of Transport.

(Text)

The VICE-CHAIRMAN: Mr. Smith.

Mr. SMITH: I think that is a question which might more advantageously be answered by the department.

Mr. LEBLANC: Is that your attitude?

The VICE-CHAIRMAN: Do you have an answer to that, Mr. Scott?

Mr. HENDERSON: We have the lease here. It would be very easy to answer any specific question. Actually I read the lease and I thought that the department had made a pretty good watertight lease. In fact, it was as a result of seeing the clause which had to do with responsibility in reference to the furnishings, which required invoices to be furnished within 60 days that my officers called for the receipts; and there was the standard cancellation clause of non-performance. It is a very long document, but I thought it was a good lease that they made.

Mr. WINCH: But you did not receive the invoices?

Mr. HENDERSON: We did not receive the invoices, as I say here. We had a number of other questions in connection with the lack of performance in the matter.

Mr. CAMERON (*High Park*): You make the statement that the legal form of the contract was good?

Mr. HENDERSON: I recognized the clauses to be the standard ones you would expect.

Mr. CAMERON (*High Park*): The contract then was a good one, formally.

Mr. HENDERSON: That is right. I do not presume to be a lawyer, but I thought that they had endeavoured to foresee every possible contingency pretty effectively.

(Translation)

Mr. LEBLANC: Then, the financial difficulties experienced by the first group, which subsequently formed itself into a corporation, are not attributable to the fact that the Department of Transport would have charged them an excessive amount for the lease? I believe they themselves set the amount of the lease they

were willing to pay, and it was on that tender that they obtained it. Then the financial difficulties would arise from the fact that they did not supply enough capital to start the work and to foresee the possible losses, as is usually done in private enterprise.

(Text)

Mr. HENDERSON: Are you addressing that question to me?

Mr. LEBLANC: Well, it might be to you.

The VICE-CHAIRMAN: Mr. Henderson?

Mr. HENDERSON: Well, my own general impression of the performance of the first group is that they did not seek to organize themselves very effectively. Mr. Scott can say what views the department had on the competence of their staff, but as you will see from what I say on page 55 they did not put any more than \$150,000 into the undertaking. Nevertheless they signed a lease to say that they would spend \$350,000 on furnishings alone. Then they apparently went to the bank and borrowed \$73,000. I suggest to you that they did not take this very seriously.

(Translation)

Mr. LEBLANC: It seems that the initial capital did not amount to the \$350,000 which they had pledged themselves?

(Text)

Mr. HENDERSON: No, it was not.

(Translation)

Mr. LEBLANC: In order that this group prove their good faith, should not the Department, before it signed the lease, have asked it to deposit an amount of \$350,000 in a bank, in order to show that it could meet at least its first commitments?

(Text)

Mr. HENDERSON: Yes, that was one of the first points that occurred to my officers and to me. I put that question to Mr. Baldwin.

(Translation)

Mr. LEBLANC: If I understood well the explanations given by Mr. Scott a while ago, it seems that the financial standing and the experience of the second group are much higher than those of the first group?

(Text)

Mr. HENDERSON: I am not too aware of the competence of the second group. I did ask the deputy minister what experience the second group might have had in the restaurant business. As I recollect it I do not think we have that information. Have we got it, Mr. Smith? I recall asking the question of Mr. Baldwin, who the contractors were and what their experience had been generally.

The VICE-CHAIRMAN: Mr. Baldwin is the deputy minister of transport. He is not present today.

Mr. LEBLANC: Did you ask the same question of the first group? If so, could we have the answer right now?

Mr. HENDERSON: Yes, I did ask that question. That was why Mr. Baldwin told me who the president was. But as auditor I naturally only look at these things after the event and not before.

Mr. LEBLANC: Why can we not have that? Will it be produced to the auditor?

Mr. HENDERSON: Mr. Smith has the names of these people on record.

Mr. LEBLANC: We know the names of the second group but we never got the names of the first group, or the name of the company until they were incorporated, and we do not know what the capital stock is either.

Mr. HENDERSON: I think we have that information. You have the name of the first group. Would you see if you have the amount?

Mr. LEBLANC: While we are waiting, I have another question of the Auditor General. Was the department organized to make a real audit of the gross revenues. The rental was paid under the gross revenue. Did the department ever look at the gross revenue of the company to see exactly if the revenues declared were the exact ones? Not that I doubt that they did not introduce the right figure, but I think as a matter of audit it is very good to have a strict control.

Mr. HENDERSON: That is correct, sir. The department has a competent internal audit staff. As I recall, Mr. Smith and I examined the financial statement of this first group when it was produced. I think I said here on July 31, 1961, that they were presented to the department by a firm of accountants in Montreal, and the internal auditors of the Department of Transport had themselves gone over them in detail and reported on them to the officers of the department. As far as I recall it they had raised a great many questions about the situation that this statement disclosed when of course, for the reasons Mr. Scott has stated, they became increasingly concerned with what they had on their hands.

Mr. SMITH: The only information we have with regard to the personnel is that this group was incorporated under the presidency of Mr. J. Lionel Paquette.

Mr. LEBLANC: So that in a group of 10 or 15 they were all shareholders of the new company?

Mr. GOODWIN: Speaking from memory I would assume there were five gentlemen who at least took the main lead in the negotiations with the department. I could not say whether there were more shareholders. But I am quite certain there would be not more than the five that I know of.

Mr. WINCH: Do you know their names?

Mr. GOODWIN: No, but I do know Mr. Paquette who runs a restaurant in Montreal and has done so for many years.

Mr. LEBLANC: Do you remember offhand if there was the name of one Charles Paquette who was interested in this company?

Mr. GOODWIN: I do not recall that name.

Mr. LEBLANC: Could we get the information about the first group that was formed with whom the department dealt? I am sure they know them all, and they must have all their names on record.

Mr. GOODWIN: I guess we must have. It was decided earlier that we would produce them in answer to a question.

Mr. LESSARD (*Saint-Henri*): I think that most of my questions have been asked by Mr. Cameron, and I shall wait until we get some information about the first group.

Mr. McLEAN (*Charlotte*): Is it not true that the first group were responsible people, and they went into the restaurant business with the idea that they would secure a liquor licence, but somebody interfered and they did not get their liquor licence, so they could not possibly make their revenue. They were good businessmen, and they did not want to throw good money after bad. So they would not put any more money into the operation. Then it went on to a second group who took it over. They were given a liquor licence and were able to make money.

Mr. LESSARD (*Saint-Henri*): I think that a licence was given to the first group under Mr. Paquette. I do not know the names of the others, but I believe that a licence was given to Mr. Paquette and the first group.

Mr. LEBLANC: Would it not be more regular to obtain a licence before signing an indenture involving \$350,000? I am sure that they would have had a licence before they got themselves involved in a business of this proportion.

The VICE-CHAIRMAN: You are saying that we should verify the fact whether the first group got a licence or not. Are you able to answer it?

Mr. HENDERSON: Are you aware of that?

Mr. SMITH: What I have seems to contradict that information. I have a note to the effect that the company received a liquor licence on February 24, 1961; but this is at odds with earlier testimony.

Mr. LESSARD (*Saint-Henri*): Did they not sign a lease in 1961, on January 31? If so, would they not get a licence right off the bat?

Mr. WINCH: The Auditor General and a member of his staff say that the record shows that they did have a liquor licence in 1961.

Mr. HENDERSON: Mr. Smith said there was a liquor licence obtained in February, 1961, which would have been shortly after the indenture was signed. It was stated earlier that it was thought the licence was not obtained until 1962.

Mr. LESSARD (*Saint-Henri*): The licence was obtained earlier than that.

Mr. HENDERSON: The licence was obtained in the later part of 1961. I have a recollection that the interim financial statement, which I mentioned, did in fact show some revenue from that source at the time.

Mr. WINCH: If they did not have a liquor licence how did they show revenue unless they were bootlegging?

Mr. HENDERSON: They were running the restaurant and the eating facilities at the airport.

Mr. WINCH: I thought you referred to the lounge.

Mr. HENDERSON: I am referring to the restaurant at the Montreal airport.

The VICE-CHAIRMAN: There was no revenue received from liquor.

Mr. HENDERSON: There was a little delay in obtaining a liquor licence. The fact that a restaurant can serve liquor helps the receipts from food.

Mr. STENSON: I should like to ask a supplementary question on this liquor licence subject. Why was a licence denied these people?

The VICE-CHAIRMAN: Mr. Stenson, I believe Mr. McLean has a further question.

Mr. McLEAN (*Charlotte*): I should like to know whether they did obtain a licence and whether the licence was cancelled.

Mr. HENDERSON: That is not the case to my knowledge, Mr. McLean. I do not know whether Mr. Scott has that information, but I think there was just a normal application made.

Mr. SCOTT: That is my understanding.

Mr. McLEAN (*Charlotte*): It is my understanding that the licence was held up or cancelled.

Mr. HENDERSON: The licence may have been held up for some time. We will have to get further information in that regard.

Mr. McLEAN (*Charlotte*): There may well have been a licence although they may just not have been operating under the licence for various reasons. Is that the situation Mr. Chairman?

The VICE-CHAIRMAN: I do not know the answer to that question. I am not familiar with liquor licences.

Mr. McLEAN (*Charlotte*): You say that, not having had one.

The VICE-CHAIRMAN: I guess some of my friends who regularly attend the cocktail meetings might be able to give you a better answer, but I do not know who that is.

Mr. McLEAN (*Charlotte*): It is now five o'clock. Do we get a liquor licence now?

The VICE-CHAIRMAN: We have one more item to deal with and I think we should complete this at this meeting so that it will not be necessary to bring these present witnesses back to our next meeting, and that we may at that time proceed with our regular agenda.

Mr. STENSON: I have a question in respect of the liquor licence subject. Why did this company not obtain a liquor licence?

The VICE-CHAIRMAN: As a result of an answer given previously I would suggest they did obtain one.

Mr. LESSARD (*Saint-Henri*): The company did obtain a liquor licence.

The VICE-CHAIRMAN: Further information in that regard will be obtained and presented to this committee at its next meeting.

If there are no further questions I think we should now turn to a consideration of paragraph 98.

Mr. LESSARD (*Saint-Henri*): Will it be permissible for us to ask further questions in respect of this paragraph?

The VICE-CHAIRMAN: You are going to receive further information in respect of this subject and if at that time you wish to ask further questions you will then have your regular Chairman who I am sure will give you permission to do so.

Mr. LESSARD (*Saint-Henri*): Our present Chairman is doing very well.

The VICE-CHAIRMAN: I wish we had not talked about this liquor licence subject because I am afraid we are going to lose our quorum.

Mr. McLEAN (*Charlotte*): It is now five o'clock.

The VICE-CHAIRMAN: May we now deal with paragraph 98 in respect of non-productive payments.

98. *Non-productive payments.* Paragraph 71 of the fifth report 1961 of the public accounts committee reads:

The committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit.

In accordance with the request contained in the foregoing observation, a listing is given, as appendix 1 to this report, of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of expenditures for the fiscal year 1962-63.

Mr. HENDERSON: At page 148 there is an indication that the Department of Transport is responsible for five of the 37 shown in appendix I. The numbers

are, item 30, consultants' fees, Sault Ste. Marie; item 31, consultants' fees, Winnipeg; item 32, cost of delays, Montreal; item 33, cost of landline circuit, Val d'Or, and item 36, cost of delays, Edmonton.

The non-productive expenditures in respect of which these cases totalled \$209,323.

The VICE-CHAIRMAN: That is the total in respect of all the paragraph you have listed?

Mr. HENDERSON: That is right, sir.

The VICE-CHAIRMAN: Are there any questions in respect of this paragraph or do you wish me to deal with this clause by clause?

Are there any questions in respect of clause 30?

Mr. HENDERSON: Item 30 is the first item.

Mr. WINCH: I am wondering whether you have made this comment because of the fact these amounts were not to be exceeded?

Mr. HENDERSON: That is right. The treasury board granted approval in principle to the construction of an air terminal building at Sault Ste. Marie at the same time stipulating the estimated total cost of \$610,000 was not to be exceeded. Consultants prepared sketch plans, work drawings and specifications prior to the tenders being invited, and when the last tender was received, and the revised tender based on modified plans, both in excess of the prescribed ceiling the department was instructed by the treasury board to cancel the tender and redesign the building at a lower cost. During the year a final payment of \$12,363 was made to the consultants in respect of their abandoned work, and this brought the total non-productive cost of the consulting services and expenditures to \$26,608.

Mr. WINCH: May I ask a general question, Mr. Chairman.

The VICE-CHAIRMAN: Yes.

Mr. WINCH: As far as I am concerned the problem in respect of all these things reverts to what we have discussed at previous meetings. I am very sorry to say that other departments run into this same kind of problem. One will generally notice, in going through these items, that the increased costs are fundamentally caused by changes in plans, wrong specifications and other similar reasons. This committee has a responsibility to check into these matters. Is it possible for Mr. Scott to tell us whether there is any means, for instance, with a little more foresight or co-ordination between the various departments, to cut down on the number of faulty plans and changes in plans before these contracts are let? I am just asking that question in a general way in an attempt to be co-operative and of some assistance.

Mr. SCOTT: I think perhaps I should make two observations in this regard. Firstly, I should suggest that this situation existed as far back as the Montreal airport which certainly was the first large undertaking. From that point on we were faced with a succession of large terminal buildings, secondary terminal buildings, and small terminal buildings. As every member of the committee knows, this situation developed in a relatively short period of time. Not very many years ago if one were travelling across Canada and stopped in almost any city he would find not much more than a leanto. The department was not geared to deal with items of this magnitude. We did not have the men or experience necessary. All these factors are involved. In many cases in respect of some of the major buildings the time was very limited and usually involved a target date. That is one side of the problem.

Along with that side of the problem there existed a difficulty in respect of the practice of air lines. Ever since the first plans were drawn up in respect of the Montreal terminal we have faced this problem. Air lines, such as Air

Canada, for example, have gone through at least five different types of equipment. For instance, if one week you are designing a terminal, knowing that aircraft to be used will carry 50 passengers, and the following day, almost, you find out the air line is not going to use that type of aircraft but a different kind designed to carry 150 passengers, it is obvious you are going to be in real trouble.

There are other problems inherent to this area in that Air Canada at one time was operating with Viscounts on secondary routes. Air Canada then supplemented these routes with Vikings. Again the size of the passenger load increased. This was done by Air Canada with the idea of giving better service. We have no control over these factors and certainly do not want to have any control, but these are difficult things to foresee.

Also involved in this problem is the fact that the scheduling of flights is in the hands of the air lines. While we work very closely with the air lines and know their plans in respect of what their flight operations and frequencies will be, if they change this for any operational reason we run into difficulty. If for example we have planned on two Viscounts, if you like, meeting at a relatively small city at the same time we will expect to have to provide accommodation, in respect of passengers, visitors and friends, in the building for perhaps 150 people. If suddenly you are confronted with four Vikings meeting at the same time you will be looking at a crowd of some 400 or 450 people.

There has been a departmental problem involved in attempting to meet these situations. We had very little experience when we began the Montreal terminal. One could look anywhere practically in the world without finding the same problem with which we were faced in that connection. Air lines in the United States at that time were just beginning to move into large terminal buildings. Furthermore, we just could not look to any country to find a precedent, if you like, for our problems, because we are confronted with a number of cities scattered right along and across the border carrying on operations on a different basis than the normal international operations. We also have a domestic service to contend with.

A great many things have happened in respect of the air operation industry on the air side which have been extremely difficult to keep abreast of, and one must remember that plans must be made in advance. There was no one really that we could turn to, and certainly the department consulted everybody available. This was another of the problems in respect of designing the terminal buildings. Many factors were involved.

Mr. WINCH: Mr. Chairman, I am very grateful for the statement just now made by Mr. Scott. The statement intrigues me and is of interest to me. Over the last two or three years I have had the opportunity of speaking with the top executives of T.C.A. and also last year with two top executives of B.O.A.C. They told me that when they are planning for the purchase of new aircraft they have to calculate anywhere from three to seven years in advance of ordering the aircraft.

Applying this experience in respect of Trans-Canada Air Lines or Air Canada, the officials must have had some idea regarding the utilization of those aircraft, landing strips and terminal facilities required. I am sure I am correct in what I am saying because of my information in respect of B.O.A.C., Air France and the Scandinavian Air Lines which fly into Canada. In respect of our own Canadian operations the officials must have known three to seven years in advance of ordering, the type of aircraft to be used and the routes to be travelled as well as the landing facilities required. Why was it not possible through co-operation between the departments and the air lines to forecast the type of difficulty you eventually ran into?

Mr. SCOTT: What you suggest in respect of planning ahead for the purchase of aircraft is quite true, as I understand the situation, but I can assure you that

the department has and does work very closely with the air lines companies in respect of planned schedules.

Mr. WINCH: I understand they must plan three to seven years ahead.

Mr. SCOTT: Yes. Five years ahead we can tell you what Air Canada proposes for Toronto, but that was not the case a few years ago. What happened at that time was that the air lines operators did not themselves really foresee going into large jets as quickly as they did. However, in the air transportation industry once a better type of equipment is available competitors have to obtain it otherwise they will have no traffic.

What happened as far as we were concerned is that all at once there was a large inflow of entirely new and large types of equipment. This situation was taken into account in respect of the design of airports, terminal plans and other things. However, if you look around at this moment you will see that we are concerned with what is going to be a smart jet aircraft but we do not know which one. We cannot operate on that basis regardless of staying on top of things, because they make their decisions on a scientific basis bearing in mind the schedules they are going to operate and traffic they are going to carry. We are aware of air lines planning regarding their intention in respect of co-ordinating their schedules, but within two years if they change the load factor, change the frequency or something of that nature we have an entirely different number of aircraft arriving at a terminal at one time.

The VICE-CHAIRMAN: Are there any other questions?

Mr. WAHN: I should just like to ask whether, in view of the expressions of opinion by members of this committee at today's meeting, there is any intention of tightening up the situation in respect of plans and specifications?

Mr. SCOTT: I think we are doing a lot better right now in this regard.

Mr. WINCH: And you intend to do better yet in the future; is that right?

Mr. SCOTT: Yes, sir.

The VICE-CHAIRMAN: Are there any further questions in respect of paragraph 31?

Paragraph 33 is next.

Some hon. MEMBERS: Carried.

The VICE-CHAIRMAN: I think the next paragraph for consideration is 36.

Some hon. MEMBERS: Carried.

The VICE-CHAIRMAN: I know that the members of this committee are very anxious to sit tonight but there are very important reasons why perhaps we should not. In the first place the House of Commons will be in session and we must look after the country's business. The Prime Minister is arriving back tonight and somebody should go to meet him. There is a football game taking place as well. We will not sit until next Tuesday at which time we will meet again in this room, I understand at 9.30 in the morning.

May I request for the benefit of those of you who arrived late that the report of the Minister of Finance on the exchange fund account which was distributed to you should be brought to the next meeting because that is the item we will then be discussing.

May I also take this opportunity of thanking the witnesses today who have done a very excellent job and given a great deal of valuable information to the members of this committee. They have promised that even though they are in the process of tightening things up at the present time they will make these things even tighter yet.

Mr. LESSARD (*Saint-Henri*): We should give a hand to our president.

The VICE-CHAIRMAN: Thank you very much.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, JULY 21, 1964

WITNESSES:

Mr. R. B. Bryce, Deputy Minister of Finance; Mr. A. M. Henderson,
Auditor General of Canada; and Mr. G. R. Long, of the Auditor
General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Grégoire,	Pilon,
Cameron (<i>High Park</i>),	Gray,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>)	Rock,
Crouse,	Leblanc	Rondeau,
Danforth,	Legault	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Graffey,	Pigeon,	Winch—50.

M. Slack,

Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, July 21, 1964
(24)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Fane, Forbes, Francis, Hales, Harkness, Leblanc, Legault, McLean (*Charlotte*), McMillan, Nowlan, Pilon, Rinfret, Rock, Ryan, Stefanson, Stenson, Tardif, Tucker, Wahn, Winch (23).

In attendance: From the Department of Finance: Mr. R. B. Bryce, Deputy Minister; Mr. A. B. Hockin, Director Financial Affairs and Economic Analysis Division; Mr. H. D. Clark, Director Pensions and Social Insurance Division; Mr. D. W. Franklin, Director Programme Analysis Division; Mr. M. H. Wilson, Financial Affairs and Economic Analysis Division; Mr. H. W. Johnson, Director Accounting Services Branch, Comptroller of the Treasury, Mr. Scott Robertson, Authorities Branch, Comptroller of the Treasury; *From the Bank of Canada:* Mr. A. C. Lord, Assistant Chief, Foreign Exchange Department; and Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Crowley, Chapman and Laroche of the Auditor General's office.

Mr. Baldwin thanked the Vice-Chairman, Mr. Tardif, for presiding at sittings last week.

The Chairman announced sittings for tomorrow of the steering subcommittee and the Main Committee to consider "draft" reports to the House.

The Committee resumed consideration of the 1962 carryover items and the 1963 Report of the Auditor General.

On "*Advances to Exchange Fund Account*", (paragraphs 141 and 194 of the 1962 Report and 175 of the 1963 Report), Mr. Henderson commented briefly and was examined thereon.

Mr. Bryce was called, and after introducing Messrs. Hockin, Wilson and Lord, commented on the Report of the Exchange Fund Account by the Minister of Finance, tabled in the Committee on July 16, and was examined thereon.

The Committee agreed that the Exchange Fund Account Report of the Minister of Finance be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix*).

The questioning of the witnesses still continuing, at 10.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(25)

The Committee resumed at 3.40 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Danforth, Fane, Forbes, Francis, Gendron, Hales, Harkness, Legault, McMillan, Southam, Stenson, Tardiff, Tucker, Winch (17).

In Attendance: same as at morning sitting, with the exception of Messrs. Hockin, Wilson and Lord.

The Committee resumed consideration of the 1962 and 1963 reports of the Auditor General.

On paragraphs 62, 144, 145 of the 1962 Report, and 52, 124 and 125 of the 1963 Report, relating to superannuation matters, Mr. Henderson made a lengthy statement explaining their background. He referred to previous recommendations of the Committee, and also the statement of the Minister of Finance to the House on March 6, 1964, and was examined thereon, assisted by Mr. Long.

Mr. Bryce commented on Mr. Henderson's statement, supplied additional information and was examined thereon.

On paragraphs 53 and 54 of the 1963 Report, dealing with additional superannuation items, Messrs. Bryce and Henderson reviewed these paragraphs and were examined thereon, assisted by Messrs. Long and Clark.

The questioning of the witnesses still continuing, at 5.25 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(26)

The Committee resumed at 8.10 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Danforth, Fane, Forbes, Francis, Hales, Leblanc, Pilon, Rock, Southam, Stefanson, Stenson, Winch (15).

In attendance: (same as at afternoon sitting).

Mr. Henderson clarified information given at afternoon sitting on paragraph 54 of the 1963 Report.

On paragraphs 55, 56, 57, 58, 59, 45, 60, 61, 110 and 123 of the 1963 Report and 66, 140 and 142 of the 1962 Report, which included, amongst other items, interest charges on loans to the National Capital Commission, and Governor General's Warrants, Messrs. Henderson and Bryce commented on these paragraphs, supplied additional information to the Committee, and were examined thereon.

The questioning of Mr. Bryce being concluded, the Chairman thanked him on behalf of the Committee.

At 10.10 p.m., the Committee adjourned until 3.30 p.m. on Wednesday, July 22, 1964.

M. Slack,
Clerk of the Committee

EVIDENCE

TUESDAY, July 21, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. The meeting will come to order.

I want to express my appreciation to the Vice Chairman, Mr. Tardif, who presided at the last meeting and at the tag end of the meeting a week ago. I understood you had a fruitful and profitable meeting with the Department of Transport.

I hope that, if time permits, we will be able to submit to the main committee at an in camera meeting the third interim report which, you may recall, I spoke to you about some time ago and which will deal with all the matters we had before us from the time of the inception of the committee until June 30. If time permits I would hope that possibly tomorrow we might meet and consider this report before its submission. I hope that the steering committee will meet to consider a draft for the fifth interim report which will deal with the Canadian Broadcasting Corporation so that this too can be submitted to the main committee for its approval or change, as the case may be. It may be before the end of this week.

Now, gentlemen, you have all received, I think, notices which indicate the matters which are going to be dealt with today and which involve the appearance here of officials of the Department of Finance.

There are a number of items in both the 1962 and the 1963 reports, and I think some of these will probably be dealt with together as they deal with the same subject matter.

First, let me introduce to you Mr. Robert Bryce, deputy minister of finance, who, of course, is well known to all of us here. He has had a very long and distinguished career in the public service in many fields. He was before the committee last year briefly, and it was understood that some of the matters which we then dealt with would be the subject of further discussion at this particular meeting. Before calling on him, however, at which time he will introduce his officials, I shall ask Mr. Henderson to make an opening statement from the viewpoint of the various matters which we will be discussing during the day. Mr. Henderson?

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman, we have a number of paragraphs regarding matters affecting Mr. Bryce's department, and referred to in my 1962 and 1963 reports, and we perhaps will deal with them on the subject basis in order to reduce the number of paragraphs and to keep the subject matter together. It will be necessary to explain the background of some of these items to you, because, as you know, we have been jumping around a little in our meetings, and moreover a number of the matters are carried forward from your sessions last December. At that time they were, in several cases, the subject of recommendations you made in your report at that time. Therefore, if you will bear with me, I may sound a little lengthy in the way of details on the subject matter, because of the importance of the figures and the principles. We are most anxious to get it across to you as broadly as possible.

The CHAIRMAN: Let us now deal with paragraph No. 62 of the 1962 report and paragraph No. 52 of the 1963 report:

62. *Government contributions not made to superannuation accounts.* In last year's report (paragraph 59) attention was drawn to subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c.47, which reads:

There shall be credited to the superannuation account, as soon as possible following the authorization of any salary increase of general application to the public service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this act, as a result of such salary increase.

Similar provisions are contained in the Canadian Forces Superannuation Act, 1959, c.21, and the Royal Canadian Mounted Police Superannuation Act, 1959, c.34.

It was stated last year that no special credits were given to the public service superannuation account, the Canadian forces superannuation account or the royal Canadian mounted police superannuation account (with offsetting charges to expenditure) to provide for the increases in benefits payable as a result of the salary and pay increases granted to the members of the public service, the armed forces and the Royal Canadian Mounted Police during the year ended March 31, 1961—although the additional liabilities resulting from these increases were estimated at \$80,700,000, \$79,050,000 and \$1,760,000, respectively.

It was also mentioned in last year's report as being understood that, so far as the public service superannuation account was concerned, the Department of Finance took the view that, since the salary increases during 1960-61 had been granted to different groups of civil service classes at intervals over a period of several months, they did not represent a "salary increase of general application" for the purposes of the above-quoted statutory requirement.

No contribution was made to the public service superannuation account during the year under review in respect of the salary increases, ranging up to \$1,000 per annum, granted to approximately 7,000 employees in certain classes in the civil service, approved by the treasury board on February 15, 1962 retroactively to July 1, 1961. We were informed by the department that no estimate was available of the additional liability that was thereby imposed upon the account, and that no request had been made to the department of insurance for the making of such an estimate.

If this practice is continued, and the special credits referred to in subsection (2) of section 32 of the act are not given to the public service superannuation account (with offsetting charges to expenditure) when increases are granted during a fiscal year to one or more substantial groups of civil service classes, the subsection in question will be rendered inoperative. To the extent that the practice is continued, the present considerable actuarial deficiency in the Account will continue to mount.

52. *Government contributions not made to the public service superannuation account.* subsection (2) of section 32 of the public service superannuation Act, 1952-53, c. 47, reads:

There shall be credited to the superannuation account, as soon as possible following the authorization of any salary increase of general application to the public service, such amount as, in the opinion of

the minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this act, as a result of such salary increase.

In paragraph 62 of last year's report, reference was made to the increase in the actuarial deficiency in the superannuation account when no special contributions were made to provide for the increased cost of benefits payable under the act as the result of salary increases that had been granted to substantial groups of civil service classes.

It had been announced in 1961 that future pay adjustments would be based on a program of cyclical salary reviews, and the civil service classes had been divided into four large groups for review purposes.

In December 1962 the treasury board approved of salary increases with effect from October 1, 1961 for the group which includes the administrative, clerical and related classes with about 70,000 employees. Increases were also approved in December 1962 for nurses and hospital staff with effect from January 1, 1962 and for the penitentiary service with effect from April 1, 1962. Increases similar to those given civil servants were given to employees of certain crown corporations, including many if not all of those that are under the Public Service Superannuation Act. As was the case when salary increases were approved in the two previous years, no special contribution was made to the superannuation account with respect to the increases granted in 1962-63.

Salary revisions for another large group of employees were approved on July 9, 1963 with effect from October 1, 1962.

Thus salary increases have been approved for practically the whole public service since 1960 without any special credits having been given to the superannuation account as required by subsection (2) of section 32 of the act quoted above. The view taken by the Department of Finance that the granting of increases on a cyclical basis does not result in a "salary increase of general application" has rendered subsection (2) of section 32 of the act inoperative, with a consequent significant increase in the actuarial deficiency in the account.

In paragraph 124 of this report comments are made regarding the balance at credit of the account at March 31, 1963 and the basis of reporting the actuarial deficiency.

Mr. HENDERSON: The first of these, to which we have referred is paragraph No. 62 in my 1962 report. No government contributions were made to the public service superannuation account. While considering this we could also consider paragraph 52 in my 1963 report. You might like to have it open before you. It is page 25 of the 1963 report.

This matter was first discussed in the committee—that is, of course, paragraph 62 of my 1962 report—last November. I explained how I first brought it up in my 1961 report when following the granting of salary increases to different groups in the public service over a period of several months, any credits, that is to say, credits with offsetting charges to budgetary expenditure, were made to this superannuation account as is required by section 32 of the Public Service Superannuation Act which I quote in my report.

The Public Service Superannuation Act called for credits in respect of salary increases in 1960 and 1961—which is the first year that this was not done—amounting to over \$160,000,000.

The next year, 1961-1962 with respect to salary increases, they ranged up to \$1,000 per annum granted to approximately 7,000 employees in certain classes of the civil service and approved by the treasury board on February 15, 1962,

retroactively to July 1, 1961. No estimate was available of the additional pension liability cost this year because no request was made to the department of insurance to make such an estimate.

Mr. Bryce appeared before the committee on December 6 last and made a lengthy statement which is to be found in the evidence at pages 225 to 230.

The CHAIRMAN: I am sorry to interrupt you Mr. Henderson, but Mr. Bryce has indicated to me that he had been under the impression that the exchange fund would be discussed this morning, and the officials he has brought with him are those who will deal with it.

Mr. R. B. BRYCE (*Deputy Minister, Department of Finance*): The clerk told me that we would be dealing first with the exchange fund.

Mr. HENDERSON: I was following the order that we have before us.

The CHAIRMAN: The exchange fund does appear to be at the beginning of it.

Mr. HENDERSON: Under our present procedure the exchange fund will be the third item. If you wish to switch over to the exchange fund, it is all right with me.

Mr. BRYCE: I do not mind. I just would ask for a moment of time in order to change teams. That is all.

The CHAIRMAN: If we could, it might expedite matters, simply because we have officials from the Department of Finance who are prepared to deal with the exchange fund. If this is satisfactory to the committee it would save the delay of Mr. Bryce having to have other officials here.

Mr. TARDIF: We announced at the last meeting that we would make a start this morning with the exchange fund.

Mr. HENDERSON: My apologies. I thought we were following the schedule. But we can return to the other subject which will keep.

The CHAIRMAN: Thank you.

Mr. HENDERSON: Paragraph 141 is the one dealing with the advances to the exchange fund account.

Mr. WINCH: You are referring to your 1962 report.

Mr. HENDERSON: That is right. As stated in this note, in its fifth report, 1961, this committee recommended that the Minister of Finance be requested to submit to the committee at its next session a report dealing with the desirability of writing off the amount in the account with appropriate parliamentary authority, for example, as against the reserve for losses on realization of assets, the committee stated that the importance of the problem is such that it believed that at the next session of parliament special attention should be given to the problem, including the question of transferring annually to the consolidated revenue fund the realized profits or losses from trading operations and re-evaluation of holdings.

In dealing with this matter today when we have the advantage of Mr. Bryce's presence, may I suggest that we also include paragraph 194 dealing with the exchange fund account, and also paragraph 175 of my 1963 report which read as follows:

194. *Exchange fund account.* The exchange fund account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1961 were examined pursuant to the requirement of

section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament, and in accordance with that requirement it is now certified that the transactions in connection with the account for the year ended December 31, 1961 have been in accordance with the provisions of the act, and that the records showed truly and clearly the state of the account.

The following is a summary of the transactions in the account for the year ended December 31, 1961 compared with the transactions in the previous financial year:

	<u>Year ended December 31</u>	
	<u>1961</u>	<u>1960</u>
Balance at January 1	\$ 1,929,536,000	\$ 1,969,513,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	32,536,000	25,513,000
Repayment of advances (net)	—	47,000,000
	<u>32,536,000</u>	<u>72,513,000</u>
	1,897,000,000	1,897,000,000
Add:		
Advances (net) received during the year	233,000,000	—
Earnings on investments during the year (to be paid into the Consolidated Revenue Fund)	32,606,000	32,536,000
	<u>2,162,606,000</u>	<u>\$ 1,929,536,000</u>
Balance at December 31	\$ 2,162,606,000	\$ 1,929,536,000
Represented by:		
Canadian dollars	\$ 844,000	\$ 382,000
United States dollars and securities	1,128,605,000	905,919,000
Gold	987,296,000	882,258,000
Suspense Account	3,000	—
	<u>2,116,748,000</u>	<u>1,788,559,000</u>
Deficit	45,858,000	140,977,000
	<u>\$ 2,162,606,000</u>	<u>\$ 1,929,536,000</u>

The deficit of \$45,858,000 at December 31, 1961 represented the difference between (a) \$133,941,000 for the net loss on revaluations of gold and foreign currencies reduced by profits on dealings in gold and foreign currencies and securities since the establishment of the exchange fund account in 1935, and (b) \$88,083,000 for the exchange gain arising from valuation of United States dollar and gold holdings at the exchange rate of \$1.04 11/32 Can.—\$1.00 U.S. at December 31, 1961.

175. *Exchange Fund Account.* The Exchange Fund Account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53 now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the Account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1962 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament, and in accordance with that requirement, it is now certified that the transactions in connection with the account for the year ended December 31, 1962 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the account.

The following is a summary of the transactions in the Account for the year ended December 31, 1962 compared with the transactions in the previous financial year:

	<u>Year ended December 31</u>	
	<u>1962</u>	<u>1961</u>
Balance at January 1	\$ 2,162,606,000	\$ 1,929,536,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	32,606,000	32,536,000
	<u>2,130,000,000</u>	<u>1,897,000,000</u>
Add:		
Advances (net) received during the year	521,000,000	233,000,000
Earnings on investments during the year (to be paid into the Consolidated Revenue Fund)	35,227,000	32,606,000
	<u>2,686,227,000</u>	<u>2,162,606,000</u>
Balance at December 31	2,686,227,000	2,162,606,000
Represented by:		
Canadian dollars	160,000	844,000
United States dollars and securities	1,941,310,000	1,128,605,000
Gold	763,169,000	987,296,000
Suspense Account		3,000
	<u>2,704,639,000</u>	<u>2,116,748,000</u>
Surplus (Deficit)	18,412,000	(45,858,000)
	<u>\$ 2,686,227,000</u>	<u>\$ 2,162,606,000</u>

In the year under review the value of the United States dollar increased from \$1.04 11/32 Canadian at December 31, 1961 to \$1.07 23/32 at December 31, 1962 and the deficit of \$45,858,000 at December 31, 1961 was replaced by a surplus of \$18,412,000 at December 31, 1962. This gain of \$64,270,000 resulted from the following:

Net profit on sales of U.S. securities	\$ 2,846,000
Gain on sales of gold	2,095,000
Exchange valuation credits (net)	59,329,000
	<u>\$64,270,000</u>

It should be noted that the surplus of \$18,412,000 at December 31, 1962 would have been considerably larger at that date if losses accumulated in the Account, and representing a cost of exchange management since its inception, had been written off in the central Government accounts. In paragraph 141 of our Report to the House of Commons for the fiscal year ended March 31, 1962 we recommended that provision be made for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluation of holdings of gold and foreign currencies. This recommendation is now repeated.

Likewise on the exchange fund account, which brings the situation up to March 31, 1963.

When he appeared before the committee on December 13, 1963 Mr. Bryce stated (pp. 287-290 of the evidence) that he had found that while a draft report had been prepared in 1962 and approved early in 1963 by the then minister of finance, it had never been presented to the committee either in 1962 or in the earlier session of 1963. In the meantime he pointed out that the situation had been overtaken by the change in exchange position referred to in paragraph 141 which really called for a rather different content of the report. He therefore proposed to discuss the revision of this with the minister and would be tabling the report requested by the committee in due course. I mentioned this to you on May 25th in my follow up report on the recommendations contained in the committee's fourth report 1963.

Mr. Bryce has now completed this report and I believe copies were distributed to the members at the last meeting on July 16.

Mr. McMILLAN: What are the numbers again?

Mr. HENDERSON: Paragraphs 194 and 175 of the 1963 report which brings this situation up to March 31, 1963.

The CHAIRMAN: I shall now ask Mr. Bryce to speak to this particular subject, but before doing so he may introduce the officials who have come with him from the department who might be called upon to answer specific questions. Mr. Bryce?

Mr. BRYCE: Thank you. I have with me Mr. Hockin, sitting beside me, and Mr. Wilson, of the Department of Finance and Mr. Lord of the Bank of Canada. The latter two gentlemen are sitting at the side of the room. I should be glad to answer questions which will no doubt arise in the minds of the members of the committee as a result of this report of the minister which was distributed late last week. I propose to commence with a modest apology. There is a clerical error at the bottom of page 10. The date there should be 1963, in the bottom line, rather than 1964. I think it is evident from the context that that should be the case. I think this report presents the history in some little detail, and we have endeavoured in the tables attached to it, and in the summary of tables on page 9 and 10, to indicate where the small surplus in the fund has now come from, in terms of earnings and re-evaluation profit and losses. That is the main purpose of the report. The last two pages deal with the question of taking these profits or losses into the government accounts. Therefore, I think that the main statement can be taken as having been made in the report.

I think the only difference that now lies between the department and the minister, on the one hand, and the Auditor General's recommendations on the other, concerns the treatment of revaluation profits and losses. Perhaps I might direct your attention to the paragraph at the bottom of page 11 and the top of page 12 of the report, in which the minister states his view on that point.

Would it be proper for me to read that paragraph into the record?

The CHAIRMAN: If you would, Mr. Bryce.

Mr. BRYCE: The minister says:

I would not propose that any decision now be taken to transfer to the consolidated revenue fund any future profits or losses at our year-ends arising from changes in exchange rates. We now have a formal par value for the Canadian dollar established by law. In our accounts we now value our foreign exchange and gold holdings at that par value (with suitable allowance for shipping costs on gold). This will give more stability to the accounting valuations. Any change in the par value is a hypothetical contingency which does not require action now. To require by law that any profits or losses arising from changes in the year-end valuations of our reserves be brought into budgetary revenues or expenditures immediately thereafter could have led at times in the past to serious distortions of our budgetary accounts and caused undesirable confusion and uncertainty as to the state of the budget. We can and do take into our accounts the changes in value of the government's foreign cash balances that are held for current operating purposes, but these are significantly smaller and are required for immediate use. The exchange reserves are held for national economic purposes and can properly be treated in a different manner.

I think perhaps, Mr. Chairman, that that is the one paragraph that merits bringing specifically to the attention of members of the committee at this time. I think that is sufficient introduction.

The CHAIRMAN: Thank you. Perhaps before any further comments are made or questions are put you might agree that this particular report of the Minister of Finance to our committee on the exchange fund account, together with the annexed tables, be printed as an appendix to today's proceedings. Is that agreed?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Winch.

Mr. WINCH: Mr. Chairman, I have a couple of questions to ask at the moment. In respect of myself, if we go beyond \$100 in finance I am mixed up.

I may have missed this point in the report but as this interests me could I ask what the gold holdings in Canada are and if they are used very often on this exchange. Also, I would like to know in what amounts they are held. I ask the latter question because of the inclusion of shipping costs.

Mr. BRYCE: The gold holdings at the end of June were \$931.3 million. They have been increasing gradually since the low point of \$669 million reached at the time of the exchange crisis in June of 1962. Our normal operating transactions in the exchange fund are carried on in U.S. dollars, foreign exchange, rather than in gold. But, we do hold a fraction of our reserves in gold. It is now 30 odd per cent, 36 or 37 per cent. This percentage has been increasing since October 1962, when it got down to some 24.9 per cent. But, we do not carry on the normal day-to-day operations in gold.

Mr. WINCH: With that answer, perhaps I may put my second question in a definite and understandable form. At the time of the revaluation of the dollar, I believe we had to obtain certain credits outside. What is the reason we did not use our gold instead of having to obtain credits? In addition, outside of the free market where I seem to remember that a law was passed, does all the gold production in Canada come to the federal treasury, or is it sold to the United States?

Mr. BRYCE: This is a double barrelled question.

Mr. WINCH: I meant it to be double barrelled in order to get the answer.

Mr. BRYCE: First in respect of the exchange crisis of 1962, the crisis itself followed the actual revaluation which, as I recall, took place some time early in May.

When it was necessary to obtain additional resources for the exchange fund late in June, 1962, the gold reserves, as well as the exchange reserves, had been drawn down to levels where it was felt these had to be increased. To sell the remaining gold at that time for foreign exchange would not have increased the total of our reserves; it would only have changed their form. Consequently, it was necessary to find some other source of additional reserves; this we did by entering into a number of arrangements. I did not bring with me the details of these arrangements, but you will recall that in all they added something in the order of \$1 billion to the reserves available to the government for exchange stabilization purposes.

Mr. WINCH: May I ask a supplementary question?

Mr. BRYCE: That is just the first barrel, first of all. Do you wish me to answer the second barrel?

Mr. WINCH: Yes, would you answer the other barrel?

Mr. BRYCE: In respect of the other question concerning the purchase of gold production, I do not believe that at any time there has been any legal barrier to gold producers selling their production anywhere they wish. I do not recall offhand whether or not this is the situation now, but for some years it was a condition of obtaining the emergency gold mining subsidies that one sold the gold to the mint at the standard price. This arose at a time when there was a market in various parts of the world for gold at a higher price than it was dealt with in monetary terms by the government and central bank.

I believe that some of our gold is not sold to the mint, but that is only a modest fraction of the total.

In recent years, since mid 1962 probably, we have been buying the gold that has been sold to the mint, which is the great bulk of the output, to add to our reserves, and that is the chief factor which has brought about the increase from the levels of the \$600 million odd that I mentioned, up to the \$900 million odd at the present time.

Mr. WINCH: Mr. Chairman, I should like to ask a supplementary question which I think will explain why I posed that double barrelled question.

Does the Bank of Canada hold all the gold reserves on behalf of Canada and, if so, at the time of what I believe you yourself called the dollar crisis in 1962, can you tell the members of this committee why, there being no legal barrier to the selling of Canadian produced gold to the United States, from a financial point of view and from the point of view of the federal treasury of Canada, the Bank of Canada did not acquire all Canadian gold and place it on the foreign exchange in order that we could avoid being placed in the position we did find ourselves in, in respect of the exchange fund? Is that question understandable?

Mr. BRYCE: Your question is understandable but whether I can recall the details or not, I am not sure, Mr. Winch.

First of all, in respect of the bank holding the gold, gold holdings are almost all legally in the possession of the government. The exchange fund is operated by the Bank of Canada for the Minister of Finance. The holdings are in the hands of the Minister of Finance on behalf of the government so that they are available for disposition as he directs, and the bank carries out the day to day operations in accordance with those directions.

In respect of your second point, why the gold holdings could not have been used to prevent or obviate the exchange crisis of 1962, I should perhaps

say we were taking gold fully into account in our reserves in 1962, and what was necessary, as I indicated earlier, was to add to the total of the reserves including all the gold we had accumulated.

In so far as the gold is concerned that had been produced in Canada in the years preceding 1962 and sold abroad as most of it was, if you consider the period from the end of the war up to 1962, you will see that those sales helped to meet our current foreign exchange requirements year by year.

Mr. WINCH: This was done by selling the gold outside and receiving the foreign exchange; is that right?

Mr. BRYCE: That is right. We received the foreign exchange which we used to pay our bills abroad during that period.

Mr. WINCH: I have just one more question to ask, if I am not boring the committee, because I think if we have a clear picture of this situation it will be of help to us.

May I ask Mr. Bryce, or the representative here from the Bank of Canada, whether we can be given in a concise but understandable way, and I know that is perhaps difficult when dealing with money, as I have found with my wife on some occasions, what is the policy position in respect of control of gold at the present time? I understand the gold goes to the mint or in any event is held by the treasurer of Canada, yet at the same time there seems to be some control effected by the Bank of Canada. Just how do these three things relate in respect of the situation such as that which developed in 1962? Are recommendations received from the Bank of Canada in respect of this matter?

Mr. BRYCE: Perhaps I can tell you how they tie in precisely in this way. The producers send their gold to the mint to be sold and refined there. The mint in turn sells the gold to the Minister of Finance who takes it into the exchange rate, or at least has done so in recent years. The Bank of Canada enters the picture simply as the agent of the Minister of Finance in buying the gold from the mint, holding it and managing it. Of course, the physical holding of the gold requires vaults and expertise involved in actually handling, shipping and transferring as well as various other things concerned.

In respect of your second question regarding the role played by the bank in such circumstances as 1962, that is quite a different matter. I am not sure how far I should expand upon this.

Mr. WINCH: Is that not the point which is of interest to the Auditor General, or am I confused in this regard?

Mr. BRYCE: I do not think the problem in respect of dealing with the crisis in 1962 is that which concerned the Auditor General.

Perhaps I should make it clear that in 1962 the government was responsible for setting the par value, which was done by order in council, a copy of which I have here and can give you if you wish.

The government, of course, received the views of the governor of the Bank of Canada when it did that, as well as the views of other officers. The government got those views when it had to take the measures which were necessary in June of 1962 to supplement our reserves in the manner I described, and to take the various actions, which we called austerity, to resolve and deal with the concern which was leading to capital movement out of Canada. Again the decisions were taken by the government, and the government received the advice of the Bank of Canada as well as other officials concerned, and, of course, the Governor of the Bank of Canada helped in arranging some of the transactions in question.

I think that perhaps gives you in a summary form the best answer I can give.

Mr. WINCH: That answers my question except in respect of one point. I will ask one further question and then allow another member to continue.

Perhaps someone could explain the advantage to Canada of not purchasing all the gold to be used in respect of its exchange fund account as compared to it being sold to the United States or other countries resulting in additional foreign currency, and as further compared to the advantage of the gold being sold directly by the producer to foreign countries? Is there an advantage to the producer selling it directly to foreign countries and receiving the foreign exchange rather than Canada itself purchasing the gold production and using it in respect of its foreign exchange account?

Mr. BRYCE: Are you asking why we do not hold more of our reserves in the form of gold, or why we do not accumulate larger reserves?

Mr. WINCH: That is my question, having in mind using the gold on the foreign exchange during a crisis such as that occurred in 1962.

Mr. BRYCE: In regard to the total amount of our reserves, we are limited by the means available to us for accumulating reserves. One can only accumulate reserves by selling more, borrowing more, spending less or lending less, and I refer to the nation as a whole. In other words, your exchange reserves are represented by that which you have accumulated out of your balance of payment for the nation as a whole. It is only by those efforts and necessary measures that you can add to your reserves as a whole.

In respect of the decision between holding these reserves in the form of gold and foreign exchange, one has to balance certain advantages of holding gold against advantages of holding foreign exchange which chiefly involves the fact that you can invest on short term and receive interest. This is the way most of our reserves have been held in the last few years and, of course, we have been getting considerable interest on them as is shown by the tables appended.

Mr. WINCH: In other words it is easier to hold foreign exchange than gold now that we are on the gold standard?

Mr. BRYCE: It is easier administratively to hold foreign exchange than gold and we also receive a return of interest.

Mr. WINCH: Thank you.

The CHAIRMAN: Are there any further questions or comments?

Mr. LEBLANC: I should like to direct my question to the Auditor General. At page 10 of the report of the minister in respect of the exchange fund account, the minister states:

It is clear from the above description that the balance in the surplus account at December 31, 1964 results from a variety of causes, including the several revaluations as well as trading operations. I propose that this be left in the fund, where it may serve as a modest reserve against any possible future revaluation losses.

Would you agree with that statement?

Mr. HENDERSON: Yes, Mr. Leblanc, and I am pleased to hear that the minister proposes that the present surplus in the exchange fund account of \$30.3 million be left there as a modest reserve against possible future revaluation losses.

I am also pleased to note that in future the annual balance of profit and loss arising from trading operations and investment, including discount on securities, trading profits and losses on purchases and sales on foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, are to be transferred to the consolidated revenue fund. In proposing this the minister is carrying out the recommendation I have

been making in my reports to the house. If you look on page 138 of my 1963 report which sets out the summary of transactions in the exchange fund account, you will see that in carrying this out the minister is not proposing, as Mr. Bryce has explained, to go any further. He will take out what you might loosely describe as the closed transactions and transfer them to the consolidated revenue fund. However, with respect to the losses from revaluation of holdings in gold and foreign currencies, he would propose to leave those in this surplus or deficit account. I cannot object to his proposal that no decision should be taken at the present time to transfer to the consolidated revenue fund any future profits or losses arising from changes in the exchange rates. As the minister says, there is now a par value for the Canadian dollar and as there is a surplus in the account, Canada's investment in the exchange fund is protected at the present time. I say it is protected because there is a credit balance of \$30.3 million, whereas in previous years there has been a very substantial deficit balance.

As you will see, on December 31, 1962 it swung over for the first time to a surplus position of \$18,400,000, whereas at the end of 1961 it had been running as high as \$46 million in the form of a deficit. It swung over to a surplus position because of the action taken on May 2, 1962 when the par value was introduced and our currency was devalued in terms of the 92½ cent rate. However, I do feel I must point out to the committee that had losses owing to exchange valuations in the past been charged to expense as they occurred, the surplus in the account today would be much larger than \$30.3 million, and would provide what might have been a more adequate reserve against possible future losses. I say this to you because as matters stand a drop of as little as two cents in the value of the United States dollar would return the account to a deficit position, and I would then again be forced to draw attention to a deficit in the account. Does that answer your question, Mr. Leblanc?

Mr. LEBLANC: Thank you.

Mr. McLEAN (*Charlotte*): Should not the bank of Canada take over the fund and operate it from the bank of Canada? Do not the central banks in Europe operate it? Is it not separated in the European central banks?

Mr. BRYCE: I would like to be able to answer that question, but I cannot. I think that in many cases the reserves do belong to the central bank and they are also operated by the bank.

Mr. McLEAN (*Charlotte*): We talk about profit and loss. There could be no true profit unless gold was revalued the world over. This is just imaginary profit that we have, going up and down with the Canadian dollar. There could be no real profit realized unless gold was revalued. Is that not true?

Mr. BRYCE: I am afraid this gets down to the meaning of words. Just what a real profit is, is a nice point. Obviously, if the gold that we hold were revalued, we could sell it for more foreign exchange than we do now.

Mr. McLEAN (*Charlotte*): When we put our dollar down, did we not actually revalue the gold ourselves?

Mr. BRYCE: We do so in our books because we keep our books in Canadian dollars, but of course what is important in our exchange reserves is what they are worth in terms of other currencies, and that is not what we are talking about this morning or what the Auditor General has been talking about. He is talking about the value in Canadian dollars, in which we must keep our accounts.

Mr. McLEAN (*Charlotte*): I am talking about real value. We are talking about the balance of payments. When Canada was in trouble with her balance of payments—the United States was in the same position—the Russians came in with about \$500 million in gold. This seemed to help the balance of payments in

the United States and help our balance of payments also. The Russians mine their gold not at \$35 an ounce, not at \$25, or \$55 an ounce. They get to work and mine it, and then they have international currency. Would it not be possible for us to do the same?

Mr. BRYCE: I must confess I do not know too much about the Russian policy in regard to gold production, or even how much the Russian gold production is. As you know from reading the papers, this is a bit of a mystery. The Russians have always regarded this as something they wanted to keep secret for their own reasons.

Mr. McLEAN (*Charlotte*): Did it not help our balance of payments and the United States balance of payments?

Mr. BRYCE: It did help our balance of payments obviously when the Russians bought wheat from us, as they did last year.

Mr. McLEAN (*Charlotte*): When we revalue our currency we help the gold mines, but we are getting around it because we agree with the international monetary fund that we will pay \$35 an ounce for gold. Is not that right?

Mr. BRYCE: Let me point out the reason we pay \$35 an ounce for gold, or its equivalent in Canadian dollars, is because that is what we can sell the gold for. The market for gold is basically set by what the United States price is. Of course, other countries also buy gold, but it is based on the same value. Secondly, we have a quite detailed and elaborate law subsidizing gold production in Canada. We do it in a rather more selective way than would be done by setting an artificial price for gold.

Mr. McLEAN (*Charlotte*): We cannot set the price for gold as long as we live up to our agreement with the international monetary fund; is that not right? We therefore get around it by subsidizing gold.

Mr. BRYCE: I do not like that phrase, "get around it".

The CHAIRMAN: I think we are straying from the subject. It is an interesting philosophical discussion, but we are mainly interested in the report before the committee.

Mr. McLEAN (*Charlotte*): I have another question about these reserves.

The CHAIRMAN: As long as it is tied to the issue that is before the committee.

Mr. McLEAN (*Charlotte*): This is the issue before us. My question is with regard to the reserves. If you go back to 1920, when we had no reserves our currency went down to a 26 per cent discount. Inside of a year our currency was at a small premium. That was the law of supply and demand at work. Could that not have worked on these reserves in the crisis we had?

Mr. BRYCE: Well, sir, it is a long time since I looked at what happened in 1920 and 1921.

Mr. McLEAN (*Charlotte*): I lived through it.

Mr. BRYCE: There are frequently quite quick changes in international affairs, capital movements, and price movements. The years 1920 and 1921 were periods in which not only prices changed quite rapidly but also capital movements were quite pronounced. It is quite understandable that our situation may have reversed very quickly; and of course the less reserves we hold, the less control we have over the value of our currency, and the more we are dependant on changes in the economic conditions and capital movements from outside to determine the value of our currency.

Mr. McLEAN (*Charlotte*): Our reserves were capital reserves at that time which just flowed over the line from the United States. Again we have a premium on Canadian money which was flowing. Of course Canadian money went as high as 6 per cent. Then we had losses, I suppose, in our gold, according to our bookkeeping.

Mr. BRYCE: That is right. That is shown in our report here.

Mr. McLEAN (*Charlotte*): I was told by a prominent banker who is now dead that there was no need to have a premium on Canadian money because you brought your gold in at 95 cents on the dollar and you had it behind your currency, and all you had to do was to issue a paper dollar in order to get a dollar's worth of gold, and that there was no need to have a premium on Canadian money, such as we had for a number of years.

Mr. BRYCE: I am afraid it is rather more complicated than that. The premium on the Canadian dollar resulted from the market forces which were allowed to determine the exchange rate.

Mr. McLEAN (*Charlotte*): You mean the demand for Canadian money?

Mr. BRYCE: That is right.

Mr. McLEAN (*Charlotte*): All the Bank of Canada had to do was to issue money and take in the gold.

Mr. BRYCE: We could have sold more Canadian dollars and taken in foreign exchange for it and thereby prevented the exchange rate from moving in the direction you indicate, but it was the government at the time who made the decision that the other was the policy which should be followed.

Mr. McLEAN (*Charlotte*): Do you mean to say that that was what led up to the crisis, that it was these years of premium on Canadian money?

Mr. BRYCE: That situation had changed before the crisis developed.

Mr. McMILLAN: You mentioned \$154,000,000 deficiency in the exchange account. That has accumulated over several years, has it not?

Mr. BRYCE: I am sorry, sir, could you just indicate it to me?

Mr. McMILLAN: In connection with the \$154,000,000 which I think accumulated, that was over a number of years?

Mr. BRYCE: Oh, yes, sir, you refer to the figure in the Auditor General's report, not the one in the minister's report.

Mr. McLEAN (*Charlotte*): Yes. Do you have the day to day profits in that account, if the dollar is constant?

Mr. BRYCE: We do not have day to day or week to week profits and loss; these have been summarized in tables one, two, and three on a yearly basis rather than on a daily basis. Of course if we reckoned them on a daily basis it would be a prodigious matter.

Mr. McMILLAN: So the big change in the account was really accounted for in 1962?

Mr. BRYCE: If you will look at table one as appended to the report you will see that the figures change. I suppose, of the lot, 1946 was when there was the biggest major change at one time, when the value of the Canadian dollar—the new par value established in Canadian dollars—equal to \$1 in the United States. That was the biggest single change as I recall the figures.

Mr. McMILLAN: And were the figures you were giving for our gold reserves in Canadian dollars?

Mr. BRYCE: No, sir, that is in United States dollar value.

Mr. McMILLAN: That is for gold on hand?

Mr. BRYCE: Yes. We give the values from month to month of our foreign exchange holdings and we give them in terms of United States dollars because of course that is the purpose for which we hold it, so as to be able to get foreign exchange when we wish it.

Mr. McMILLAN: Actually you obtained more gold than you show?

Mr. BRYCE: No, we pay the same price that we expect to realize. It depends. We may buy an odd amount from abroad from time to time at the price that it is offered to us, if we are endeavouring to accumulate gold.

Mr. McMILLAN: You pay the Canadian produce \$45 plus.

Mr. BRYCE: We pay the Canadian producer the United States price of \$35 United States per ounce. Converted to Canadian dollars, less eleven cents for insurance and for the cost of sending it to New York.

Mr. ROCK: The inflating and deflating of money between the United States and Canada is mostly due to the amount of imports or exports between the different countries. Why then in this report is there no reference to the regulations which were enforced during the time when the exchange revaluation or devaluation of our dollar occurred? Why does your report not show the regulations concerned? During the war, for instance, when we were not allowed to import certain things, as well as after the war, this would have a lot to do with the balance of our payments would it not?

Mr. BRYCE: Yes, sir.

Mr. ROCK: What I cannot understand is why there is not reference to the regulations enforced at the time which could have caused a lot of these imbalances.

Mr. BRYCE: I am afraid this is really only a report dealing with the accounting aspect of the exchange fund. If we were to go into the economic aspects it would amount to a book.

Mr. WAHN: I have two or three questions. I am not sure whether they are relevant. If they are not, you will kindly check me. My first question is this: How is the fixed rate of 92 cents for the Canadian dollar maintained? Is it maintained by reason of the operation of this fund we are now discussing? In other words, is it the buying and selling of foreign exchange in order to meet demands to maintain the value of the Canadian dollar within the range desired?

Mr. BRYCE: Yes, sir. When we are on a par value, as we are now, we are obligated to buy exchange offered to us, or to sell exchange if people demand it from us, in Canadian dollars, so that we, therefore, have to operate as the residual factor in the market day by day; and this keeps the exchange rate within the narrow margin above or below the par value.

Mr. WAHN: You say that we are obligated. Are we obligated to do so because of international reasons?

Mr. BRYCE: First, by the Breton Woods Agreements Act, and the agreement to which parliament gave approval under that act; and secondly, as a practical matter. If you are going to have a par value, this means that you are going to have to buy and sell as the market requires.

Mr. WAHN: Is that the main function of this account at the present time, to maintain the value of the Canadian dollar within one half per cent?

Mr. BRYCE: One per cent is the outside limit, and normally we work well within it.

Mr. WAHN: I gather from the report that when the Canadian dollar is devalued down, you get a surplus. Presumably if it were valued higher you would tend to get a deficit?

Mr. BRYCE: Yes, that is shown up in the tables. Naturally we keep our account in Canadian dollars. If the value of the Canadian dollar is increased by a change in the par value or in the exchange rate, then the amount of holdings of foreign exchange in the Fund will be equivalent to a lower amount of Canadian dollar. That is the reason for the changes in the valuation.

Mr. WAHN: If there is a large surplus or deficit in the account, it results from the devaluation of the Canadian dollar, and it continues to affect the fund's holding of gold in United States dollars and in foreign investments?

Mr. BRYCE: Yes.

Mr. WAHN: If the fund holdings equal the value of Canadian securities, then the fund is in a position that it would not be affected one way or another by changes in the value of the Canadian dollar?

Mr. BRYCE: If the fund were holding Canadian dollars, the change in valuation would not affect the amount in the account, but in fact the fund does not normally hold Canadian dollars. When it acquires Canadian dollars they are used normally to repay advances received from the consolidated revenue fund. When it requires Canadian dollars to buy more exchange, it draws them from the consolidated revenue fund.

Mr. WAHN: I can see that. But my question is whether, if there is a surplus or a deficit, it could be minimized, and if you have to do so, you must convert the value of Canadian securities in the fund. Would there be any import exchange?

Mr. BRYCE: The holding of Canadian dollars would not offset the change in value of United States exchange because when a change in rate occurs the value of the Canadian dollar remains constant in terms of the Canadian dollars, and there is no way that we can help it. There is no way that we can hedge our foreign exchange position because the essential purpose of the exchange reserve is to maintain a net long position in foreign exchange.

Mr. WAHN: This is my final question. As I understand it, the United States settles its international accounts in gold and the Canadian dollar now is fixed at 92 cents per United States dollar. Having swung over to a fixed exchange rate, does that mean we are for all essential purposes back on a gold standard?

Mr. BRYCE: That, sir, is a long, deep question.

We are not on a gold standard in the old classical sense because in that sense the volume of your money supply is directly tied to gold movements, and I think almost all countries have departed from that in recent decades. In that sense we are not on the old gold standard. All we really are doing now is accepting gold as between central banks and monetary authorities as a valuable commodity, whose value is fixed in terms of the various moneys involved. Therefore, it is a very useful form of reserve. Gold, so to speak, is on a currency standard rather than the currencies being on a gold standard.

The CHAIRMAN: Have you a question, Mr. Harkness.

Mr. FORBES: Mr. Chairman, I have a supplementary question. Then, on what basis are Canadian dollars issued?

The CHAIRMAN: What was your question, Mr. Forbes.

Mr. FORBES: On what basis do you issue Canadian dollars since we are not on the gold standard?

The CHAIRMAN: Mr. Bryce can answer that if he wishes. But, I think we are going a long way away from our original issue.

Mr. FORBES: Mr. Chairman, I thought we might as well finalize this.

Mr. BRYCE: This is a long story and perhaps I could give you a summary sort of answer.

The volume of our money is determined really from day to day by the monetary operations of the Bank of Canada. Anyone who wants to hold coin or currency can get all he wishes in exchange for bank deposits, so the amount of those forms of money are determined by public demand. The volume of money in the form of bank deposits is controlled and regulated by the Bank

of Canada chiefly in its open market operations. By buying or selling government securities from day to day the Bank of Canada effectively regulates the volume of bank deposits in the country which is the chief form of money in terms of volume and in terms of the volume of transactions.

Mr. FORBES: So, the dollar is not related to the amount of gold we have on hand or to the volume of wheat or cattle that we have.

Mr. BRYCE: No.

The CHAIRMAN: Would you proceed, Mr. Harkness.

Mr. HARKNESS: I take it that the chief point the Auditor General is making in his report is if the profits or losses in this exchange fund are not taken into the consolidated revenue fund this distorts the budgetary picture, and when you have had a loss instead of the budget, we will say, showing a deficit of \$100 million, if the losses were \$100 million, they would show a \$200 million deficit, and if you had a profit the opposite would apply. Is this of very much importance in view of the fact that the swing over the years has resulted in very little change one way or the other. There was a big deficit position and now there is a profit position of \$30 odd million.

Mr. BRYCE: Yes.

Mr. HARKNESS: Does it make very much or any difference whether or not this is put into the budgetary picture each particular year?

Mr. BRYCE: Well, as indicated in the quotation I read from the report, we think that it would be unwise to undertake in advance that we would always bring out any revaluation profit or losses immediately after it appears in the exchange fund books. As is evident from these tables, some of these profits or losses are fairly substantial and if they were brought immediately thereafter into the budget accounts they would be quite large in relation to the budget accounts. For example, the amount of losses in 1946 at revaluation was approximately \$164 million. The budget surplus that year or the following year was some \$374 million, so you can see it would have greatly altered the relative size.

Mr. HARKNESS: It would have brought the surplus down to \$100 odd million instead of \$300 million.

Mr. BRYCE: Something of that order, yes.

The Minister of Finance does not like to commit himself and future ministers to suffer such sudden changes in their budgetary accounts without knowing in advance the kind of situation there is apt to be.

Mr. WINCH: Then we are not getting a true picture.

Mr. BRYCE: A nice question is what is a true picture. Our normal accounts reflect our expenditures and revenues and various charges that turn up in our books of an accruing nature, but these profits or losses, in fact, are changes in the Canadian dollar value of stocks of gold and foreign exchange that we hold for national economic purposes. There have been no transactions at all reflected in it; it is a change in the value that arises because of a change in the exchange rate at which we show them in our books.

I personally feel that it would confuse the average citizen if we tried to take this into account; he would not know whether the government had had a budget surplus or deficit for a particular year.

Mr. HARKNESS: I would think the one thing that should not happen is that the Minister of Finance in any particular year either could take this in or leave it out depending on how good or how poor a picture he wants to make. In other words, I think it should be on a definite basis; either it is taken into account every year or it is not taken into account at all. And, perhaps there should be a provision that at the end of each ten year period it either will be made up or whatever the balance is be put into the consolidated revenue account. But, as I say, I think it is unfair and it is likely to confuse the

accounts and present a wrong picture if, when a Minister of Finance, we will say, has a deficit of \$100 million in his budget in a particular year but because of a change in the value of the Canadian dollar there was a profit of \$150 million in this fund he took this into account and showed a balance in his budget of \$50 million when there actually was a deficit of \$100 million.

Mr. WINCH: Would Mr. Harkness permit to ask a supplementary question. I know he is interested in this and, so far as I am concerned, it would clarify the matter for me. Would Mr. Henderson tell us whether or not he is recommending that at the end of a full year there should be a true picture of the situation. Is that the basic principle involved here?

The CHAIRMAN: Mr. Winch, perhaps Mr. Bryce should answer Mr. Harkness' question first in respect of the report as given, and then Mr. Henderson could comment.

Mr. BRYCE: First, in respect of Mr. Harkness' question, I think if a minister of finance dipped into whatever surplus was available in this account, simply when it was convenient, to bolster his budget, that both the opposition and the Auditor General would very quickly draw attention to this and he would not get away without having this revealed and being severely criticized for it. So, I think we really can leave that to the processes of parliament at the time to control rather than to try to provide a law for it in advance.

Mr. HARKNESS: The general point I am trying to make is that it should be on a definite basis, either this is taken into account every year or it is taken into account only at some specific period, say at the end of ten years. In other words, your proposition really was that it essentially should be left to the discretion of the Minister of Finance whether or not it is taken into account, and I think you said you would not want to be found to take it into account in any particular year.

Mr. BRYCE: I would say that, sir; as I say, there is that implication.

Mr. HARKNESS: This is the very situation in which I think it would be unwise that it should be at his discretion.

Mr. BRYCE: So far in the history of the account no minister of finance has taken any of these revaluation profits or losses. As indicated here—and the Auditor General has indicated he concurs in this—it is now proposed that the operating profits and losses would be transferred annually. These are fairly modest items. With regard to a systematic treatment of revaluation profits or losses the difficulty one sees in providing for a systematic treatment in advance is these things are occasional and unforeseeable in their direction and magnitude. You cannot tell whether you are apt to have a profit or loss years and years ahead, or what sort of magnitude it will be.

If one were to have any established practice or policy, it probably would be better, I would think, to agree to amortize the accumulated profits or losses on some kind of a basis so that you get it into the accounts in some systematic way; but I have not been able to think of any formula that would do that in a systematic way.

Mr. HARKNESS: I do not know whether or not you would call this a systematic way, but I would think the only way in which you could do it would be on some definite period of five years, ten years, 15 years, or something else.

Mr. BRYCE: I suppose you could say that at the end of every ten years you will see what is there and write it off or take it in over the next ten years, or something of that sort?

Mr. HARKNESS: Yes.

The CHAIRMAN: Mr. Henderson, did you wish to comment on the matter brought up by Mr. Winch?

Mr. HENDERSON: Mr. Chairman, I am not sure I can agree with the minister's statement in his report to the effect that any change in the par value is a hypothetical contingency.

For 12 years prior to the fixing of the par value of May 2, 1962, we had a free exchange rate which fluctuated at the year end between a low of .9522 and a high of 1.0594. In the ten year period immediately preceding that, the formal par value for the Canadian dollar was changed on three occasions. The Bretton Woods Agreements Act, under which the present par value was established in co-operation with the international monetary fund, makes specific reference to changes in par values, and, therefore, it seems to me it would not be unreasonable that the Currency Mint and Exchange Fund Act might give specific directions with regard to the disposition to be made of profits or losses arising from changes in par value, or in the market value when there is a free exchange rate.

To sum it up and tie it in with what Mr. Harkness said, and what I said earlier, I can understand and I think you can understand the undesirability of risking any serious distortion of the budgetary accounts, and I would point out that this could be avoided by adopting the conservative practice of retaining in the account any revaluation surpluses as a reserve against future losses. As you will see, at present this account has a credit balance of \$30 million arising out of our devaluation action of 1962. Any loss in excess of the reserve should then be charged to expenditure in the year in which it occurred and in this way the investment in the exchange fund never would be impaired.

The CHAIRMAN: Are there any further questions on this?

Mr. WINCH: May I ask one more question? There is one phase which I do not have clear and which I would like to have clarified. There may be an easy answer to it. In view of the fact that over the years the federal treasury has been paying out millions of dollars annually in subsidies to gold mining production, why does Canada, which subsidizes gold mine production, not buy the subsidized gold instead of having it, to some extent, sold outside.

Mr. BRYCE: In recent years we have been buying the gold.

Mr. WINCH: All of it?

Mr. BRYCE: Almost all of it. We have been buying it at the regular price and we have been paying the subsidy quite separately under the statute. We have been buying the gold. When we do not buy it, it is for two reasons; first, we feel we then have sufficient gold reserves. It is a matter of general policy; it is a matter of judgment in respect of what the total reserve should be, and what proportion should be in gold. This is a decision of policy which the government takes. The second reason is, we sell the gold production—which to some degree is stimulated by the subsidy—when we feel Canada gets the advantage of that, because it increases our income of foreign exchange just as does any export, and that is used to pay for imports or for people travelling abroad, or to pay interest on what we borrowed. It is not thrown away; it is used to meet our bills from month to month.

Mr. HARKNESS: Are there not two factors involved in so far as subsidies on gold are concerned? One reason we pay the subsidy is to improve our balance of payment position, and the other is to keep these mines in operation which creates employment, and so on.

Mr. BRYCE: Yes, sir; I think the last point you mentioned deserves some emphasis. In the last amendment to the Emergency Gold Mining Assistance Act it was made clear that any new mine can receive the subsidy if it is in a community which has been dependant on gold mining. This largely is a subsidy to try to maintain these communities where there is almost no other alternative source of employment.

Mr. HARKNESS: It is an employment measure?

Mr. BRYCE: Yes.

Mr. WINCH: When legislation was introduced three or four years ago to the effect that they cannot sell on the free market at a price higher than \$35, was this because it would bring in an additional amount of foreign exchange over and above the \$45 which is the balance?

Mr. BRYCE: Any mine that wishes can sell in any market in which it wishes to sell, but in order to qualify for the subsidy they have to sell to the mint here. I do not think there ever has been any law against the mines exporting to the free market. I remember back in the late 1940's when I was involved in some of this, at that time a lot of the mines wanted to get the premium. Some of them did sell on the free market, particularly those that could not qualify for the subsidy.

Mr. WINCH: I seem to remember some change in legislation brought forward three or four years ago, in respect of the sale of gold.

Mr. HARKNESS: I think the change you have in mind probably involved the provision allowing any individual to buy a gold brick and keep it in a bank if he so desired.

The CHAIRMAN: We have time enough left for one question by Mr. McLean (Charlotte) and one by Mr. Crouse and then we will have to yield to the defence committee.

Mr. McLEAN (Charlotte): As I have said before, I think that any profit we make is imaginary unless it is international. Mr. Winch asked about Canadian gold. Is it not true you are buying Canadian gold because the producers are receiving more for it as a result of the discount on money. They are really receiving more than \$35 an ounce; is that right?

Mr. BRYCE: They would receive that advantage, sir, if they sold it on the London market, for example, but it is more convenient for them to sell here and they normally receive just what they would if they exported it elsewhere.

Mr. McLEAN (Charlotte): I notice the gold reserves are going up in revaluation, but if the thing was done on a 50-50 basis you would not lose anything; is that right? If you had 50 per cent gold and 50 per cent United States treasury bills, for example, you could not possibly lose because one would offset the other; is that right?

Mr. BRYCE: If the price of gold in terms of United States dollars went up, the U.S. dollar value of our gold reserves would, of course, increase, but our U.S. dollar foreign exchange reserves would remain fixed. We would get the increase in the value of the gold even if we were holding the other half of our reserves in the form of U.S. dollar investments.

Mr. McLEAN (Charlotte): But in relation to gold, if you had none, you would lose; is that right?

Mr. BRYCE: If we had no gold we would not receive any profit, for example, from an increased value in gold. We have to bear in mind the possibility of a profit on a change in the gold price, set off against the return that we can get by investment of our foreign exchange reserves in United States treasury bills. Over the years we have done a lot better by putting our reserves into investments in foreign exchange because we received a return from the investment.

Mr. McLEAN (Charlotte): You do not receive any return from gold?

Mr. BRYCE: No.

Mr. McLEAN (Charlotte): You do receive a return from your investment in the United States?

Mr. BRYCE: That is right.

Mr. CROUSE: I have just one question. This discount on the Canadian dollar does encourage foreign takeovers of Canadian industry and this is creating a problem for our Minister of Finance. Does it not follow that this is also affecting our balance of payments?

Mr. BRYCE: Mr. Crouse, I should like notice of that question because that leads to quite an elaborate analysis.

The CHAIRMAN: Mr. Bryce now has notice.

Gentlemen we will resume at 3.30 this afternoon in this room at which time we will commence with the public service superannuation fund. We now adjourn until 3.30 p.m.

AFTERNOON SITTING

TUESDAY, July 21, 1964.

The CHAIRMAN: Thank you, gentlemen, I see a quorum. The meeting will come to order. I shall ask Mr. Henderson if he will be kind enough to revert to where we left off this morning when I re-routed him to the exchange fund account to deal with matters in relation to the superannuation accounts. Mr. Henderson, there are a number of other paragraphs which you will bring up which are related to this in the 1962 and 1963 reports. You will no doubt try to pull them all together so there will be all one subject matter.

Mr. HENDERSON: The paragraph we are talking about is paragraph 62 in my 1962 report, and along with it paragraph 52 of my 1963 report deals with the same subject, namely, government contributions not made to superannuation accounts.

As the Chairman said, while we are about it, we shall also be taking into consideration in the 1962 report, paragraphs 144 and 145 which are on the public service superannuation accounts and the Canadian forces superannuation accounts respectively, and also paragraphs 124 and 125 of the 1963 report, which update the status of these two funds. I must apologize for the lengthy introduction I shall make on this subject because it is rather highly technical and involved. But I hope as I persist the issues will become clear, and as I recall to your minds the earlier discussions we had on the matter.

The CHAIRMAN: Now on the aforementioned paragraphs:

144. *Public service superannuation account.* In previous reports mention has been made of the fact that the balance of the public service superannuation account, forming part of the liability item "annuity, insurance and pension accounts", included an amount that had resulted from bookkeeping entries with counterparts in an offsetting "asset" item described as "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

Section 32 of the Public Service Superannuation Act, 1952-53, c.47, which specifies the amounts to be credited to the public service superannuation account, reads:

"32. (1) There shall be credited to the superannuation account in each fiscal year

- (a) an account representing interest on the balance from time to time to the credit of the said Account, at such rates and calculated in such manner as the governor in council by regulation prescribes,
- (b) an amount matching the total amount estimated by the minister to have been paid into the said account during the preceding

fiscal year by way of contributions in respect of current service other than current service with any public service corporation or other corporation as defined in section 23, and

- (c) such amount in relation to the total amount paid into the said account during the preceding fiscal year by way of contributions in respect of past service as is determined by the Minister.

(2) There shall be credited to the superannuation account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the minister, is necessary to provide for the increase in the cost to her majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase.

Following an actuarial valuation as of December 1, 1951, it was estimated that the actuarial liability existing under the Public Service Superannuation Act was greater than the balance then standing at the credit of the account by \$312 million and this amount was credited by means of an extra-statutory bookkeeping entry made in the fiscal year 1951-52, with an offsetting charge to the "asset" account described above. In the same year parliament voted \$98 million as a special government contribution towards amortizing this deficiency, and this left a balance of \$214 million in the "asset" account. In the years 1952-53 and 1956-57 further amounts of \$25 million and \$50 million were appropriated by parliament and written off the "asset" account, reducing it to \$139 million as at March 31, 1957. These reductions involved charges to expenditure and had the same effect from the accounting point of view as if parliamentary authority had been given for the making of additional credits to the Superannuation Account beyond those provided for by section 32 of the Public Service Superannuation Act.

In 1960-61, following an actuarial valuation made as of December 31, 1957, a further bookkeeping credit of \$137,661,000 was made, bringing the "additional credits" included in the accounts to a total of \$276,661,000, an offsetting amount being charged to the "asset" account for "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

Over the years, the Department of Finance has taken the view that the practice of enlarging the balance at credit of the superannuation account in the manner outlined above, so as to relate it to the actuarial liability, was within the authority granted to the Minister of Finance by section 64 of the Financial Administration Act, subsection (2) of which reads in part:

(2) The public accounts shall be in such form as the minister may direct, and shall include:

- (c) a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the minister are required to show the financial position of Canada as at the termination of the fiscal year.

The finance department received an opinion from the Department of Justice on December 30, 1960, which included:

Section 63 of the Financial Administration Act requires the Minister of Finance, subject to regulations of the treasury board to cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada as in his opinion are required to give a true and fair view of the financial position of Canada; section 64 requires the public accounts to be in such form as the Minister of

Finance may direct, and it prescribes that the public accounts shall include such accounts and information as are necessary to show, with respect to the fiscal year, the financial transactions and financial position of Canada. In compliance with these provisions the public accounts contain a balance sheet showing on the liability side the total actuarial liability of Canada under the Superannuation Act, and on the asset side the unamortized portion of actuarial deficiencies. The latter amount, I understand, is intended to offset the amount added to actual receipts under the Act in order to bring the liability figure up to the total possible liability under the act. These items, as I understand them, are intended to show, as required by the Financial Administration Act, the assets and direct and contingent liabilities of Canada, and in my opinion they do not affect the obligation to pay benefits under the superannuation act, or the authority to discharge accruing liabilities out of the consolidated revenue fund. Whether the statements appearing in the public accounts constitute sufficient compliance with the provisions of the Financial Administration Act is a matter upon which the opinion of the Minister of Finance is the governing factor.

We understand that the Department of Finance interprets this opinion to mean that the Minister of Finance possesses the legal authority to direct the making of bookkeeping entries enlarging the balance at the credit of the superannuation account and the recording of charges to the offsetting "asset" account at his discretion—but we feel that there was no obligation to make the entries in question.

Our view continues to be that the public service superannuation account should have been credited (in addition to amounts contributed by participants) only with amounts provided for by section 32 of the Public Service Superannuation Act, as quoted above, or by special parliamentary appropriations—and that the offsetting bookkeeping entries made by the Department of Finance, being at variance with accepted accounting practice, should not have been made. In our opinion, the actuarial deficiency remaining after credits provided for by parliament had been duly recorded should have been explained each year by means of a note to the statement of assets and liabilities.

145. *Canadian forces superannuation account.* In the 1960 report (paragraphs 100 and 108) reference was made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this account in 1958-59, with a corresponding charge being made to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian forces superannuation account". The audit office view was stated, and was reaffirmed in last year's report (paragraph 114) that amounts additional to contributions by members of the forces should be credited to the account only as provided for by parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation.

As in the case of the public service superannuation account (paragraph 144), our view is that the actuarial deficiency remaining after recording credits provided for by parliament should have been explained each year by means of a note to the statement of assets and liabilities.

124. *Public service superannuation account.* In paragraph 144 of last year's report and also in earlier reports reference was made to the extra-statutory "bookkeeping entries" aggregating \$450 million which were made in 1951-52 and 1960-61 in order to increase the balance at credit of the public service superannuation account to the amount of the currently

estimated actuarial liability. The offsetting debits were recorded in an "asset" account captioned "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

In the years 1951-52, 1952-53 and 1956-57 portions of the 1951-52 deferred charge of \$312 million (in the amounts of \$98 million, \$25 million and \$50 million, respectively) were written off to expenditure, leaving a balance of \$139 million at March 31, 1957. This was increased to \$277 million in 1960-61, when a further entry was made to the credit of the public service superannuation account following the actuarial valuation made as of December 31, 1957.

In previous years' reports, we have expressed the view that the public service superannuation account should have been credited (in addition to amounts contributed by participants) only with amounts provided by section 32 of the Public Service Superannuation Act or by special parliamentary appropriations—and that the offsetting bookkeeping entries should not have been made. In our opinion the actuarial deficiency remaining after credits provided for by parliament had been duly recorded should have been fully explained each year by means of a note to the statement of assets and liabilities. In his budget speech of June 13, 1963, the Minister of Finance indicated his concern at the magnitude of the actuarial deficiency.

The amount of the actuarial deficiency is, in fact, considerably greater than the \$277 million indicated on the statement of assets and liabilities. This amount continues to represent the estimated actuarial deficiency at December 31, 1957. However, in our 1961 report (paragraph 59) reference was made to the fact that, as mentioned in a note to the statement of assets and liabilities as at March 31, 1961, the balance was not adjusted to reflect the additional liability resulting from general salary and pay increases during 1960-61, estimated at \$80,700,000. Moreover, as mentioned in paragraph 52 of this report, no account has been taken of the considerable (though not officially estimated) additional actuarial liabilities that arose between April 1, 1961 and March 31, 1963 as a result of salary and pay increases granted from time to time to substantial groups of Public Service employees.

Section 33 of the Public Service Superannuation Act, 1952-53, reads as follows:

The minister shall lay before parliament at least once in every five years an actuarial report on the state of the superannuation account, containing an estimate of the extent to which the assets of the said account are sufficient to meet the cost of the benefits payable under this act.

The act is silent as to the remedy to be applied when a deficiency is found to exist, and no proposal for dealing with the actuarial deficiency was made when the report on the last actuarial valuation was tabled in the house on June 20, 1960. We understand that a further actuarial valuation as at December 31, 1962 has been undertaken and is expected to be completed by March 1964.

125. *Canadian forces superannuation account.* In the last three reports, references have been made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this account in 1958-59, with an offsetting amount being charged to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian forces superannuation account".

In 1962-63, following an actuarial valuation as of December 31, 1960, adjusted to March 31, 1963, a further bookkeeping credit of \$198,549,000

was made, with an offsetting charge of the "asset" account referred to above, bringing the additional amounts thus included in the balance at credit of the account to a total of \$524,849,000.

The audit office view continues to be that amounts additional to contributions by members of the forces should be credited to the account only as provided for by parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation. As in the case of the public service superannuation account (paragraph 124) our view is that the actuarial deficiency remaining after recording credits provided for by parliament should be explained each year by means of a note to the Statement of assets and liabilities.

We first discussed this matter, that is, paragraph 62, on November 29, 1963 (Minutes, pages 180-181). I explained how I had first brought it up in my 1961 Report when, following the granting of salary increases to different groups in the public service over a period of several months, no credits, that is, credit with the offsetting charge to expenditure, were made, to the superannuation account concerned as required by section 32 of the Public Service Superannuation Act which I quoted. The superannuation credits called for by the salary increases in 1960-61 would have amounted to over \$160 million.

Similarly action was not taken to credit the fund during the year 1961-62 with respect to the salary increases given in that year ranging up to \$1,000 per annum granted to approximately 7,000 employees in certain classes of the civil service and approved by the treasury board on February 15, 1962 retroactively to July 1, 1961. No estimate was available of the additional pension liability and cost this year because no request had been made to the department of insurance for the making of such an estimate.

Members may recall that Mr. Bryce appeared before the committee on December 6, 1963 and made a lengthy statement (Evidence, pp. 225-230) outlining the position of the Department of Finance in this matter. He did not disagree with what I had had to say in my Reports on the subject except to say that the department did not feel the salary increases were in the nature of general pay increases as set out in the Act. He indicated he was studying what arrangements could be made to deal with the situation and that the minister of finance had indicated his intention during the year to consider the action that should be taken to deal with these accounting deficiencies.

In its fourth report 1963 tabled in the house on December 19, 1963 the committee expressed concern that no contributions had been made either in 1960-61 or 1961-62 to the three superannuation accounts as required by their acts and asked that steps be taken promptly by the Executive to remedy this situation and urged the minister of finance to give the matter his early attention.

When commenting to the committee on May 26th last on action taken on its fourth report 1963 recommendations, I reminded you that a statement had been made by the minister of finance in the house on March 6th of this year in which he mentioned several adjustments being made in the accounts for 1963-64 with regard to the accumulated actuarial deficiencies in the various superannuation accounts, and said I had addressed some queries concerning these adjustments to the deputy minister of finance.

Of course, by this time my 1963 report to the house had been tabled last February and my paragraph 52 in that Report continued to bring the matter forward. I had reported there that for the third year in succession, that is 1962-63, no credits had been made to the superannuation accounts despite further rounds of increases which, I might say, had resulted in salary increases having been granted for practically the whole public service since 1960 without any special credits having been made to the superannuation account as required by

section 32 of the Act. This had not been done because the view taken by the Department of Finance continuing to be that the granting of increases on a cyclical basis did not result in a "salary increase of general application" had in fact rendered section 32 of the act inoperative—and as a consequence there has been a significant increase in the actuarial deficiencies in these accounts.

The minister of finance stated on March 6th that the government intended to deal with the accumulated actuarial deficiencies in the various superannuation accounts. He proposed that as a general policy the deficiencies existing prior to the commencement of this current fiscal year should be written off to net debt, which constitutes in effect an adjustment of prior years' accounts and would not enter into the accounts for 1963-64. He went on to say that the deficiencies which would be created by general pay increases made during 1963-64, which the law requires be charged to that year's expenditure, would, of course, be so charged. On the other hand, deficiencies arising from pay increases in 1963-64 which are not general in scope and therefore not covered by the existing law, will in future be charged to expenditures over a five year period commencing in the fiscal year 1964-65. In future, the deficiencies arising from pay increases, whether of a general or cyclical character or otherwise, will be charged against expenditures over a five year period commencing in the year in which the increases are authorized.

Accordingly he then referred to vote 68e of the supplementary estimates he was tabling under which the Department of Finance proposes to delete the existing deferred charge from the accounts of Canada and charge to net debt the unamortized portion of the actuarial deficiency of the Canadian forces superannuation account arising in periods prior to 1963-64, which is \$524,800,000. The vote would also authorize the writing off to net debt of a similar deficiency of \$6,300,000 in the superannuation account of the R.C.M.P. The actuarial liability of some \$76,000,000, including interest, arising from the general increase in pay and allowances granted members of the armed forces in 1963-64 will, he said, be charged to expenditure in 1963-64 in accordance with the terms of the statute.

He then went on to say that the quinquennial actuarial report on the public service superannuation account as at December 31, 1962 was in course of preparation. He thought it would become available in a month or two when he would then seek authority from parliament to write off to net debt the deficiency estimated in that report. The additional deficiency created by pay increases authorized during this current fiscal year will then be estimated and will be charged over a five year period commencing with the fiscal year 1964-65 in accordance with the policy he had already outlined. He said the period of five years had been selected because it is the statutory period between valuations of these accounts.

In addressing my queries on the minister's statement to Mr. Bryce, I stated firstly that when the several adjustments mentioned by the minister had been made in the accounts for 1963-64, it would appear to us that the following items will not have been adjusted when the books were closed at March 31, 1964:

- (1) the deferred charge of \$276,661,000 with respect to the public service superannuation account;
- (2) further deficiencies in the public service superannuation account created by salary increases granted since December 31, 1957.

Mr. Bryce confirmed that our understanding was correct and said that the Minister's statement on March 6th meant that it was his intention to seek parliamentary authority to write off to net debt during 1964-65 both the existing deferred charge of \$276,661,000 and an amount equal to the new actuarial deficiency which will be disclosed when the actuarial report is completed covering the five years from January 1, 1958 to December 31, 1962. In this connection I am

very doubtful whether there is any justification for writing off this new actuarial deficiency, that is, the one about to be disclosed by the actuaries, to net debt because if a five year plan of write-off is to be adopted it seems to us it should be started with this current new deficiency rather than with the one to be determined five years hence when the next actuarial valuation takes place.

My next question to Mr. Bryce had to do with the minister's statement that amounts to cover any deficiencies created by future cyclical salary increases are to be credited to the superannuation account over a period of five years. If these cyclical salary reviews are to be a continuing process, I explained that we find it difficult to associate the payment of deficiencies into the superannuation account with the period which lapses between the quinquennial valuations of the account. The acts now call for payment into the accounts of any amounts necessary to cover any such deficiency as soon as possible, and I therefore wondered whether payment over a period of five years would meet the requirement of this section. I went on to say that, from the practical point of view, if cyclical salary reviews are to be continuous and if, as in the past, these result in salary increases which in turn create deficiencies in the superannuation account, it seems obvious that the annual credit to the superannuation account could be the sum total of one-fifth of the annual deficiencies created in each of the preceding five years. Consequently, the plan could result in reduced charges to appropriations over the next few years but after that the effect might be little different than if the deficiencies were met in the year in which they were created.

Mr. Bryce informed me that it is the intention during the present fiscal year to ask parliament to amend the acts and stated that the proposed procedure was designed to ensure that once the plan gets into full operation, then in each fiscal year one-fifth of the deficiency revealed by the last preceding quinquennial actuarial valuation and one-fifth of the estimated deficiencies arising from cyclical pay and salary increases granted during that fiscal year and the preceding four fiscal years would be charged to the annual budgetary expenditures. He went on to say that the objective in providing that the deficiencies be amortized over a five year period rather than by a single charge was to ensure that there would be no undue charge placed on the budget every five years.

My feeling on this matter is that while the amortizing of deficiencies determined by quinquennial actuarial valuations over a period of five years makes good sense, it does not necessarily follow that five years should be taken for amortization of deficiencies due to cyclical pay increases. Surely the very fact that salary adjustments are on a cyclical basis itself serves to spread the cost of deficiencies over several years and adoption of a five year amortization period only further delays the charging of the expense. In short, I think it would be very much cleaner to charge it off each year as it occurs and as the act itself contemplated when it said this should be done as soon as possible.

Would you like to make a comment, Mr. Bryce?

Mr. WINCH: Before Mr. Bryce makes his comment, we have, as nearly as I could analyse it, a most important statement from the Auditor General. I presume that Mr. Bryce will have to go into a lot of detail in order to answer it, because I think it can be straightened out. It looks to me from what I have heard now that in one way perhaps the federal government has kept two sets of books, the same as the Social Credit party claim that British Columbia does. My point is, would it help in any way if, before Mr. Bryce makes a statement, some of us—we would perhaps not require an immediate answer—could at least suggest an outline, because of Mr. Henderson's statement and Mr. Bryce's answer, of the things which we would like to hear? Would that speed up our work?

Mr. FRANCIS: I would like to hear Mr. Bryce's comments. I am sure he would sort them out. I am sure Mr. Bryce is capable of putting things fairly.

Mr. WINCH: I have written down about ten questions I would like to ask about this.

The CHAIRMAN: I think Mr. Bryce will first take up the particular points raised by Mr. Henderson. Then there will probably be a discussion. I have you second on the list, Mr. Winch. Perhaps that is the best way to proceed.

Mr. WINCH: I think it might help him if Mr. Henderson's presentation was referred to.

The CHAIRMAN: I think Mr. Bryce probably has found the points of issue raised by Mr. Henderson, and then in turn we will have further questioning from the committee. Then you may outline your questions. You may find that some of them have already been answered by that time. Now, Mr. Bryce.

Mr. BRYCE: I am in the hands of the committee as to how you want me to proceed. This thing is technical and potentially confusing to those of you who have not had to deal with it from day to day, so I hope, if I assume too much familiarity on your part with it, you will not hesitate to ask me or Mr. Henderson what really is involved in some of these points. Mr. Henderson has covered quite a lot of ground on the origin of this thing and the announcement that the minister made about the policy to be followed in future. I do not think it is necessary for me to go into the background which was discussed at some length in December and which Mr. Henderson has recalled briefly now.

I should perhaps call the Auditor General's attention as well as the committee's to the fact that when he attributes something as being a decision of the department, these are matters of size and are in the nature of ministerial decisions. I think that due respect ought to be paid to the fact that they are ministerial decisions and not just some bureaucratic attitudes.

Now, the first point perhaps is to deal again briefly with the question of whether the cyclical salary increases which extended over a period—I have forgotten just how long—from 1959 to 1962 or something of that order—required contributions to be paid into the fund. The government of the day satisfied themselves that legally they did not. I was not involved in this. One can make an argument in fairly simple terms that general means general and not partial. This is about the essence of it.

Now, of course, they were more general than if we had covered only one particular class of employees or a small group of employees. How widespread something has to be before it becomes general in terms of the law is a matter of degree. In any event it is past history now, and we are dealing with a situation which existed at the beginning of the last fiscal year and with what we are going to do thereafter.

I do not think I can go further into that legal point. Suffice it to say that the minister of finance at the time and the government at the time felt that they were not required by law to deposit these amounts in the fund, or charge these amounts through to the expenditures for those years. Beyond that they have followed the action that they did.

When the present Minister of Finance looked over the situation last year he came to the conclusion that a systematic policy should be devised for dealing with these reserves. The essential problem, I would say, is when and how we take the actuarial liability which represents the present value of the future pensions that we have undertaken to pay less the present value of the future contributions which we expect to receive, and how we charge that systematically and properly to expenditures so that our accounts reflect properly first the state of our net liabilities or assets, and secondly, I would say even more importantly, so that we can be satisfied that we are reflecting in the cost of

operation each year a proper charge to maintain these funds and therefore a proper reflection of what we are really paying our employees.

This is why we have striven to try to get some systematic way to treat these accruing liabilities in future. There are all sorts of complications in doing this which I think I may mention when questions are asked if one wishes. One has to take a lot of things into account, such as the interest rate being paid by the fund, and we have to take into account what the impact is going to be of the Canada pension plan on the superannuation plan; how we are going to adjust the matter to the Canada pension plan; this is not yet completely settled because of the changes which have been made in recent months in the proposals for the Canada pension plan itself.

Again it is necessary to settle quite a number of actuarial problems in making these valuations. At a time when the Canada pension plan is bringing about changes one has to be rather careful about this.

Well, as to the conclusion Mr. Gordon came to. The systematic approach to this is represented in a statement that he made in the House of Commons on March 6, which Mr. Henderson has outlined and commented upon. In fact, there are two parts to the plan: one is to clean up the accumulated deficiencies of the past.

Mr. Gordon said that we now propose as general policy that deficiencies existing prior to the commencement of that current fiscal year (1963-64) should be written off to net debt, which constitutes in effect an adjustment of prior years' accounts. This is not going into the accounts of the current year. In other words, the main boundary line is drawn at the beginning of April, 1963.

Well, Mr. Henderson has made a comment which I will come back to, and which is one of substance. Suffice it to say the proposal is that the major deficiency of this nature has already been charged with parliamentary approval to the net debt, that is the deficiency which existed in the armed forces superannuation account and the R.C.M.P. superannuation account. I assume Mr. Henderson's comment that he has made in regard to the public services superannuation account would equally apply to the others, as they were announced on March 6.

As for the future, the minister proposed that any deficiencies arising out of pay increases from April 1, 1963, onwards would be charged to expenditures over a period of a five year cycle in each case. The deficiencies found by the future actuarial valuations would be charged over the five years immediately commencing at the time that the valuations were received.

The deficiencies arising each year from pay increases would be estimated and then would be paid off year by year over a similar five year term. I will come back in a moment to Mr. Henderson's comment and the use of a five year term there. This at least would produce a plan which would be understandable and I think about as simple as one can get it in a complicated matter of this sort. It may be oversimplifying it, but in essence what it amounts to is this: Whenever we determine either as the result of making pay increases or as a result of having a periodic evaluation made of the account, that there is not enough shown as our liability in the account, we would add that liability to the amount shown in the account, and we would add it in the first instance to the deferred charge shown on our balance sheet to which Mr. Henderson made reference, which is to be found on page 168, item 8(a).

This is one of these accounting concepts which, I must say as a non-expert, I have always found hard to understand, how you show a deferred charge as an asset. However, the accountants have a way of doing it. What it means is that it counteracts a liability that you are acknowledging. We would add to the liabilities on the one side and to the deferred charges on the other these

additional estimated liabilities arising either from pay increases or from actuarial valuations. We would then be charging each year in future to our expenditure one fifth of the amount on the total deferred charges, and in that way we have a systematic means of acknowledging the cost which the employment of civil servants, with their accruing pension rights, gives rise to.

If I can return to Mr. Henderson's point about using the five years to amortize these costs arising from the pay increases each year, it is true that if the pay increases are reasonably uniform each year and we took them into the accounts every year as they are made and charged them, we might get a similar pattern over the years to what the minister has proposed. However, we cannot be confident that the pay increases will be reasonably uniform from year to year; economic conditions change moreover we are getting into a regime of collective bargaining. We do not know how this is really going to work out, and we may find that the increases in different years are of different amounts and at different rates. We, therefore, feel that it will produce a smoother curve, a smoother charge, to amortize them as well as the actuarial deficiencies over a year period.

Moreover, the liability does not really accrue immediately. The reason that we increase the liabilities of the pension fund when we increase pay is that people in future will be getting pensions based upon a higher level of pay, and the extra contributions they make to the fund will not in fact be high enough to cover the higher pensions they get because the pensions are based on the best six years, which is normally the last six years, of their service. To charge these deficiencies created by pay increases over a six year period would have some logic to it because this is the period over which the higher pay entitles them to higher pension rates. I think I mentioned last year there was some question of a choice between a five and a six year period, but we felt that it would produce a simpler and more understandable system to use the same five year period that we use for valuation purposes which is in the statute for that purpose, than to set up a six year cycle which you could argue had some logic because of the six year period in the Act.

This is an explanation of how we got the five years. I do not think that this is a matter of great moment. What is important is the government has decided that in future it will have a systematic means of charging to expenditures and to the cost of operation the increasing liabilities for pension that arise when pay is increased.

I said I would pass over the point that Mr. Henderson made about beginning this plan by charging matters to net debt. The accumulated deficiency in the armed services plan has been charged off in that way, and the same in the case of the R.C.M.P. plan. I think if we did not do the same with the public service superannuation plan, where the valuation has been delayed by the fact that the actuaries were so busy working on the Canada pension plan, we would be having a different system in connection with the public service generally than we have had for the armed services and the R.C.M.P. I think it would be illogical and confusing. When the plan gets into full operation, we will be doing what Mr. Henderson is proposing in effect, or what meets his tests and carries his judgment. It is just a question of making the transition from the earlier arrangements to this. The minister made the decision, which is reflected in his statement, that he would commence charging the deficiencies arising from April 1, 1963 onward.

If I tried to add any more I would be apt to confuse the members more than to help them.

Mr. FRANCIS: I would like to ask Mr. Bryce whether in his opinion the procedure as proposed by the minister at present meets the requirements of section 32 of the Public Service Superannuation Act.

Mr. BRYCE: We contemplate amending that either by an amendment to the statute itself or by securing an appropriation that would specifically authorize the kind of system that the minister has proposed. The provision of the act that one would have to vary is the one that Mr. Henderson has drawn attention to, that is "as soon as possible following". What we are proposing is "over a period of years following". That is the essential difference. We would also propose taking out the word "general" in it so that it will apply to salary increases however widespread. Here we get into a minor problem. Every time we increase an individual's salary rate, or something of that sort, we are obviously not going to try to assess its impact.

Mr. FRANCIS: There obviously has to be some discretion.

Mr. BRYCE: Yes, some lower boundary lines, but if there is, that will be taken up in due course in the quinquennial valuation.

Mr. FRANCIS: I followed with interest Mr. Bryce's details concerning the problems of a valuation of the fund. In his opinion is there any reason to believe that the amounts indicated in the Auditor General's report are too high or are more than would be required in fact with regard to making up the deficiencies in the fund?

Mr. BRYCE: I am not sure just which amounts you are referring to.

Mr. FRANCIS: I started off with the 1962 report and I saw the number of specific items in paragraph 62. I recognize that you cannot anticipate what the Canada pension plan will be and you cannot anticipate a retirement policy, whether or not people will retire at the age of 65. You also cannot anticipate the mortality rate, and there are many such things. However, I wondered from your comment whether you felt that there might have been a question whether the sums are on the conservative side in estimating the possible requirements.

Mr. BRYCE: I rather hesitate to generalize there. The actuaries, each time they make one of these valuations, review the experience on the points where they had made assumptions previously, and they make some modest variation of the basis on which they work.

Mr. FRANCIS: Perhaps I could put it in another way. We had a lot of discussion on funding when talking about the Canada pension fund. This is another type of public pension plan and its assets keep mounting from year to year. Do you feel that it is required in terms of public policy to stick to a strict actuarial fund?

Mr. BRYCE: We try to keep it a fully funded plan. The boundary of argument here is twofold: How far is it necessary to meet these pay increase deficiencies year by year in order to keep it fully funded, and secondly do we have the transitional problems I mentioned, which Mr. Henderson was concerned about. That is not so much a problem of keeping the plan fully funded as how to charge it through to our accounts. This is a fully funded plan, and it is necessary.

Mr. FRANCIS: This is the intent of the legislation.

Mr. BRYCE: That is right.

Mr. HENDERSON: Mr. Chairman, may I just speak to Mr. Francis' question when he asked Mr. Bryce if the figures that are shown in the third paragraph of note 62 were correct, that is to say, the additional liabilities resulting from the increases? These are figures which were obtained by the Department of Finance itself. They were prepared for the department by the department of insurance. They made this computation on what the liabilities would have been. As I have explained, they did not take them up, but they did ascertain how much they amounted to. However, in the year 1962-63—the next year—no such request, as I mentioned earlier, was in fact made to the department of

insurance for such an estimate. So that these are as close as they can come. They are only estimates, but they are in the habit of asking the department of insurance to determine how much liability would in fact have been provided.

Mr. FRANCIS: I wondered whether it was significant that no request was made.

Mr. WINCH: Mr. Chairman, with your consent and that of the members I have something to say. I may have to go a little bit slowly because I do want to get this right. The Auditor General has raised a most important matter before this committee. The importance of it is shown by the fact that in the 1962 report he has paragraphs 62, 144, 145, and in his 1963 report he has paragraphs 123, 124 and 125 on this subject. After listening to the Auditor General and to Mr. Bryce I not only recognize the importance of this matter, but also its complications and confusions. I will proceed slowly so as to try to present the problem as I see it and to present the questions which I would like to ask.

If my memory is correct, all superannuation payments or policies are governed by acts of the parliament of Canada. We have a number. However, in those various acts of the parliament of Canada the payments to be made by a servant of the crown and also the payments to be made by the crown itself are outlined in specifics. Now, if my interpretation is correct, what is binding on the servant of the crown is also binding on the crown itself. Again, if my interpretation is correct, then an increase in salary to a servant of the crown immediately affects his payments on superannuation. There I come to my first point, that as a servant of the crown is immediately caught under the act on payment, then on what basis is the crown itself not under an obligation to meet whatever might be its matching payments?

Mr. BRYCE: Could I answer that right away?

Mr. WINCH: Could I build it up before? On what basis is a servant of the crown obligated, while a decision of a minister or someone else can defer payments by the crown? I want to draw the entire picture. When it comes to the act itself it is not a question of the validity of the actuarial soundness of the fund because if it is found to be not actuarially sound it is up to the government to come to the House of Commons and ask for additional money or ask to make changes. If I am correct on that,—I am just building it up now—then by deferring payments by the crown for five years we have basically not had a true report to the House of Commons on the position of the obligations of the crown. I base that view on my interpretation of what Mr. Henderson presents in about six paragraphs. What he is pointing out is a backlog which has not been paid by the government as required by the law of Canada on superannuation as between master and servant, if I may use that term. If I am incorrect here, perhaps I will be corrected by Mr. Bryce or by Mr. Henderson. These have not been charged as budgetary expenditures year by year, as they have occurred. I am not an auditor, but to me it seems that we have a most important point here, that the backlog has not been paid for five years and therefore it has not been shown as budgetary expenditures as should have been shown in the reports to the House of Commons.

I then want, if I may, to ask Mr. Bryce to explain something which I find most difficult to understand in view of the fact that he presented it in two different ways which mean the same thing, and that is "pay increases of general application, not necessarily a salary increase for superannuation purposes". This is something which passes all comprehension. You can just take one example. If you were a member of the House of Commons up until last year—as I was for the last 10 years—you would know that we paid \$240 a year to superannuation. A change in the act made it \$720 a year. Immediately the act went into force a deduction was made from our salaries on the basis of one twelfth of \$720, and inside of six weeks we got letters that we had to make

a choice on whether we were going to pay up on the past. Do I gather that the government perhaps did not immediately, when we had to pay the one twelfth of \$720 and not one twelfth of \$240, match our contribution? Apply that to a servant of the crown. Is he not in exactly the same position? According to what we now have in front of us, I gather that for five years the government, to some extent, has not matched what the law demands and what the crown is obligated to pay. What should have been charged to budgetary expenditures was not shown.

We then go on to what I also admit is something that puzzles me immensely, and that is the statement about writing off a net debt of moneys owing to superannuation. How can you change the public accounts of Canada to write off as a net debt—and this is the way I got, and I think I got it right—moneys owing superannuation? If it is a debt which is owing to the superannuation fund, how can it be written off as a debt? There may be a complication of auditing and high financing there that I do not understand, and it might help me an awful lot if I could learn more about it.

To go back to Mr. Henderson's statement—I will come to a conclusion very soon—

The CHAIRMAN: Mr. Bryce might deal with all those questions as one item.

Mr. WINCH: I have just one more point. Mr. Henderson said that no contributions were made, and he specifically mentioned 1961 and 1962. He said that it is required in the act under section 32, I think. Therefore, the Auditor General has drawn to our attention the fact that the act of parliament under section 32 requires payments. The payments were not made. We have Mr. Bryce's statement that payments amounting to hundreds of millions of dollars were not made. We have the statement of certain things that are going to be written off as a net debt. We have the statement that the servants of the crown have to pay immediately but that the crown does not. We also have the statement, which I would like cleared up, that the basis of the fund, whether actuarially sound or not, is not the subject now before us, nor under the authority of the minister. The law says that you have to pay so much money every year on the various superannuation acts. It has not been paid. When it comes to actuarial soundness, then it is up to parliament to meet the deficit or change the act.

I do not know whether I compounded the confusion or not, but I hope I have given enough to you so that you understand the kind of information which I think this committee would like to have on the reasons why the crown thinks it can disregard the law but everyone else has to obey it.

Mr. BRYCE: I think Mr. Winch has put the case very eloquently. My only worry is whether I can remember all the subpoints that he has raised.

Firstly, I think we should start by recalling that the employee does not suffer by any delay that there may be in the crown making these payments or charges because of deficiencies created by pay increases. The employee's rights are defined in the act. The crown is obligated to pay the employee's pensions and benefits when he is entitled to them. He can sue the crown for them, as I recall. Therefore we are not talking about anything here that endangers the employee's position. The essence of the argument is whether we are properly disclosing the liabilities that are created by the employees' service in earning pensions, and whether these are being charged to expenditures in a proper way.

Secondly, we have the point on what the law requires the government as an employer to contribute. If we take the Public Service Superannuation Act itself, it says that there shall be credited to the superannuation account in each fiscal year, first, an amount representing interest on the balance to the credit of the account.

The CHAIRMAN: That whole section is quoted at page 78 of the 1962 report. Section 32 is quoted verbatim, if members are interested.

Mr. WINCH: I read it very carefully.

Mr. BRYCE: The crown has, of course, been paying the interest from year to year without any question.

The second thing is—

Mr. WINCH: I am sorry. Has the crown been paying the interest on the money it has not paid?

Mr. BRYCE: It pays the interest on the balance from time to time to the credit of the superannuation account.

Mr. WINCH: But not interest on the five years of money which it should have turned into the superannuation account.

Mr. BRYCE: They have only paid interest on what is shown as the liability in the account from year to year. As you will see on page 169 in the 1963 report, what they pay is the amount which is included on the liability side under item 16, annuity, insurance and pension accounts, schedule N. Unfortunately it is not reprinted here, but in the public accounts themselves we will find that in schedule N.

Mr. WINCH: What rate of interest does it pay on its liabilities?

Mr. BRYCE: Four per cent. This is determined by regulations made by the governor in council. It is the amount shown as a liability on the liabilities side which determines what interest we pay. That is in the public accounts, volume 1, at page 167 under the Department of Finance public service superannuation account. That shows the amount we recognize as a liability and on which we pay the interest.

The government is also required to pay matching contributions to the employees' contributions. The government is required to pay an amount matching the total amount estimated by the minister to have been paid into the said account during the preceding fiscal year by way of contributions in respect of current service other than current service with any public service corporation or other corporation as defined. In other words, we match our employees' contribution, but match it the following year when the total can be determined and then put in a bulk amount.

Mr. WINCH: But you have not been matching it.

Mr. BRYCE: We match it in the way the law says we shall match it. We total up what the employees' pay in one year and put in an amount the next year equal to that. Perhaps Mr. Clark could tell us why it has a lag of one year.

Mr. H. D. CLARK (*Director, Pension and Social Insurance Section, Department of Finance*): Originally it was a matter of totalling up at the end of the year to find out what the contribution by the employees came to and simply matching it then.

Mr. WINCH: I am awfully sorry; I do not wish to interrupt, but I cannot tie that in with what is declared to be a five year lag.

Mr. BRYCE: I am coming to that. These are all employer's contributions as such; these are the things that the boss pays, just like the employee. These are under item (b) here.

Thirdly, the government is required to pay such amount in relation to the total amount paid into the said account during the preceding fiscal year by way of contributions in respect of past service as is determined by the minister. In other words, there are very complicated provisions in the law about employees paying for or being credited with past service. We have to determine under these complicated provisions of the law how much the government has to contribute for prior service. In some cases of war service, the employee does not pay but the government does.

Mr. CLARK: In certain types of war service.

Mr. BRYCE: That is the third thing. In all this kind of contributions there has been no question of the government paying up when the law requires it.

The question really has arisen in respect of subsection 2 of section 32 which Mr. Henderson has quoted in the paragraph concerning these contributions. Here you get into this question of whether salary increases are increases of general application, and whether the contributions are being paid as soon as possible following. Well, the preceding government took the view that these cyclical increases were not salary increases of general application. We know the facts. They have taken this view and have received advice with regard to what the law really requires. Therefore, they feel they do not have to put these in. I cannot tell you any more. I am not a lawyer and I cannot get into the fine points of what the words "salary increase of general application" mean, or whether there are any court cases which would give a guide in respect of how general they have to be to come within that.

However, I think this is what is worrying you, Mr. Winch; that is, did the government meet this test of putting in an amount to provide for the increase in cost to Her Majesty that would arise as a result of such salary increases.

Mr. WINCH: It is a key point. What I cannot understand is that it is a cyclical increase, but is an increase in salary and the employee has to pay superannuation on any salary increase, so where does the interpretation of the government come in to the effect that it is not a salary?

Mr. BRYCE: When the pay of a civil servant is increased he has to pay a $6\frac{1}{2}$ per cent contribution on the increase in pay; the government matches that. However, over and above what the government pays in matching its employees' contribution, we know when we increase salaries the government's matching contribution is not enough to look after the actuarial liability created in respect of future years. It is this increase in actuarial liability which is at issue here under section 32 (2). It was only ten or 12 years ago that the law came into effect which required that this be taken into account. Previously it was not there at all.

As I recall it, there is nothing in the law which requires us to put in an amount to cover a deficiency shown up in the actuarial reports.

Mr. McMILLAN: Why would it not be enough if the government met their whole obligation?

Mr. BRYCE: It is because of the nature of the fund. The employees contribute a certain percentage year by year up to 35 years. If the salary rates always remain the same for various classes of work, the rate contributed by the employee and matched by the government, as the employer's contribution, would, I suppose, roughly work out as being enough when interest is taken into account.

Mr. McMILLAN: You said it would not be enough.

Mr. BRYCE: Yes, if salary rates are level; but if salary rates are rising in the employees lifetime which, fortunately, is what happens as the country becomes better off and can afford more, when the employees' payments are based on his whole lifetime of contribution, and his pension is based on the six best years, or normally the last six years at higher rates of salary, then the year by year contributions, in practice are not enough. We know that it depends on the rate at which salaries are rising. That is why this provision was put in the act in 1951 in order to attempt to keep that deficiency from accumulating. I think that is the essence of the point. It is this, as Mr. Winch points out, which has been allowed to accumulate for some years.

Mr. WINCH: What would be the actual amount?

Mr. BRYCE: The actuaries are going to tell us that, I hope, within a matter of days. I have not received the report which Mr. Henderson mentioned, but I

believe it is due this week. I do not know how much it will be, but it is their job to tell us what it was as of December 31, 1962. Now, as I said a moment ago, there is nothing in the law that obligates us to put in the end any deficiencies that the actuaries find in their quinquennial valuation. However, the purpose of the valuation is to find whether we are in fact falling behind. With proper credits being made because of pay increases we should not fall too far behind. In future, therefore, under the plan the minister has outlined, the amounts arising out of the quinquennial valuation should not be large amounts; they should be "tidying up" amounts rather than "making up" amounts, so to speak. The amounts to be settled in respect of the past period are much larger, as was evident in the amount for the armed services and as may well be the case for the public service superannuation account, because of the fact that the pay increases were not considered to be of general application, and therefore we did not fill in the hole created by those pay increases. So that I think this has some bearing on the point Mr. Henderson made about the initiation of this thing without charging over the next five years what the actuaries find to be the deficiency at the end of 1962. The deficiency at that date is, to a considerable extent, a reflection of the fact that the pay increases were not found to be of general application and therefore gave rise to more cumulative deficiencies than would be the case in future when we are going to deal with them systematically, whether or not they are of general application.

Mr. WINCH: Could I ask Mr. Henderson whether, in view of what Mr. Bryce has said, he is satisfied with what I gather to be the future policy of the department, that there will not again be a large backlog and that we will see each year a budgetary expenditure of the moneys required.

Mr. HENDERSON: I would certainly hope so, Mr. Winch. Section 32, subsection (1) of the Public Service Superannuation Act, which Mr. Bryce has been describing to you and which you have before you, seems to me to be quite understandable and normal. It requires, as he has explained, special provisions to be made in this account or fund whenever the salary and wage increases of general application are given to the public service employees covered by the fund.

Mr. WINCH: That is annual, is it not?

Mr. HENDERSON: Yes, annual increases of general application. You find a similar sort of provision usually present in most big corporation superannuation funds for the purpose of keeping the funds actuarially sound. Then, as Mr. Bryce has described, you employ actuaries usually at five year intervals, sometimes at three year intervals, to recheck the status of the funds so as to see how the fund is doing. These actuaries have regard to the prevailing rates of earnings on the fund's investments, the pattern of the age group of employees covered, and the salary levels currently being paid, on which, as Mr. Bryce has said, the pensions or superannuation are going to have to be based at the end of the road.

In direct answer to your question, the procedure Mr. Bryce has outlined—and this I think is very important—recognizes the principle of keeping the fund actuarially sound. But instead of making provision in the fund each year in future for the salary and wage increases granted in that year—that is each year by itself—he says that since there is going to be a pattern of cyclical salary increases throughout the public service in future, he proposes to distribute the charges over the ensuing five years. Thus, he believes, as he says, that a more or less standard charge will enter into budgetary expenditures each year, arriving at the same result. I think you can appreciate that theoretically this may be quite true; however, in my view, as I said to you, it would be better and cleaner and simpler accounting were the appropriate amount in respect of salary and wage increases during each year to be placed into the fund in that year and charged

off, just like the salaries and wages themselves, to budgetary expenditures. To my way of thinking this gives immediate recognition within each fiscal year to the real cost of salary and wage increases.

Mr. WINCH: Have you discussed this with the department?

Mr. HENDERSON: Yes, we have had the exchanges to which I referred, and Mr. Bryce has been good enough to set down his thinking on the five year pattern which the minister announced on March 6 he proposes to adopt. Obviously, as I said earlier, if you are going to be taking one fifth of the five years, the thing will level itself out and you will wind up with the same result. I naturally asked the question: why not start out doing it the simpler way, because these are expensive costs which go right along with the salaries and wages paid, and you might be up one year and down the next year. This may not give you a nice and even line, but if you are trying to ascertain real costs, there is an argument for it. That would make it simpler, but, on the other hand, it is Mr. Bryce's prerogative, not mine, to adopt the procedure that he feels will best tie in with his departmental approach. I am only pointing out the way I see it because that was what you asked me.

Mr. WINCH: I have one more question and then I will subside. I am sorry I have taken so much of your time. Could I ask Mr. Henderson whether, from your point of view as the Auditor General of Canada, responsible to parliament, wanting to present to parliament every year the revenue and expenditure, it is your opinion that it would be better if there could be at least an approximate annual budgetary estimate submitted to parliament?

Mr. HENDERSON: If it were written off as a budgetary expenditure each year?

Mr. WINCH: So that we would know what it required. At the end of the five year period we would know the approximate figure for every year.

Mr. HENDERSON: Mr. Bryce's proposal would include a charge each year. He might want to expand on that.

Mr. WINCH: An additional charge of one fifth to catch up on the last five years.

Mr. BRYCE: I hate to point out that it is a little more complicated than that. We propose to show every year in our liabilities the full amount of that increase in liabilities that arises from the pay increase in that year.

Mr. WINCH: You do not intend to pay it?

Mr. BRYCE: We do not intend to pay this at once. In our liabilities we propose to show, whenever we get an actuarial valuation, the increase in liabilities arising from that valuation. We show that in our liabilities, and pay interest on that right away so there would be no accumulation of deficiencies. However, we propose to charge the increase in those liabilities to expenditure over the ensuing five years, as Mr. Henderson said. So I think the only difference between us and the Auditor General is not in what we show as a liability, not in what we pay interest on, but rather on when we charge it through to our budgetary expenditures. We feel that charging it over five years gives not only a smoother picture but, I would suggest—although I hesitate to say this to an eminent accountant like Mr. Henderson—in some ways it is a better way to reflect the charge because in fact the higher pension liabilities are contingent upon the employees continuing their service and continuing to serve, and in fact it is not all a cost that accrues immediately we make the pay increase; it accrues as the employees continue to serve. You might well argue that it should be amortized over the future service life of each employee, and in fact I think the practice of private employers with plans like this is to spread the cost arising from pay increases over even more than five years. However, we have simply been taking five years as giving us enough reflection

of the fact that it is future service that really creates the increase in the liability. So I do not think there is really much difference between Mr. Henderson and myself in this.

Mr. HENDERSON: A most important point, I think is something which I would like to say to the members of the committee, namely, that a plan has now been evolved to write this off to budgetary expenditure in an orderly manner. It may not be the way that I think would be the simplest one, but at least we have a plan, and provided that that plan is adhered to, I would hope that this situation will tidy itself up.

I would like to ask Mr. Long if he has any comment he would like to add to this. This is a subject to which we have given a lot of thought and he might have a few words to say on it.

Mr. G. R. LONG (*Acting Assistant Auditor General, Auditor General's Office*): One thing I might mention is that when these comments were made by the Auditor General the law called for payments into the fund with respect to salary increases of general application. Over a four year period, the entire service was covered, but nothing was put in.

Mr. WINCH: Nothing was put in?

Mr. LONG: That is right, nothing was paid into the fund to cover the cyclical increases granted over a four year period, but over this four year period there were increases for the entire service. Mr. Bryce is proposing that the law should be changed so that you do not have to reimburse the fund all at one time, you reimburse it over a five year period. Of course, if parliament changes the law in that way, we would not be able to say anything about it as long as the department adhered to the new law.

Mr. WINCH: That is the point I was hoping to get out eventually, and now I have got it. You said that according to the existing law for the past four years the law has not been lived up to, but it requires a change in the law to do what you have been doing for the last four years. Am I right?

Mr. BRYCE: Are you asking me?

Mr. WINCH: I am trying to ask the Auditor General or Mr. Long. I want to go along with what was just said. Did I interpret you correctly, that according to the existing law there should have been money paid in that has not been paid in, but that if the law is changed, then it will overcome the difficulties which faced you, Mr. Long, and the Auditor General? Have I made a correct interpretation?

Mr. LONG: This is right, but I would go on to explain that the Minister of Finance interpreted "general application" as being over the entire service in one year. Obviously when salaries are reviewed on a cyclical basis that interpretation rendered this section of the act completely ineffective, and we do not think that parliament intended this section to be rendered ineffective in that way.

Mr. WINCH: May I say that I appreciate your kindness and that of the other witnesses in giving us that information. I wish I had more knowledge of finance and auditing, but I have a far clearer understanding now than I did half an hour ago.

The CHAIRMAN: Have you still got a question, Dr. McMillan?

Mr. McMILLAN: There were two or three things I did not understand. You have been referring to deficiencies resulting because of contributions not made in respect of several increases. Then Mr. Henderson said that at another time no contributions were made. Does he mean that no contributions were made in respect of salary increases, or none at all?

Mr. HENDERSON: No contributions have been made. I first started reporting this business in 1961, and I was reporting then for the year 1960-61. Then I reported for the two succeeding years. The amount of the liabilities that should have been put in under section 32 were determined but they were not charged to the budgetary expenditures, neither were they put in to the superannuation fund for the three years since. As you see, it is a very formidable figure. It was about \$161 million alone in the year 1961. What it has been since, I do not know because nobody has computed it.

Mr. McMILLAN: In fact, nothing was put in, in respect of basic salaries that they were getting before?

Mr. HENDERSON: No, this should have been charged to budgetary expenditure.

Mr. McMILLAN: Of course, it should have been taken into the budget and written off as a debt at that time?

Mr. HENDERSON: That is correct.

Mr. HALES: I do not think we should spend any more time on this. Apparently the department and the Auditor General have come to an agreement that seems to be suitable to both. I should like to ask Mr. Henderson what the outcome would have been had this been a private corporation or a firm with some authorized pension plan which the inspector of insurance was supervising or looking after?

Mr. HENDERSON: As far as the inspector of insurance is concerned, and I hope Mr. Bryce and his associate Mr. Clark will correct me if I am wrong, I do not believe he is interested in private pension plans of large corporations. There are no rules applicable thereto. Private corporations faced with a problem like this would seek to write this off just as soon as they could, always providing they could get it for tax purposes. The tax department have established rules regarding what it will allow, and they are quite generous. The private corporation seeks to get this sort of thing written off to the greatest extent the tax position permits. That has been my experience.

The CHAIRMAN: Will you speak into the microphone, Mr. Hales?

Mr. HALES: Would you not think this a good policy to follow in your department, writing it off each year?

Mr. BRYCE: No, sir. We think it would be better to reflect it in our liabilities each year, in view of what we know about the liabilities created by increases as well as by evaluations, and to charge that increase in liabilities over a five year period rather than in one year for the reasons I have outlined essentially here, to make sure this is a smoother curve, and also because it is accrued over future services rather than at the immediate time.

Mr. WINCH: The amount involved now is approximately \$400 million?

Mr. BRYCE: This actuarial report I presume will be tabled shortly in the House of Commons so you will be able to see what they estimate the amount to be.

Mr. SOUTHAM: I think Mr. Hales referred to a particularly salient feature here which I think we sometimes confuse. As a result of his question and the answer given by Mr. Henderson I think the difficulty has been clarified. It related to the academic or auditing practice as far as private corporations are concerned compared to government practice. The thought came to my mind, as Mr Bryce has outlined it, that because of the fact we as the government have a national resource in perpetuity, we can take a more flexible plan and apply these things to liabilities. I think this is one thing we try to think of in terms of a private individual, or as a private corporation immediately writing these things off for tax purposes, whereas the government does not have to take this attitude.

Mr. BRYCE: I think we should be cautious about what private enterprise does. I am not certain, but as I recall the Glassco commission report, it suggested we should write off this deficiency over 20 years; is that not right?

Mr. HENDERSON: I just do not recall the specific recommendation.

Mr. CLARK: It certainly recommended that it be written off over a greater period than five years.

Mr. HENDERSON: Of course, there are very substantial figures involved, and to write off an expenditure of the size this is now would be a most unattractive project.

Mr. SOUTHAM: I see.

Mr. HENDERSON: That is why it is being written off to net debt, Mr. Southam.

Mr. SOUTHAM: I think perhaps the Minister of Finance in attempting to develop a budget to present to Canada would not want to be saddled with this large amount in one year. I think the period of time approach is possibly the better, but I can see a difference in the opinion here between the private sector and the government sector.

Mr. HENDERSON: Perhaps I could just answer Mr. Southam on that point, Mr. Chairman.

By delaying the write off, and taking it over a five year period, as Mr. Bryce mentioned, he also pointed out that this deferred charge is carried as an asset on the statement of assets and this will of course continue, and will increase the liability and put it into this unamortized figure that appears as a deferred charge on the balance sheet, and there it will stay while one fifth is being written off over the ensuing five years. Under the preference I expressed, it would be written off each year and there would not be a deferred charge.

Mr. WINCH: In other words, you would have this \$150 million figure, such as you had in the years 1961-62?

Mr. HENDERSON: It was 1960-1961, Mr. Winch.

Mr. WINCH: There was nothing paid for each year since, so instead of having written off \$150 million a year we now have approximately \$500 billions left; is that right?

Mr. HENDERSON: This, of course, is going to be cleared off to net debt in order to get this off the ground, and that is probably the best way of handling a figure of that size.

Mr. CAMERON (*High Park*): Mr. Chairman, I intended to ask Mr. Bryce or Mr. Henderson whether there was a written legal opinion from the Department of Justice regarding the amount taken by the Minister of Finance in accomplishing this.

Mr. BRYCE: Are you referring to the salary increases not being treated as of general application?

Mr. CAMERON (*High Park*): Yes.

Mr. BRYCE: I am told there was a written legal opinion. I do not think I have it with me, but perhaps I have. I do not have it with me.

Mr. CAMERON (*High Park*): Do you think you could obtain that written report for us?

Mr. WINCH: You are not worried about owing the superannuation fund this amount of money; is that right?

Mr. BRYCE: I understand the committee discussed the question of legal opinions and how they should be treated at an earlier meeting. Of course, if the committee thinks it right that we should produce this legal opinion I will produce it.

The CHAIRMAN: I suppose Mr. Cameron we are in the same position we would be in the House of Commons in respect of a request for a legal opinion.

Mr. CAMERON (*High Park*): I am satisfied, knowing what you are going to say, with what you are going to say and I know we cannot have these opinions produced. I wanted to find out whether there was a legal opinion obtained.

The result is that there has been accumulated as deferred liability by the crown in respect of the superannuation fund a large amount of money, and if this rule of law had not been applied that would have been charged directly in each year and naturally increased the budget deficit in each of those years; is that right?

Mr. BRYCE: That is right, or it would have increased taxes.

The CHAIRMAN: It may have increased taxes also.

Mr. CAMERON (*High Park*): The result would have been outgoing rather than incoming and, furthermore in writing it off over this desired period each year, as you are now writing it off, you are going to include an amount of these arrears so that the result in coming years will not actually reflect the direct financial picture of the cost because of the inclusion of that which belongs to prior years; is that right?

Mr. BRYCE: Mr. Gordon does not propose to write off the back arrears prior to April, 1963.

Mr. CAMERON (*High Park*): He is going to commence writing them off as a schedule?

Mr. BRYCE: Yes.

Mr. CAMERON (*High Park*): He is going to include this amount and, therefore an amount covering accruing deficits; is that right?

Mr. BRYCE: Yes.

Mr. WINCH: This situation gives rise to a very interesting question. If the government borrows money at three per cent, or round three and three quarters per cent and this amount of money is being paid off each year and the government has to borrow money to do that, we will then have to pay four per cent on this amount of money in respect of the superannuation fund; is that right?

Mr. BRYCE: Yes.

The CHAIRMAN: Gentlemen, we have dealt with the two largest problems with which we are concerned. We still have a number of smaller items, quite a few of which have an impact and impinge on the question of superannuation. Is it the wish of the committee to remain for a short period of time to see how many of these items we can clear up before adjourning until this evening?

Mr. WINCH: Let us remain for at least 30 minutes.

The CHAIRMAN: Perhaps we could remain to see how many of these items we can clear up.

Mr. Henderson, will you now carry on?

Mr. HENDERSON: I should like to ask Mr. Bryce whether it might be better to continue our consideration of the superannuation items while they are fresh in our minds.

The CHAIRMAN: That is exactly what I meant to do, Mr. Henderson.

Mr. HENDERSON: We can then return to the others.

The CHAIRMAN: I think we should carry on with paragraphs 144, 145, 62 and 63.

Mr. HENDERSON: Perhaps we can now turn to paragraph 63 of my 1962 report and paragraph 53 of my 1963 report dealing with errors in public service superannuation account pension and contribution calculations, as follows:

63. *Errors in public service superannuation account pension and contribution calculations.* Reference is made to the comments on this subject contained in paragraph 61 of last year's report. Since then, further meetings have been held with officers of the Department of Finance to consider what steps should be taken to secure a greater measure of internal control.

Our test examinations of the records of the superannuation branch for the year ended March 31, 1962 continued to disclose a high incidence of error, involving both overpayments and underpayments of pension on a continuing basis, and also incorrect charges for contributory service. As was pointed out in last year's report, many such errors could be avoided were there a complete review or internal audit of the contributors' files prior to authorization of the payment of benefits.

The administrative directive issued several years ago and quoted in last year's report, provided that once the superannuation branch had determined the extent and cost of elective service in the case of an election made prior to January 1, 1954, the case for administrative purposes was to be considered closed unless any contributor or his employing agency reopened the case, in which event the relevant laws were to be applied. It was intended that there would be a complete verification of elective service cases by the superannuation branch where the election had been made subsequent to January 1, 1954, and that, in the meantime, all such cases would be checked as usual at retirement. However, in February 1958 this program was abandoned.

Although the practice of making a final check of elective service, prior to authorization of the payment of benefits, was resumed in April 1962, the operations of the superannuation branch continue to give cause for concern. We were informed by the secretary of the treasury board in May 1962 that consideration was being given to the re-establishment of the comptroller of the treasury's pre-audit which had been discontinued in 1958, but we have not yet been informed of any decision in the matter.

53. *Errors in Public Service Superannuation Account pension and contribution calculations.* In the 1961 report (paragraph 61) and again last year (paragraph 63) we reported that our test examinations of the records of the superannuation branch of the Department of Finance had disclosed a high incidence of error, involving both overpayments and underpayments of pension on a continuing basis, and also incorrect charges for contributory service. It was pointed out in both reports that many such errors could be avoided were there a complete review or internal audit of the contributors' files prior to authorization of the payment of benefits.

In last year's report it was stated that we had been informed by the secretary of the treasury board in May 1962 that consideration was being given to the re-establishment of the comptroller of the treasury's pre-audit of superannuation accounts which had been discontinued in 1958. This has not yet been done although various steps were taken by the Department of Finance to improve the superannuation administration, and an improvement was, in fact, noted in the accounts during the year under review. However, pension payments under the Public Service Superannuation Act, unlike those made under the Canadian Forces Superannuation Act, the Royal Canadian Mounted Police Act and the Pension Act, are made without verification by the comptroller of the treasury

of the gross amount of any entitlement, other than a return of contributions.

During the year it was found that information concerning salary payments by crown corporations whose employees are contributors under the Public Service Superannuation Act was no longer being received in the central pay office, having been replaced by a listing of salary rates being paid as at the end of each year. In June 1962 we inquired of the superannuation branch as to what verification was being made of the correctness of the employees' contributions which these Crown corporations were sending in. In August 1962 we received a reply conceding that there existed a gap which should be closed and indicating that a solution to the problem would be worked out. In reply to a follow-up inquiry in October 1963, we were advised that no verification of these contributions was yet being made.

This matter was raised by me in my 1962 report and members of the committee may recall that it was discussed at some length with Mr. Bryce when he appeared before this committee on December 6, 1963. He outlined the problems with which the Department of Finance was faced in the administration of the superannuation act, stating that the minister had decided on his recommendation that the superannuation branch should be transferred from the general direction of the secretary of the treasury board to the general direction of the comptroller of the treasury who was more familiar with this type of large clerical operation and that he and the minister hoped that it would now be possible to apply to it the kind of techniques of pre-audit, checking and correction of records that the superannuation branch operations require. Consequently, he hoped that real progress would be made in dealing with the situation to which I called attention.

In this committee's fourth report, 1963, tabled in the House of Commons on December 19, 1963, it expressed concern that a high incidence of error had continued in the superannuation branch of the Department of Finance involving both overpayments and underpayments of pension on a continuing basis and also incorrect charges for contributory service and requested the Auditor General to keep parliament informed regarding the progress being made.

When we discussed this on May 26, I advised the committee that I intended to keep parliament informed on the progress being made in remedying this situation. As little time has elapsed since Mr. Bryce introduced the changes I have just mentioned, I would have no further comments to make at this stage, unless Mr. Bryce has something he would like to say to the committee on the progress that he is making.

Mr. BRYCE: Mr. Chairman, action has been taken to deal with the situation that was discussed last December. I have not brought along a detailed report in this regard but if the committee would like to have a report I suggest that Mr. Balls, the comptroller of the treasury, might report at a suitable time in respect of measures that he has put in hand to deal with this situation. I think the committee will find that they are going ahead and that they will be effective. I think that it would be best on the whole for the committee to leave this and consider it when the accounts for this current year are before the committee.

Mr. CAMERON (*High Park*): Can you not make any general observation regarding improvements that are going to take place? This seems to be quite a serious problem.

Mr. BRYCE: It is a serious matter.

Mr. CAMERON (*High Park*): I think the members of this committee should like to know that it has been corrected.

Mr. BRYCE: The situation is being corrected but it takes time to correct this sort of thing. I think it was evident during discussions last December that what

is required is trained staff who can handle all these very complicated calculations and handle them accurately, with a suitable internal audit to see that they have been handled accurately.

Mr. CAMERON (*High Park*): Is not one of the key points that Mr. Henderson referred to the fact that instead of having specific figures of contributions made by each pensioner all you have is something based on his salary rate which may not actually correspond with what he is actually contributing? Does that not represent one of the important factors?

Mr. BRYCE: I hesitate to speak in this regard from memory.

Mr. CLARK: Certainly there are often errors made both in respect of contributions and salaries, but it is ultimately salary that involves the important portion.

Mr. CAMERON (*High Park*): I think the situation is due largely to an improper accounting system and I should like to know that a proper accounting system is not only being considered but actually in operation.

Mr. BRYCE: Mr. Balls is revising it. It is really a record keeping system which is at issue, and this is being revised and included to satisfy the internal audit system which is being applied.

Mr. CAMERON (*High Park*): Why then do we have to wait until next year in order to find about what is going on now?

Mr. BRYCE: If you wish, I am sure Mr. Balls will be glad to come along at a subsequent meeting and explain it to you.

The CHAIRMAN: We can discuss this later before the fall. Mr. Bryce said last year that steps were being taken to start with, and we may hear Mr. Balls on this matter later.

Mr. HALES: There is a notation here that the salary payments are made by crown corporation employees who are in the superannuation fund, but there has not been a list of their payments at the central office. Has this been corrected as of this date?

Mr. BRYCE: I am sorry. I should know the answer to that, but I do not. I am sorry that I cannot tell you.

Mr. MCMILLAN: Did contributions from crown corporations go into this fund during the years when they said nothing went in from the government?

Mr. BRYCE: The crown corporations are not required to make contributions of the nature we were discussing. Theirs are matching contributions but not contributions to meet actuarial deficiencies.

Mr. HENDERSON: Mr. Long may have something to add.

Mr. LONG: I was trying to follow Mr. Hale's question. I am not sure I have the two questions. Some crown corporations are covered by the superannuation fund and they do make contributions to the fund.

Mr. MCMILLAN: Did they make contributions to this particular fund in these particular years?

Mr. LONG: Oh, yes. I think the problem was whether anything was being done to check the reports made by the crown corporations to the superannuation branch. I have not got this from the superannuation branch, but we do audit the crown corporations, and I heard from one of the financial officers that the superannuation branch had asked for quite a lot of information going back over the past three years. I think this would indicate that the matter has been taken in hand by the superannuations' branch.

The CHAIRMAN: Might we go on to the next item now dealing with superannuations?

Mr. HENDERSON: I now refer to paragraph 54 of my 1963 report.

The CHAIRMAN: Now paragraph 54:

54. *Public Service Superannuation Act—questionable decisions.* Three instances were noted in which evidence of doubtful value was accepted as the basis for administrative decisions. In one of these instances there was a resulting reduction of \$4,800 in the cost of elective service to a contributor who had retired. In the two other instances contributors were able to elect to pay for service on the basis of the rate of salary received on first appointment to the public service after world war II and the rate of contributions then in effect, rather than on the basis of current rates of salary and contributions—the difference in the cost of the service amounting in one case to \$11,200 and in the other to \$8,600. This was made possible by an amendment to the Public Service Superannuation Act in 1960 and an amendment to the regulations in 1961. The amendment to the act reads as follows:

30. (7) The governor in council may make regulations prescribing, in the case of a contributor who in the opinion of the Minister was one of a class of persons who, pursuant to erroneous advice received by one or more persons of that class, from a person in the public service whose ordinary duties included the giving of advice as to the counting of service under this act or the Superannuation Act, that a period of service of such a person before the time he became a contributor thereunder could not be counted by him under the said act, failed to elect under the said act within the time prescribed therefor to pay for that service, the circumstances under which and the manner and time in which the contributor may elect to pay for that service, and the circumstances under which and the terms and conditions (including conditions as to interest) upon which any such election made by him to pay for that service, or any election made by him under paragraph (b) of subsection (1) of section 5 to pay for that service as a period of service described in clause (F) of sub-paragraph (iii) of that paragraph, shall be deemed to have been made by him under this act or the Superannuation Act, as the case may be, within the time prescribed therefore by the said act.

The three contributors (who were considered as constituting a "class") had not elected, on permanent appointment to the public service during the years 1949 to 1952, to pay for war service, and claims subsequently that they had been misinformed as to their eligibility to elect. It could not be substantiated from departmental records that erroneous information had, in fact, been given in these cases. The superannuation branch accepted a departmental officer's affidavit, taken in 1961, to the effect that he "likely" gave incorrect information to one of the contributors in 1950. A personal affidavit was accepted from one of the others and the third contributor was included in the "class" because, in previous correspondence, he had made the statement that he was ineligible to elect.

Another case is that of a contributor to the superannuation account who ceased active duty on September 30, 1959 and who was certified by the Department of National Health and Welfare in May 1960 as being permanently disabled. Pending the result of an attempt to have the contributor's wife appointed administrator of his affairs, action was not immediately taken to commence payment of an annuity under the provisions of the Public Service Superannuation Act. On August 1, 1961 the superannuation branch received a notice of termination of employment, effective July 5, 1960, which stated that retiring leave had been granted from June 1 to July 5, 1960. The treasury board, on October 3,

having been informed that the contributor had entered hospital for domiciliary care on June 1, 1960 and had become entitled to an annuity when he retired from the public service on July 5, 1960, designated the wife as recipient of the annuity payable to her husband. In April 1962 the superannuation branch accepted a second notice of termination of employment which showed the date of termination as July 15, 1960 (one day after the coming into force of an amendment to the Public Service Superannuation Act which provides automatic continuation of death benefit coverage and for the calculation of annuities on the basis of a six-year rather than a ten-year average salary). As a result, death benefit coverage of \$3,750 was reinstated and the annuitant's pension was recalculated and increased by \$175 per annum.

Mr. HENDERSON: This comment in my 1963 report on page 27 was left until Mr. Bryce could attend the committee.

As you will see from this note, the regulations surrounding the administration of the Public Service Superannuation Act are, to say the least, very involved, and we were concerned in noting these three instances in which evidence of doubtful value was accepted as the basis for administrative decisions. In one of these cases there was a resulting reduction of \$4,800 in the cost of elective service to a contributor who had retired, while in the other two instances contributors were able to elect to pay for service on the basis of the rate of salary received on first appointment to the public service after world war II and the rate of contributions then in effect, rather than on the basis of current rates of salary and contributions, with the result that there was a difference in the cost of the service of \$11,200 in one case and in the other of \$8,600. I deal with a further case in the last paragraph of this note on page 28.

These regulations are extraordinarily involved and I am sure that members will appreciate the importance of their administration. I discussed these cases with Mr. Bryce and he may have something he would like to add to them.

Mr. BRYCE: As is evident here, in 1960, parliament approved the principle of what was done here when they authorized an amendment to the act. Parliament leaves it to the opinion of the minister whether the person is one of a class who received erroneous advice and therefore can take advantages of what is provided here. The minister must use officials to try to determine whether in fact such people did receive erroneous advice. As you can imagine, it is not easy to get conclusive evidence of matters of this kind, especially about erroneous advice which was alleged to have been given orally years before when someone consulted a person whose duties included the giving of advice about counting his service under this act. I think the department in dealing with these cases some years ago has done as fair and honest an appraisal of the evidence as can be done from the evidence that is available.

Obviously a substantial amount in relation to the persons concerned hinges on these decisions, and they have tried to take whatever measures were possible to check on whether it can be confirmed that they received erroneous advice or whether it is likely that they might have received erroneous advice. Perhaps the whole thing is in its nature very difficult to ascertain, but since parliament put the provision in the law, then we must do our best to administer it in a fair and honest way, and that is what we have tried to do. Those are the first three cases here. I do not know if there is anything more. I have a few details about the particular claims, but I do not think they are very germane. The problem was that we have to act on whatever evidence can be found, and in some cases this was evidence in the form of affidavits from people about what they did or might have done when giving erroneous advice earlier.

The CHAIRMAN: I suppose under the sanction or provision for making regulations, if you come to the conclusion that there was a tightening of regulations, you may recommend that the regulations be changed to conform to what your experience has been.

Mr. BRYCE: That is right. The governor in council may make regulations prescribing the class. Then the minister has to decide whether the individual falls within that class of people who have received erroneous advice.

The CHAIRMAN: Are there any further questions?

Mr. BRYCE: I am prepared to speak about the other case covered in the final paragraph if you wish me to do so.

The CHAIRMAN: Yes, if you would, please.

Mr. BRYCE: This is a different kind of problem. This is a question of when this poor fellow who became permanently disabled left the service. We have looked into the facts of this case. Perhaps I might read a few sentences to try to give you the facts. Firstly, a termination notice was received by the superannuations branch from the Department of National Defence on August 1, 1961, giving the date of termination of this chap's service as being July 5, 1960. Pension was paid on that basis. Secondly, an amended termination notice was received by the superannuations branch in April, 1962, changing that termination date as the Auditor General suggests here, to July 15, 1960; in other words, ten days later.

However, the superannuations branch did not amend the pension to reflect that date and did not accept the second notice of termination. In fact, from the evidence which it had, it questioned the dates given by the department as to the termination, the one that the Auditor General referred to here. Discussions took place between the superannuations branch and the Department of National Defence and as a result the department issued a third termination notice finally establishing the date of termination of this man's service as being July 21, 1961, that is, practically a year later.

The nature of the evidence they went on in fact was the date of the document in which the Department of National Defence first said that this man was off duty or had ceased to work, and that document was dated July 20, 1961. However it purported to strike him off strength nearly a year earlier, on July 5, 1960. These things reflecting on the termination of the man's salary, or of the man's service, they felt were not done in a legal and proper way. It was within this consideration that the conclusion was reached that effectively he had been removed from service on July 20, 1961.

Mr. WINCH: May I ask one question which must be in the minds of all of us? Could you give us some explanation of how, over a period of one year, a department of government does not know what was the date on which a man stopped his service?

Mr. BRYCE: It is not a case of not knowing who is at work. This poor chap was disabled.

Mr. WINCH: It was done on a humanitarian basis?

Mr. BRYCE: He was disabled and was not working. He was on sick leave without pay.

Mr. WINCH: Following his service being terminated, did something happen after that date when he was on sick leave which brought about his disablement?

Mr. BRYCE: No, I think he became disabled earlier.

Mr. WINCH: Prior to being terminated?

Mr. BRYCE: That is right. He was on sick leave without pay. For the purposes of pay, a thing like that is not important because he was on leave without pay. But a person on sick leave without pay is entitled to contribute to the superannuation fund. So we continued to receive contributions from him. But

when it was necessary to decide at which date he ceased to be on sick leave without pay, and should be regarded as having gone on pension, it was this date that was in dispute. So all the facts are not exactly as the Auditor General determined here, and what it amounted to was that there was a dispute about when he in fact went on sick leave without pay to retirement. It was not a matter of a few days that brought him under the benefits noted below. It was a matter of a whole year or more which elapsed before the department took formal action necessary to strike him off strength.

The CHAIRMAN: Have you any questions, Mr. Cameron?

Mr. CAMERON (*High Park*): I shall waive my questions.

The CHAIRMAN: I think we shall have to come back this evening. I had hoped that we could conclude with Mr. Bryce today. However there are a lot of matters he is still interested in, and I hope we can meet promptly at 8 o'clock. Before you go let me say that we hope to meet tomorrow at 3.30 in camera in order to consider our interim report. The clerk will be sending out notices, and the steering committee will meet at 3 o'clock. However the main committee meeting will be at 3.30 to consider making up our fourth interim report to the house. We shall adjourn now until 8.00 p.m. tonight in the same place and I hope we can get started promptly on time.

EVENING SITTING

TUESDAY, July 21, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. We shall resume where we left off. Before going on with paragraph 55 of the 1963 report Mr. Winch has a point he wishes to raise. We will just deal with it, and then call upon Mr. Henderson.

Mr. WINCH: I appreciate the opportunity of raising this point immediately. It is one which I have never known to come up before, and I feel it should receive some clarification. This committee has to rely to a very great extent upon the report of the Auditor General. It is understandable that there may be challenges of his report on his interpretation, of his views, or of his recommendations. But I think it is rather an astonishing situation, and I have never known it to happen before, when just before we adjourned the deputy minister of finance said "I challenge the figures of the Auditor General." When we have the situation where the Auditor General's figures are challenged, I feel I just cannot let that statement stand the way it was made. I feel, in view of the importance of the principle, we should ask Mr. Bryce to enlarge a little on why he challenges the figures given in the Auditor General's statement, and then perhaps there might be something from Mr. Henderson himself. It is a point of sufficient importance, in my view, that it should be raised.

The CHAIRMAN: I am sure that both Mr. Bryce and Mr. Henderson will comment and enlarge upon the matter.

Mr. BRYCE: What I was thinking of was not the figures, which would be more significant for an auditor, but rather his saying that the superannuation branch accepted the second notice of termination. They received a second notice of termination but they did not accept it. They took it up with the department and got the department to issue a third one. I think it is the word "accepted", which raised the question.

Mr. WINCH: I could have got it wrong, but I thought it was something which was challenged which had to do with figures, or something which had occurred that had to do with them.

Mr. HENDERSON: I do not recollect any figures being questioned, but Mr. Bryce is perfectly correct when he said that he thought there had been a wrong choice of words in the last section of paragraph 54 about questionable decisions

under the Pension Act. I would be pleased to explain this because we looked into the situation after we adjourned this afternoon. My officers and I seek to be as completely accurate as we possibly can in our presentation of the facts in our reports, and I would have to apologize to the committee for the error in this note. I should point out that the error did not materially change the circumstances of the case, because the text of the note here was shown to the Department of Finance for checking of the facts before my report was printed.

With the permission of the committee, I would like to read into the record two small changes which will now make this paragraph factually correct. In the twelfth line the word "accepted" should have been "received", so that the sentence would read "In April, 1962, the superannuation branch received a second notice of termination . . ." Then, as the second last sentence in the paragraph the following should have been included "Subsequently the date of July 21, 1961, was accepted as the date of separation." These changes do not materially alter the facts as originally given. The point to note is that a civil servant who ceased duty in September, 1959, was certified in May, 1960 as being permanently disabled and was granted an annuity with effect from July 6, 1960, which effective date was later changed to July 20, 1961. In the meantime the Public Services Superannuation Act had been amended to provide automatic continuation of death benefit coverage and calculation of the annuity on a six year rather than on a ten year average salary.

Mr. WINCH: I understood that the acceptance meant figures.

The CHAIRMAN: I think this point was one dealing with some figures about which Mr. Henderson had been questioned, and he said they had been obtained through the superannuation branch. I do not think the figures were questioned. I think it was simply a question of where he had obtained the figures.

Mr. HENDERSON: On the figure of \$160,000,000 that was referred to, Dr. McMillan questioned the correctness of those figures, or asked if Mr. Bryce—no, I believe it was Mr. Lloyd Francis—who suggested that my figures might not be correct, or words to that effect, or he questioned Mr. Bryce. I did point out to Mr. Francis that the figures were figures of the Department of Finance itself. In fact they got them, I did not.

The CHAIRMAN: I think the point has been reconciled by Mr. Henderson's statement to Mr. Winch. Let us go on now to paragraphs 55, 56, and 57 in due course, as follows:

55. *Pension increased by payment of two salaries.* In 1951 a legal opinion was given to the effect that where a civil servant on retiring leave obtains employment with a crown corporation so that, although he may be an employee of the crown, he is not paid out of the consolidated revenue fund, there appears to be no objection to the duplicate payment of salary.

In a recent case, the receipt of two salaries for 55 days during a period of retiring leave and simultaneous employment with a crown corporation, resulted in an increase of \$120 per annum in the amount of pension paid under the provisions of the Public Service Superannuation Act (if the contributor had been re-employed for the entire 26 weeks of his retiring leave, his pension would have been increased by approximately \$400 per annum).

The superannuation branch obtained legal advice before approving payment of the increased pension. If the superannuation account is to be protected from such cases in future, it would seem necessary to amend the Public Service Superannuation Act.

56. *Amount payable to the superannuation account deleted from the accounts.* It is provided in subsection (7) of section 7 of the Public Service Superannuation Act that where any amount payable by a

contributor into the superannuation account by reservation from salary or otherwise has become due, but remains unpaid at the time of his death, the amount with interest may be recovered, in accordance with the regulations, from any allowance payable under the Act to the widow and children of the contributor. Subsection (6) of section 5 of the regulations states:

“Where at the death of a contributor any amount payable by him into the superannuation account is due and payable and is not paid, the minister shall, if the amount with interest as provided in this section is not forthwith paid by the personal representative of the contributor, demand payment from the widow and children, or one or more of them, of the contributor, to whom an allowance is payable under the act and if the amount which is due and payable with interest to the date of demand is not paid, it may be recovered at any time and, without prejudice to any other recourse available to Her Majesty with respect to the recovery thereof, recovery may be made at any time by retention, by way of deduction or set-off out of the allowance payable to the widow and children, or one or more of them,

- (a) in a lump sum immediately, or
- (b) in instalments for a term specified by the minister,

as the recipient elects, with interest at the rate of four per cent per annum.”

A department took exception to the application of this regulation in the case of a deceased employee who had been undercharged for a period of elective service, and on December 20, 1962 the governor in council approved a recommendation of the treasury board, pursuant to section 23(1) of the Financial Administration Act, that the Department of Finance be authorized to delete from the accounts an amount of \$521 that had been payable into the superannuation account by the late contributor. The action taken in this case was contrary to the public service superannuation regulations and, as far as we are aware, is unprecedented.

If it is found desirable to relieve a person from paying into the superannuation account any amount that is legally payable thereto, it is the audit office view that an appropriation should be provided to reimburse the account.

57. *Inadequate payment into superannuation account by crown corporation.* The employees of the Canadian Overseas Telecommunication Corporation were brought under the Public Service Superannuation Act with effect from November 1, 1961, pursuant to Vote 520 of Appropriation Act No. 5, 1961 and the regulations approved by the governor in council on October 26, 1961. On March 18, 1963 the regulations were amended by order in council P.C. 1963-441 to provide for payment out of the superannuation account of the pensions of four former employees of the corporation who had been retired under another pension plan. The department of insurance had calculated, in accordance with the interest and mortality tables used for valuation under the Public Service Superannuation Act, that an amount of \$200,013 would be required to be paid into the superannuation account in respect of the pension liability, but payment by the corporation of \$184,000 (the cost of purchasing the four immediate annuities at commercial rates) was accepted, with the approval of the treasury board, on March 31, 1963. As a consequence, the actuarial deficiency in the superannuation account at March 31, 1963 was increased by some \$16,000.

Mr. HENDERSON: Paragraph 55 deals with pension increased by payment of two salaries.

This is another comment which was left over until Mr. Bryce could appear before the committee. It illustrates a case where a civil servant on retiring leave obtained employment with a Crown corporation. Reference is made to a legal opinion to the effect that where a civil servant on retiring leave obtains employment with a crown corporation so that, although he may be an employee of the crown he is not paid out of the consolidated revenue fund, there appears to be no objection to the duplicate payment of salary. In this case, the receipt of two salaries for 55 days resulted in an increase of \$120 a year in the amount of pension paid under the Public Service Superannuation Act.

It seemed to my officers and me that if the superannuation account is to be protected from such cases in future, an amendment is necessary to the Public Service Superannuation Act.

Mr. LEBLANC: What is Mr. Bryce's opinion?

Mr. BRYCE: I agree.

Mr. LEBLANC: Then that settles the matter.

The CHAIRMAN: That is surely making rapid progress. Now, paragraph 56.

Mr. HENDERSON: This case deals with the amount payable to the superannuation account deleted from the accounts. This represents another case which was left over pending Mr. Bryce's appearance before the committee.

In this instance, it is provided under the Public Service Superannuation Act that where any amount payable by a contributor to the superannuation account by reservation from salary or otherwise has become due but remains unpaid at the time of his death, the amount with interest may be recovered from any allowance payable under the act to the widow and children of the contributor, and I quoted the pertinent subsection of the regulations. However, a department took exception to this regulation in the case of a deceased employee and in due course the treasury board, under section 23(1) of the Financial Administration Act, authorized the Department of Finance to delete from the accounts the amount of \$521 that had been due to the superannuation account by the deceased employee. As I say in my note, this action was unprecedented. Again, if a contributor is to be relieved from paying into the superannuation account any amount that is legally due, we are of the opinion that an appropriation should be provided to reimburse the account.

In other words, it should be made good from another source.

The CHAIRMAN: Mr. Bryce, have you any comments to make on that?

Mr. BRYCE: This action was taken by the treasury board and the governor in council for compassionate reasons on the recommendation of the Secretary of State for External Affairs at the time. The effect of it was, as intended, to relieve the mother of three young children, who was suddenly left a widow by the death of a clerk serving abroad, of the need to pay back with interest a claim of the crown for arrears of contributions amounting to approximately five months' pension which arose from an error made some years before by the superannuation branch. There seems to be no question of the authority of the ministers concerned to exercise the judgment they did in making an exception of this case. Now obviously, whenever you make an exception, you are worried by whether there are other exceptions, but the ministers made this decision and it seems to be within their power to make it. I do not know that there is much more I can say about it.

The CHAIRMAN: Are there any comments from any members?

Mr. LEBLANC: Mr. Henderson, how would you suggest that the amount be reimbursed to rectify the situation?

Mr. HENDERSON: If you take a payment like that out of a fund, the money should be put back in or else it goes into this accumulating deficiency which we have been discussing this afternoon. I would have no question about the propriety of approving it on compassionate grounds; that is beside the point. However, when you take things of this nature out of the fund, you should put something back. That is why I suggested an appropriation.

The CHAIRMAN: Are there any other comments?

Mr. HALES: Does this occur very often? Would it be worth while setting this up?

Mr. HENDERSON: As I mentioned, Mr. Hales, this was an unprecedented case which we came across in the course of our work.

Mr. BRYCE: I might just say that this would normally be picked up in the valuations of the fund along with other reasons that cause it to be a bit short. One could have a separate appropriation, of course, the main purpose of which would be to bring it to parliament's attention and require the ministers to justify it. It is well within the errors of the actuarial estimates. If there were many, they would be picked up and we would have to make good any deficiencies.

Mr. SOUTHAM: My suggestion is that we commend the Auditor General for being so accurate and keen in his work that he detected this isolated case and for appealing to us to deal with possible exceptions in the future.

Mr. FORBES: Would this show up in the next year's supplementary estimates?

Mr. HENDERSON: It will not show up now because they did not put in an appropriation for it. This is just a suggestion that we advanced to show how it could be made good. We have a somewhat identical case coming up in paragraph 57, I might say, where we have an item of \$16,000 that would have to be made good.

Mr. WINCH: Let us deal with paragraph 55 along with 57.

The CHAIRMAN: There is also paragraph 56. We might as well go on to paragraph 57.

Mr. HENDERSON: This refers to an inadequate payment into the superannuation account by a crown corporation. We left this one over, pending Mr. Bryce's appearance before the committee. You will note here how a crown corporation could have purchased the necessary four immediate annuities at commercial rates for the sum of \$184,000 when it appears, according to the Department of Insurance, that an amount of \$200,013 would have been required to have been paid into the superannuation account in respect of pension liability based on the interest and mortality tables that are used for valuation under the Public Service Superannuation Act. As a consequence the actuarial deficiency in the superannuation account was increased by this one transaction by around \$16,000.

The CHAIRMAN: Mr. Bryce, have you any comment on this?

Mr. BRYCE: Yes, sir. This may be a similar case, as Mr. Henderson said, as regards the effect on the fund, but that is the only way in which it is similar. There is nothing at all compassionate about this case. This was just taken as a hard headed business deal. The corporation could have bought annuities for these people from someone else. We chose to receive this amount in the superannuation fund and granted them the benefits under the superannuation fund. The money received from the corporation was in effect borrowed at a lower cost than the cost of borrowing on the market by the government at the time. The deficiency will be made up by a government contribution in due course, and the action in doing so is in effect paying a part of the cost of borrowing these funds over and above the four per cent rate credit on the amounts paid into the fund in the first place. The over-all effect will have been to provide

an estimated net saving for the government because it was cheaper for us to borrow money this way, by giving an annuity in return for it, than it would have been to borrow the \$180,000 on the market.

The CHAIRMAN: You will notice the keen interest when you mentioned savings to the government. The committee is always concerned with this.

Mr. BRYCE: It is a good thing that the Auditor General spotted this. We only pay four per cent on the superannuation fund, we do not change the interest rate. The market rates vary from time to time. Because of that you can get situations like this where it is well in our financial interest to take a contract like this from one of our companies even though it gives rise technically to a deficiency in the fund. By filling in that deficiency we in effect pay a portion of the interest over and above the four per cent, which is equivalent to what a private insurance company would sell the annuity for.

The CHAIRMAN: Does any member of the committee wish to ask any questions on this?

Mr. HENDERSON: This transaction does point up the fact that the superannuation account is a more costly pension fund than private funds.

Mr. BRYCE: More costly? Oh, Mr. Henderson, please. It does not point that up at all. It points up that we are not paying commercial interest rates on it at the moment. We credit an interest rate to the fund a four per cent, which remains invariable over a long period, and it means that at a time like this we are providing annuities at a lower interest rate than are commercial companies.

Mr. WINCH: What you are getting somebody is losing.

Mr. BRYCE: In this particular transaction we simply offered the annuity on the same basis as a commercial company would have offered it at the time. That was on a basis which we calculated was lower than the cost of borrowing funds on the market at the time.

Mr. HALES: What is your experience with other crown corporations? Are they using private firms for their superannuation or are the majority of them using the government plan?

Mr. BRYCE: The majority of them are using the government plan. Some of the major ones have their own. The C.N.R. has its own pension fund and the Central Mortgage and Housing Corporation has its own.

Mr. HALES: What about Polymer Corporation?

Mr. BRYCE: It has its own pension fund.

Mr. HALES: I would think that Polymer, which is one of the best operated crown corporations I can think of, must have given this very close study and must have decided that it would be advantageous to them to deal privately rather than go in with the government.

Mr. BRYCE: I would not say it is necessarily so. Polymer, as a matter of deliberate policy, does not like to be involved any more with the government than it can avoid. It likes to deal with everything on a commercial basis, including pension funds and other matters.

Mr. HALES: I have reservations on that. I would think that Polymer would give this a very close scrutiny before they would go either way, and I would think that after their investigations and studies they would find that there was a financial advantage in having a private pension fund.

Mr. BRYCE: But you are assuming that we would take them into the superannuation fund?

Mr. HALES: If they wanted to come, you would take them.

Mr. BRYCE: I am not sure that that assumption is warranted.

Mr. HALES: Well, perhaps we could ask Polymer to give us a report in respect of whether they looked into your superannuation before they decided which one they would take and why they decided to go into the one they did?

Mr. BRYCE: This was some years ago.

Mr. HENDERSON: Many of the private corporations have their own outside funds. Eldorado has its own; C.B.C. has its own—that is a trustee plan which I think we discussed when they were before the committee. The C.B.C. is getting a particularly good return on its investment at the present time and has quite a portfolio. Several have turned over their investments to the Department of Finance in exchange for joining. I think Canadian Arsenals, if I recall it correctly, was one. C.O.T.C. is in the public service plan now. This was part of its switch.

The CHAIRMAN: Are there any further questions on this item? I see we have one more item under the heading superannuation matters.

Mr. CAMERON (*High Park*): I am wondering why the Canadian Overseas Telecommunications Corporation did not buy its annuities itself and save the fund to the extent of \$16,000.

Mr. BRYCE: I do not know the situation from their point of view. However, I assume that when they found the government was willing to sell it to them at the same price as would the commercial company, they were quite prepared to do it on that basis.

Mr. CAMERON (*High Park*): It does not look like a very sound explanation to me. Why should they do that and take a loss of \$16,000 on the actuarial fund?

Mr. BRYCE: When we put up the \$16,000 we are still well ahead.

Mr. CAMERON (*High Park*): You could have done it the other way and would not have had this comment from Mr. Henderson.

Mr. BRYCE: If I can earn the interest, I am glad to do it.

The CHAIRMAN: Even with Mr. Henderson's comment.

Item No. 58 reads:

58. *Reciprocal transfer agreements for superannuation benefits.* Section 28 of the Public Service Superannuation Act authorizes the Minister of Finance, with the consent of the governor in council and in terms approved by the treasury board, to enter into an agreement with any public service employer (e.g., a provincial government) for the transfer of pension credits when an employee leaves the service of one employer to become employed by the other.

In the execution of agreements, it has usually been found that the terms of the Public Service Superannuation Act require a higher rate of contribution than those established under the other plans, and that the amounts available for transfer from the superannuation account are in excess of the amounts required by public service employers. While there is provision in the act for payment by the minister to a public service employer of the amount to be transferred in accordance with a reciprocal transfer agreement (employee's contributions, government's matching contributions and interest) there is no provision for a return of any excess amount of contributions to the employee. Nevertheless, a common provision in a typical reciprocal transfer agreement reads:

. . . and any excess amount held in respect of the employee and not required to be paid by the federal minister to the province will be dealt with, subject to the federal act, in accordance with an agreement between the federal minister and the employee.

We have been informed by the superannuation branch that "this provision is read as an agreement between the new employer and the

crowns whereby the crown, on behalf of the new employer, deals with certain moneys that would normally form part of the transfer. In other words, the crown is empowered to transfer the whole amount, but as the second employer does not require the whole sum under the new pension plan he agrees to the crown paying a portion of the total directly to the transferred employee”.

It is our opinion that the Public Service Superannuation Act should be amended to provide for the disposition of any excess amounts of contributions in these reciprocal transfer cases.

Mr. HENDERSON: Paragraph 58 deals with reciprocal transfer agreements for superannuation benefits. Again, this paragraph was stood over pending Mr. Bryce's appearance before the committee.

It is explained here how a section of the Public Service Superannuation Act authorizes the Minister of Finance, with the consent of the governor in council, and in terms approved by the treasury board, to enter into an agreement with any public service employer (e.g., a provincial government) for the transfer of pension credits when an employee leaves the service of one employer to become employed by the other. It has been found that the terms of the Public Service Superannuation Act require a higher rate of contribution than those established under the other plans, and that the amounts available for transfer from the superannuation account are in excess of the amounts required by public service employers. While there is provision in the act for payment by the minister to a public service employer of the amount to be transferred in accordance with a reciprocal transfer agreement, for example, employee's contributions, government's matching contributions and interest, there is no provision for a return of any excess amount of contributions to the employee. Nevertheless, a common provision in a typical reciprocal transfer agreement provides that any excess held in respect of the employee, not required to be paid by the federal minister to the province, was to be dealt with, subject to the federal act, in accordance with an agreement between the minister and the employee.

The superannuation branch read this provision as an agreement between the new employer and the crown whereby the crown, on behalf of the new employer, would deal with certain moneys that would normally form part of the transfer. In other words, the crown would transfer the whole amount, but as the second employer would not require the whole sum under the new pension plan, he would agree to the crown paying a portion of the total directly to the transferred employee.

It is our view that the Public Service Superannuation Act should be amended to provide for the disposition of any excess amounts of contributions in these reciprocal transfer cases.

Perhaps Mr. Bryce would wish to comment on that.

Mr. BRYCE: Well, Mr. Chairman, this really is a very technical legal point. We have been assured that the course we follow, though somewhat intricate, is legal as well as practical and equitable. If the committee feels it is worth while to amend the law to make it clearer, we can bring forward an amendment when the act is next open. However, if you would be satisfied just to take note of the fact that we do this and that it seems to be the practical way to deal with it, then we would not need to make the act any more complicated than it is. I do not think Mr. Henderson has any objection to the substance of the transaction.

Mr. HENDERSON: That is correct; I do not have.

The CHAIRMAN: Does anyone have any comment?

Mr. CAMERON (*High Park*): What happens when the reverse situation prevails, when they make a lower contribution than is required in the federal plan?

Mr. BRYCE: I take it that this is where they are going out.

Mr. CAMERON (*High Park*): What about when they are coming in?

Mr. BRYCE: There are quite different provisions there. I cannot give them from memory. I suppose the reverse can happen where an employee is going out into a private plan which requires a higher contribution, and in that case he would have to make up the difference himself.

Mr. CAMERON (*High Park*): I mean when they are coming from a plan which has a lower contribution into your scheme which requires a higher contribution?

Mr. BRYCE: He would have to find the additional himself.

Mr. STENSON: If a person leaves the employment completely, can he draw all his money when he leaves? Perhaps this does not pertain to this matter.

Mr. BRYCE: If he is not going to another pension plan, then the law provides various benefits which he can get under various conditions and subject to various conditions. I am not expert enough in this that I can give them to you off the cuff.

The CHAIRMAN: Are there any further comments on this paragraph? This pretty well finishes all the matters dealing with the superannuation fund?

Mr. HENDERSON: Yes.

The CHAIRMAN: Looking back in the 1962 report, I see one item in respect of the town of Oromocto.

Mr. HENDERSON: Yes. We might take it in that order, if you prefer.

The CHAIRMAN: We will proceed in whatever order you wish.

Mr. HENDERSON: The one I have is paragraph 66 in respect of interest charges on loans to the National Capital Commission.

The CHAIRMAN: Item No. 66 reads:

66. *Interest charges on loans to the National Capital Commission.* In last year's report (paragraph 62) it was stated that it seemed unrealistic to put the National Capital Commission in the position where it was required to pay interest on loans obtained from the government of Canada for the purpose of acquiring property in the national capital region, when funds to meet the interest payments themselves must be provided through parliamentary appropriations.

Up to March 31, 1962 loans totalling \$35,100,000 had been made to the commission and its predecessor, the federal district commission (being an increase of \$9,800,000 during the year under review) for the purpose of acquiring property in the national capital region. Of this amount, \$3,622,000 had been repaid, leaving a balance of \$31,478,000. The loans are secured by promissory notes bearing interest payable semi-annually at rates of from 4 per cent to 5 $\frac{3}{4}$ per cent per annum, and repayment is to be made when the property is "used for the purposes of the commission or disposed of". Repayments of \$3,553,000 in 1961-62 included \$3,200,000 received from the Department of Public Works on account of the cost of 4,400 acres of land allocated for the use of the Animal Research Institute of the Department of Agriculture.

Interest payments by the commission in 1961-62 amounted to \$1,505,000 and were credited to revenue by the Department of Finance as "return on investments". Of this amount, \$201,000 came from net income from rentals and interest on bank deposits and \$1,304,000 was provided by a parliamentary appropriation (vote 376) for payment of interest to the receiver general.

The following is a summary of property acquisitions as at March 31, 1962, financed by means of loans provided to the commission:

Greenbelt	\$23,375,000
Queensway	3,009,000
Ottawa River Parkway	870,000
Eastern Parkway	804,000
Other properties	2,520,000
	\$30,578,000

The properties in the greenbelt are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay interest on the sums paid to acquire them and, by executive direction, they may not be sold. As the lands acquired for the Queensway, the parkways and other projects are put into use in the next few years, appropriations will be required to provide funds through the national capital fund in order to pay off the amounts of the loans made with respect to such lands.

We remain of the opinion that, since outlays on such properties are expenditures of the crown rather than income-producing investment, parliament should be asked to appropriate funds in the years in which properties are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

Mr. HENDERSON: The subject matter of this comment was discussed in detail on December 13, 1963, when Mr. Bryce spoke about it before the committee.

In my 1961 report and again in this paragraph of the 1962 report I stated that it seemed unrealistic to put the National Capital Commission in the position where it was required to pay interest on loans obtained from the government of Canada for the purpose of acquiring property in the national capital region when funds to meet the interest payments themselves must be provided through parliamentary appropriations. I went on to say that the properties in the green belt, for example, are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay interest on the sums paid to acquire them and yet, by executive direction, the commission cannot sell them. As the lands acquired for the Queensway, the parkways and other projects of the commission are put into use in the next few years, appropriations will be required to provide funds to the commission through the national capital fund in order to pay off the amounts of the loans made with respect to such lands. I, therefore, gave it as my opinion that since outlays on such properties are expenditures of the crown rather than income-producing investments, parliament should be asked to appropriate funds in the years in which the properties are acquired, instead of leaving the expenditure involved in the repayment of the loans to be absorbed in future years.

In his testimony before the committee on December 13, 1963 Mr. Bryce explained the background of this matter. He pointed out that the commission buys a good deal of land, not for immediate use but essentially for one of two reasons: first, to hold pending use because by the nature of its operations it has to plan and indicate in advance that it is going to acquire property in certain areas, and that being the case, it has been thought to be prudent and economical over the years to buy that property when the decision is taken to go ahead with plans to use it at a future time. He said the second purpose for which it buys property is to own the property in order to be able to control the use of it. Hence it was decided years ago that since it was necessary for the commission to control the use of the land in this way, the government through the commission should purchase the land and then lease it, thus controlling the property as owner rather than as a government.

He said that it was as a result of these two types of operation that the need for the present arrangement arises. The interest charges are charges for loans made by the government to the commission to purchase land for either or both of the two purposes. It was thought that this procedure put the commission under some pressure to get all the revenue it could out of land while holding it for these purposes so that each year the commission would have to justify to treasury board the revenue they are getting from it and the government would have to justify to parliament the revenues that are being received. The issue, as he saw it, was whether the purchase of the property should be charged to expenditures at the time it was acquired or after it was put to use. This discussion is contained on pages 294-300 of the evidence of the 1963 committee.

On December 19, the committee brought down its fourth report, and having noted that the National Capital Commission remains in the position where it is required to pay interest on loans obtained from the government of Canada for the purpose of acquiring property in the national capital region and that funds to meet the interest payments themselves must be provided through parliamentary appropriations because the property held does not yield sufficient revenue, pointed out that parliamentary appropriations will be required in future to provide further funds to the commission in order to pay off the amount of the loans made.

In its report the committee took the position that since outlays on properties such as these are expenditure of the crown, the committee believed it would be more realistic if parliament were asked to appropriate funds in the years in which properties which are not to be specifically held for resale are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years. Accordingly, it recommended that the executive review the present practice with the National Capital Commission with a view to placing the financing of the commission on this more realistic basis.

In reporting to you in my follow-up report of May 15, 1963 on the action taken on recommendations such as these, I said that I had no information as to the extent to which the present practice was in fact under review as recommended by the committee.

I know Mr. Bryce would like to discuss this matter further with the committee today.

The CHAIRMAN: I understand Mr. Bryce has a general comment on this problem.

Mr. BRYCE: Yes, Mr. Chairman. I will try to shorten the notes I have here, but this subject leads us into a more general issue that may be of interest to the committee as a matter of principle.

First, I should say that the department, the minister and the treasury board have noted the committee's recommendations in respect of this matter, but the recommendations arrived late enough that the estimates for this year in regard to this matter had been pretty well settled and have come to the House of Commons as you will have noted in the same form as before. This should not be taken as evidence that the government is not prepared to consider seriously the committee's recommendation, which they will be doing before the next estimates are prepared.

Perhaps I should skip over the history and say that this practice of lending to the capital commission for these purposes has been approved not only by this government, and the preceding government but by three parliaments in dealing with the estimates for which these have been provided both in respect of loans and the portion of the interest that has to be voted to meet them. I do not think there is any need to go over the figures because they are in the Auditor General's report and he has given the critical ones.

I should like to say the purposes which governments have had in mind in financing these acquisitions of property by the commission in the form of loans rather than capital grants would include, I would say, the following.

- (a) First, it is done to reflect the fact that the government, through the commission, was to hold valuable marketable property not yet physically committed to government use. In other words, this property is not property the government is using for government purposes, either in the green belt where it is being leased to others, to control its use, or in other cases where it is acquired in advance of needs in order to safeguard the price. The lands both in the green belt and acquired in advance of need for parks, parkways, and other purposes could be sold in most cases for as much as was paid for them if the specific decisions were changed or the policy were changed, and they can be changed if for example parliament decided that we should give up trying to control the uses of the land in the green belt, and then it would be feasible to sell the land which was acquired. Naturally, you would not throw it on the market at the same time, but various parcels remain valuable land except that the government has placed a limitation as to the purpose for which it should be used. By reflecting them as an asset in the meantime, we are taking account of the fact that they are not yet incorporated into government capital projects or put to government use.
- (b) The second purpose of doing this by loan is to show to parliament and others the cost of holding these assets to control their use or to acquire them in advance of need, and to get suitable parliamentary approval year by year for holding them in this way. In other words, we ask parliament for the funds necessary to keep them in this condition and restrict their use in the case of the green belt or hold them in advance of need in the case of the other purpose. The net amount of interest that has to be voted by parliament is a measure of the cost of controlling the use of the land in the green belt year by year, and a proper reflection of the cost being borne by the public currently for the advantages gained by controlling the use of this property. Similarly, the cost of holding the land acquired in advance of need for other purposes reflects the costs of securing this land in advance as a precaution against an increase in price thereof. The third reason for doing this by way of loan is to maintain appropriate pressure on the National Capital Commission to secure the best revenue it can from these lands which are available for rental and also to encourage them to take the interest cost into account in the acquisition of those properties which are acquired in advance of need.

These purposes, which I would contend are sensible and serious purposes, would not be achieved if the policy recommended by the Auditor General were followed and the lands simply charged to expenditure in the years in which they were acquired. There would be no occasion in future then to call parliament's attention to the cost of holding such lands, and if one can judge from previous experience, the expenditures of past years on these capital purposes would be much more likely to be lost sight of than if they are held in the present way.

The only advantage I can see in his policy is that it would be, in the committee's term, "more realistic", that is, as far as I can understand it, it would not involve us as showing as an asset something that does not yield

an interest return without requiring an appropriation for that purpose, or is not a liquid, or immediately saleable asset.

In other words, the advantage of what is recommended by the Auditor General is simply that it removes from our statement of assets something whose quality as an asset is doubtful.

This leads us to the question of what is the proper test to apply to the assets that should be shown in the government's accounts as an offset against the liabilities that are shown there. I think that the Auditor General has performed a most useful service in raising this issue on this case because it applies to a number of other cases as well and suggests in my mind that we should review systematically the principles to be followed in selecting those assets to be shown on our accounts.

There is considerable history to this subject, but I would not propose to detain the committee with it tonight. A brief summary of it can be found on pages 117 and 118 of Volume 1 of the Glassco commission's report. As indicated there, the inclusion of a statement of assets in our accounts originated almost immediately after confederation. At that time loans were made to meet the cost of specific public works and they were so shown in the accounts. Early in the 1920's Sir Henry Drayton, as Minister of Finance, initiated a review of this practice and introduced a radical reform in the system. He stated:

Assets which are not readily convertible, as the reserve is convertible, or are not interest producing, are not such assets as ought to be deducted from the gross debt. They are inactive, they are items of such a character as might well be placed in a suspense account. At any rate, whatever may be their future value, however great it may be, they are not assets of such a character as to directly reduce the gross debt any more than the other capital accounts of the country ought to be deducted from it.

This statement of some 40 odd years ago still remains the principal guide in the selection of assets to be included in our accounts. It excludes all the fixed assets of the government held for use—land, buildings, equipment, etc. This is quoted in the public accounts which are under discussion this year in this committee, on page 16 of volume 1, which is the small blue volume, and we say there, "since that time, there has been no fundamental change in the basic structure of the statement or in its main purpose. However, revisions have been made from time to time to improve the form or manner of presentation, and it is believed that to a substantial degree the present statement fulfills the original intention, with consideration being given continually to the possibility of further improvements."

In recent years there have been a number of changes in what is included which do not fit exactly into Sir Henry's category, which he defined rather negatively. We now have, as you will have noted, a very large number and value of assets that we take into our account, as noted on page 168 of the 1963 report, nearly \$11 billion, which we deduct from the nearly \$25 billion liabilities, to get our net debt of approximately \$14 billion. The great bulk of these clearly meet Sir Henry's tests. They include large amounts of cash and of advances to the exchange fund account, covered by foreign exchange held in that account, even though there are some narrow margins at times, as the auditor has pointed out. The largest item, however, now is loans to and advances in crown corporations about which there can be arguments in detail, and I would think that there are probably items in there on which we could have discussions similar to that relating to the National Capital Commission, because while the interest may be payable it may in a number of cases require appropriations to make good the deficit thereby incurred or increased.

In addition, we now have large loans to the governments of other countries, amounting to something over \$1,200 million at March 1963. Other loans and investments include large amounts of subscriptions and loans to international organizations, some to provincial governments, some to veterans, and others. In addition, we have certain deferred charges treated as assets and deducted from debt although they are essentially a means of deferring until a later year a charge to an appropriation in somewhat the same way as these arrangements with the National Capital Commission involve a deferment of the charge in the case of the property being secured in advance of need to be put into a project in a later year.

As these assets became larger and more varied, the ministers of finance during and after the war set up a reserve against them which now amounts to some \$546 million. That is shown here in line 12 of the statement, at page 168. This was deliberately not earmarked against any particular asset or class of assets, but it was intended to allow for the fact that some of them could not be expected to be realized upon in full or might otherwise fail to meet in full the tests that ought to be applied. As I remember, the previous Auditor General used to give us a lot of trouble over not earmarking this reserve against particular assets. The extensive use of crown companies and agencies has in particular complicated the situation. An interest-bearing loan to such a corporation as the National Capital Commission is technically within Sir Henry's tests because it is interest-producing, but of course as the Auditor General has pointed out, these do not appear to be realistic assets if the corporation as a whole is not producing sufficient revenue, without appropriations, to pay the interest. On the other hand there are managerial reasons for treating these as loans and not writing them off.

Some observers have felt that the whole effort to select and value certain of our assets and show them as an offset to our liabilities is not worth while and should be abandoned. The Glassco commission, of which of course the previous Auditor General was a most distinguished member, recommended that "the statement of assets and liabilities be replaced by a statement accounting for outstanding debt, direct and indirect, with no reference to net debt". I am not too clear just exactly what would be involved in accounting for some of the direct debt if we tried to trace it to disbursements made to acquire assets. In any event, however, we now have billions of dollars of assets in cash or the equivalent of cash, and it seems wrong to disregard that completely. We have other billions that are fully "revenue producing" and produce a very large revenue in the form of a return on investments. It seems to me unrealistic to leave these entirely out of account in presenting our statement of debt.

Moreover, what is equally important, in presenting our budget account each year, it is helpful to be able to make a distinction between what is properly to be charged to expenditure and recorded in our budgetary accounts that way each year and what can properly be treated as a disbursement to acquire certain types of asset. Without having some asset and liability accounts we could not make such a distinction in the way we do now, and the result I think would be a less meaningful picture to the public of our budget position and more variation from year to year based on rather temporary factors.

The problem that remains, therefore, is to draw the boundary line properly as to what we should include in our assets for these purposes. We have in recent years diverged to a modest degree from the tests set up 40 odd years ago, and in particular in our treatment of loans to crown companies, of which the N.C.C. case is perhaps the most vivid.

We believe in many cases, such as this with the National Capital Commission, it is better to make loans to our corporate agencies, to record them in our books as such, and require the agency to pay interest and repay the loan

on some basis of principle and in accordance with a contract or law applicable thereto. We think that that produces a more meaningful statement of accounts both for us and for the agency and promotes good management. When I say that I do not mean that it fools anyone. We are thinking here in terms of the managerial approach, how we want the corporate agencies to behave, and the responsibility we try to take.

In some cases, such as that of the C.N.R. at the present time, it is desirable to make recapitalization arrangements where circumstances have changed. When the legislation proposed for the recapitalization of the C.N.R. comes along, there will be ample opportunity to discuss this both in principle and in practice.

I would suggest that in a later year (I hope not next year in view of all that has to be done next year) the committee might be prepared to consider a studied report from the department reviewing in general our practice in recording assets and liabilities, with proposals for a policy to be followed in future years.

In this way we can look at this whole picture systematically.

The CHAIRMAN: And we can bring Sir Henry up to date.

Mr. BRYCE: Yes. I was surprised to find out we had no enunciated policy for over 40 years; that is, no general policy. I apologize for that rather lengthy statement but I thought it would set this N.C.C. case in a rather larger perspective.

The CHAIRMAN: Are there any questions members of the committee wish to put at this time? If not, have you a comment to make, Mr. Henderson?

Mr. HENDERSON: Mr. Chairman, I have been very interested in listening to Mr. Bryce's statement on this. He has given you a good picture of the background which led up to the situation that we have today. Now, the loan and investment concept that he has outlined may well have enabled the government to control the use of the lands acquired by the commission and by virtue of annual appropriations for interest on the loans to not only reflect the cost of carrying this mounting investment but to put an incentive on the commission to get the best return it could from rentals and so forth.

But I must draw your attention to the fact that the concept also produced another result over the years and that has been to reduce budgetary expenditures which would otherwise have been incurred had the purchase of the land been financed out of annual budgetary appropriations.

As it is, the only budgetary appropriation we have seen has been for interest on the loans to enable the N.C.C. to repay it to the government. The government then takes the interest repayment into its budgetary income. I feel it is the duty of your auditor to draw your attention to situations like these. Up to March 31, 1964, taking the latest date, loans totalling \$57.1 million have been made to the N.C.C. and its predecessor. They are up \$12.2 million from the previous year, and of this amount of \$57.1 million the National Capital Commission has only paid back \$4.1 million, leaving \$53 million still outstanding.

And of this \$4.1 million that it has paid back, \$3½ million came from the Department of Public Works when it bought land in the green belt. The loans bear interest at various rates from 4 per cent to 5¾ per cent and repayment is only to be made by the National Capital Commission when the property is "used for the purposes of the commission or disposed of". Capital repayments in 1963-1964 actually only totalled \$119,000.

With acquisition of properties like Lebreton flats, the real estate on Sussex drive and in centre town for the future construction of government buildings,

the National Capital Commission has, as I see it, simply become the land assembly agent for the Department of Public Works in the national capital region. You will appreciate that if these properties had simply been purchased by the department directly, the costs presumably would have been treated as budgetary expenditure in the year of acquisition. The lands acquired are surely crown lands whether they are administered by the Department of Public Works or by the National Capital Commission.

Last December this committee recorded its agreement that it would be more realistic were parliament asked to appropriate funds in the years in which the properties are to be acquired and thus have such funds included in each year's budgetary expenditures. In my view this is the right procedure and I would hope the committee will say this again and recommend that the present practice be reviewed so as to place the National Capital Commission financing on this more realistic basis.

That is all I have to say on the matter at this stage. This is the way I see the matter.

The CHAIRMAN: We have had two complete statements on this matter. Are there any questions?

Mr. HALES: From what you said, the National Capital Commission borrowed approximately \$57 million, money with which to pay the interest on the money that the government had loaned them. So the government is borrowing its own money and paying the interest on its own money, and then it appears as a credit.

Mr. HENDERSON: The government lends the money each year to the National Capital Commission with the cost shown under the heading of loans or advances to agencies. The National Capital Commission is quite unable to generate income itself to service its debt to the government. Therefore, by means of further appropriation it is enabled to pay the interest and the National Capital Commission then turns around and gives it back to the government which takes it into revenue.

Mr. HALES: And this appears as income.

Mr. HENDERSON: That is correct.

Mr. HALES: This does not appear to me to be good business practice, but what better way is there to do it? If you bought a building outright and paid for it that year, then, this would be interest owing on the mortgage, as it were.

Mr. HENDERSON: You would give them the money to buy the building and that would be the transaction.

Mr. ROCK: All the government does is to borrow the money on their own account.

Mr. HENDERSON: That is right, that is what they do with a public works building. Perhaps I might ask Mr. Long if he would care to comment on this.

Mr. LONG: I jotted down two or three notes when Mr. Bryce was speaking. He mentioned that financing in this way reflected the fact that the government was holding valuable marketable property. As far as the green belt is concerned, this property is no doubt valuable today and could be marketed, but under government policy it is not marketable. One block of property was sold and that I believe firmed up government policy, and the National Capital Commission was told that no more property was to be sold.

The Queensway is being financed in this way, too, but it is not, I would think, valuable marketable property. I refer to the property bought for the

Queensway or for other roads which are to be transferred to the city or to the province. Appropriation will have to be provided to repay the loans at the time the transfer takes place.

There was an amount of money used for the animal research property in the green belt. The property was financial initially with loans, but eventually there had to be an appropriation when the Department of Agriculture took over the property required for a research station. It is true that policy could change, and the green belt could be sold, but this seems to be an eventuality we can see only by looking a considerable distance into the future. It means that we must go along for years appropriating money to pay interest thus increasing both the expenditures and the revenues of the government. Mr. Bryce mentioned that the policy being followed shows the cost of holding such property. It seems to me that the group which should be most interested in the cost of holding the property would be the government of the day.

To appropriate interest in this way does not affect the government budget. It goes out and it comes in. The deficit or surplus position by any year would remain unchanged by it. Then there was mentioned the possibility of the holdings being lost sight of. In this way they cannot be because they are on our balance sheet in the form of loans. My feeling is that the green belt will never be lost sight of. It is right before our eyes all the time.

Probably we have parcels of land scattered right across the country that the average individual does not know anything about and the government has to rely on its land inventory records to keep track of them. The green belt seems to be rather an outstanding exception in the policy of not capitalizing government land.

The CHAIRMAN: Are there any further questions or comments? What about you, Mr. Bryce?

Mr. BRYCE: I do not want to provide answers in advance of the members asking questions. But I think it is desirable to describe these two cases. The green belt is a unique situation. I do not know any other city or government that has undertaken quite such an operation. But when it was undertaken I know that both Mr. St. Laurent who made the preparations, and then Mr. Diefenbaker felt it was an important long-term investment that would eventually in 50 to 75 years turn out to be a good investment as well as sound urban planning. With that in mind we felt that the National Capital Commission should be encouraged to be under whatever financial pressure they could to get the best revenue they can out of it, and to account for it, and that parliament should know from year to year what it was costing to hold this land in the kind of use that would fit in with an urban conservation policy, and that lending the money to be invested in green belt land was one of the ways to achieve this purpose. It is exceptional. It differs from ordinary public works land. Of course it does. I make no bones about it. It is quite an exceptional transaction entered into because we did not have the power to pass laws to say what the land could be used for. I have felt, and I know that previous governments have felt, that this made sense and was worth while. Of course one postponed expenditures by doing this.

If Mr. Henderson objects, as it would seem, that this is the chief reason for our entering into this, and that we should be admonished for it, well, that is his opinion. I do not believe myself that it has had that purpose at all. In any event the green belt is a different and quite unique case.

The other type where we are purchasing land in advance of use is much more comparable with the public works analogy which Mr. Henderson and Mr. Long mentioned. Here, however, there is a difference, I would suggest,

in degree. It is the normal thing for the National Capital Commission to purchase land many years in advance of use because its basic purpose is urban planning and the preparation years in advance for the building of parkways, parks, and things like that which require a great deal of land. Canada has saved millions of dollars by this purchasing of land many years in advance. We felt, however, at the treasury that if this was to be done, the commission should take interest into account. If you are going to buy property ten years ahead of time and you are going to put it into a parkway, you should take interest into account, and say here, ten years interest will amount to whatever it will be, 60 to 70 percent of the cost of that land.

If they have to pay interest on the cost they have to ask the treasury for the interest year by year and the treasury will examine them on whether they have been doing a proper job on it. Then we have a better chance to make them conscious of the interest factor in carrying out this policy. This is the real purpose behind this thing. Of course, it is similar to the kind of thing that public works or other departments would run into. But I suggest to you that there is a difference in degree that warrants some difference in treatment particularly where we are doing it through a corporation agency, not through a department which is under day to day control of a minister.

One other thing: Mr. Long, I think, or Mr. Henderson one or the other suggested that because this is farm property in the green belt it cannot yield any rental. The treasury board I know has always tried to get the National Capital Commission to get all the rental they can out of this property, and to adopt a use so that they could get as much revenue out of the property as is possible within the restrictions placed on it. And as time goes on and the original leases run out and the tenants move away, I would expect to see a considerable increase in the rents.

I would have thought that one of the useful things this committee could do is to see to it that the National Capital Commission is examined from time to time on why it is not earning more of the interest on loans. However, Mr. Chairman, I am just trying to put the case, as I understand it has been made, for the loans in the past.

Mr. FRANCIS: Mr. Chairman, I cannot help but agree in general with Mr. Bryce's comments. I disagree with one or two things. First, it will not be 50 years before a handsome return is shown; it will be more in the order of 25 years or even a shorter period, because certainly some of the properties are being put under very lucrative rents now as well as long term leases and development of the site.

I would ask Mr. Bryce, through you Mr. Chairman, the following question: Does he not feel that such a policy leads perhaps to undue emphasis on commercial returns from the green belt lands, and should not perhaps more attention be focused on long term use of the green belt by keeping pressure on the National Capital Commission through their annual appropriation and so on? Does he not feel that perhaps a short range objective is being taken? I personally think that a balance should be struck here and I feel that the effect of the policy of the department is to keep too much to this kind of short term objective.

Mr. BRYCE: It is natural that the Department of Finance would err on that side, but the results, as the Auditor General pointed them out, do not suggest we have been over-successful in erring on that side. On the other hand, I would say that the practice we have been following brings to parliament's attention each year the very point that Mr. Francis has made.

Mr. FRANCIS: I do not disagree with that.

Mr. BRYCE: Parliament can consider whether too much emphasis is being put on revenue or on use of the land. This is an enormous asset.

Mr. FRANCIS: I predict it will be one of the most profitable real estate enterprises in Canadian history.

Mr. BRYCE: I suppose this investment will run to \$30 million odd in perpetuity, or at least for many, many years, and I would suggest that parliament has some continuing responsibility for having a look at the use that is being made of the land when this enormous investment was made.

Mr. CARDIFF: Was this farmland that was taken over?

Mr. BRYCE: Most was, but not all.

Mr. CARDIFF: In what condition is this land? Is it fit to grow grass on?

Mr. BRYCE: I am sorry, I am not an expert in it. Mr. Francis would be better able to answer that question.

Mr. CARDIFF: I do not know anything about this thing but I would like to know in what condition this land is and what use is being made of it. Is it valuable farmland of which use could be made?

Mr. BRYCE: A good deal of it is being used for farmland but the prices that had to be paid for it were based on alternative uses to which it could be put if the crown did not buy it, and therefore the crown had to pay amounts that were not appropriate to farmland but appropriate to land for development for one purpose or another. In many cases it was land appropriate for a subdivision. Of course, those prices were a good deal more than people would pay for farming purposes.

Mr. STINSON: My question is: What percentage of the cost do we get back? Do we get one or two per cent back? Say it is costing you five or six per cent to carry it, what percentage would you get in return?

Mr. BRYCE: We are getting about one per cent on the investment, or something of that order.

Mr. FRANCIS: Surely the immediate return is not a factor; it is the ultimate return and use you get out of it. I am sure the immediate return on this investment is not any indication of what the returns will be.

Mr. WINCH: Is not the government itself going to buy it back?

Mr. FRANCIS: I hope not.

Mr. CAMERON (*High Park*): I am just wondering, Mr. Bryce, whether you decrease the asset value of the land by the difference between what you pay an interest on and what the N.C.C. pays back? If the government pays \$3 million interest in 1963, does that add to the value for asset purposes?

Mr. BRYCE: No, sir, and I would suggest that in the case of the green belt this would hardly be appropriate because it is intended not to sell this land but to hold it indefinitely. It well might be a good point that when the National Capital Commission acquires land in advance which it intends to put into its projects, that eventually the land ought to be charged on the project at a cost which includes interest on the original investment.

Mr. CAMERON (*High Park*): It is easy to go back over the years and see what it is. Twenty-five years from now someone easily might say, look how smart we were in paying \$30 million when now it is worth \$100 million.

Mr. BRYCE: The logical thing might be to lend them money to pay interest, but I would hesitate to say what the Auditor General would say about that!

Mr. SOUTHAM: By way of information, does the National Capital Commission or any authority in the government assess this land at intervals in an effort to find out what is the appraised value of its worth at the present time, the same as would be done in a normal assessment.

Mr. BRYCE: I do not think the government makes such an assessment, but the treasury board has been urging on the National Capital Commission that it should develop the property management side of its business, because it is acquiring and has acquired very large amounts of property. To put it to the best use and to get that good balance between proper urban use and good revenue requires skilled management.

Mr. SOUTHAM: I think if this is done—and I would make this as a suggestion—it would give a better appraisal, and the interest charges to which you referred would not seem so exorbitant, and it would be put in a better perspective so far as an investment is concerned.

The CHAIRMAN: Gentlemen, we still have six or seven items. Do you think we could push on in the hope that we might have time to finish this evening? We have had a very good discussion on the National Capital Commission.

Mr. FORBES: Mr. Chairman, I do not know of a better time to get these items through.

The CHAIRMAN: I believe the next item is paragraph 140 in the 1962 report and paragraph 123 of the 1963 report:

140. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the statement of assets and liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding totals at the close of the preceding year, is given in the departmental sections of volume II of the public accounts (with the exception of the taxation division of the Department of National Revenue). There is, however, no one place in the public accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. It would be informative to parliament were an appendix giving this information included in the public accounts in future.

It has not been the practice over the years to include in the public accounts any information regarding amounts receivable by the taxation division of the Department of National Revenue, but it seems desirable that such information be made available to parliament.

The following summary of accounts receivable includes the totals given in the departmental sections of the public accounts at March 31, 1962, together with totals of balances receivable as at February 28, 1962 by the taxation division, as provided by that division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 715,620	\$ 795,611	\$ 51,466	\$ 1,562,697
Citizenship and Immigration	28,256	323,633	312,451	664,340
Defence Production	4,187	13,664	259,329	277,180
Justice	150,627	2,432	30	153,089
National Defence	4,565,080	965,958	185,077	5,716,115
National Health and Welfare	904,453	274,816	169,825	1,349,094
National Research Council ..	101,713	14,305	150	116,168

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
National Revenue—				
Customs and Excise				
Division	4,856,019*		2,304,292*	7,160,311
Taxation Division	187,320,412*		15,825,226*	203,145,638
Northern Affairs and				
National Resources	99,187	14,114	18,617	131,918
Public Works	1,139,578	262,103	44,753	1,446,434
Royal Canadian Mounted				
Police	261,463	4,317	23,694	289,474
Trade and Commerce	114,929	8,936	7,054	130,919
Transport	3,473,178	2,959,651	7,309	6,440,138
Veterans Affairs	3,359,409	2,571,060	821,019	6,751,488
Other departments	140,955	59,963	50,920	251,838
	<u>\$ 207,235,066</u>	<u>\$ 8,270,563</u>	<u>\$ 20,081,212</u>	<u>\$ 235,586,841</u>

*These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following balances during the year under review:

Uncollectable debts of \$1,000 or less deleted from the accounts under the authority of section 23 of the Financial Administration Act	\$ 809,991
(Agriculture, \$17,348; Citizenship and Immigration, \$62,804; National Defence, \$20,807; Customs and Excise Division, \$34,943; Taxation Division, \$629,107; Transport, \$6,079; Veterans Affairs, \$31,205; and other departments, \$7,698)	
Uncollectable debts in excess of \$1,000 deleted from the accounts under authority of Vote 710, Appropriation Act No. 4, 1962	3,703,795
(Agriculture, \$3,787; Citizenship and Immigration, \$97,226; Defence Production, \$8,282; Finance, \$116,747; National Defence, \$116,903; Taxation Division, \$3,299,327; Northern Affairs and National Resources, \$16,057; Transport, \$21,612; and Veterans Affairs, \$23,854)	
	<u>\$ 4,513,786</u>

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the statement of assets and liabilities, they are nonetheless debts due to the crown, and their accurate recording and ultimate collection are prime responsibilities of the departments concerned.

While we have found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this frequently does not apply in the case of departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to remove the possibility that now exists of accounts being tampered with and collections misappropriated.

123. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year (other than with respect to balances receivable by the Taxation Division of the Department of National Revenue) is given in the several departmental sections of Volume II of the Public Accounts. There is, however, no one place in the Public Accounts where information regarding the departmental totals and the substantial overall total of accounts receivable is available. We suggested in last year's report that it would be informative to Parliament were an appendix giving this information included in the Public Accounts in future.

The following summary of accounts receivable includes the totals given in the departmental sections of the Public Accounts at March 31, 1963 together with totals of balances receivable as at February 28, 1963 by the Taxation Division, as provided to us by that Division:

Department	Current Year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 1,184,198	\$ 736,331	\$ 36,322	\$ 1,956,851
Citizenship and Immigration	67,925	256,733	186,346	511,004
Defence Production	1,115	1,911	259,329	262,355
Finance	100,104	8,495	607	109,206
Justice	203,401	129	18,841	222,371
National Defence	4,266,901	2,170,985	217,913	6,655,799
National Health and Welfare	698,189	344,815	193,051	1,236,055
National Revenue—				
Customs and Excise Division	7,923,513*		2,229,997*	10,153,510
Taxation Division	160,637,394*		21,640,427*	182,277,821
Northern Affairs and National Resources	99,333	298,870	25,055	423,258
Public Works	713,797	200,324	140,536	1,054,657
Royal Canadian Mounted Police	311,405	10,904	24,489	346,798
Trade and Commerce	119,620	8,929	7,784	136,333
Transport	3,791,841	3,734,192	30,526	7,556,559
Veterans Affairs	3,817,265	2,420,500	800,216	7,037,981
Other departments	213,054	85,614	51,245	349,913
	<u>\$ 184,149,055</u>	<u>\$ 10,278,732</u>	<u>\$ 25,862,684</u>	<u>\$ 220,290,471</u>

*These totals relate to both current and previous years

The accounts receivable totals shown in the above table were after writing off the following uncollectable debts of \$1,000 or less deleted from the accounts during the year under the authority of section 23 of the Financial Administration Act:

External Affairs	\$ 14,511
National Defence	22,318
National Revenue—	
Customs and Excise Division	328,797
Taxation Division	813,224
Transport	15,655
Veterans Affairs	95,867
Other departments	16,568
	<u>\$ 1,306,940</u>

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We continue to believe, as was mentioned in last year's Report, this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

Mr. HENDERSON: These paragraphs have to do with accounts receivable and were reviewed by the committee on June 16. At that time I pointed out to the committee how we show here for the first time a summary of accounts receivable. Because the government keeps its accounts largely on a cash basis, its accounts receivable are maintained in memorandum form; that is to say, they are not on the books as they would be under the accrual basis used in private business where you have accounts due from customers and have a reserve for uncollectable moneys and show both right on the books. In the government they are kept in memorandum form and we have put together here for the first time a summary to show something of their size. It will be seen that they are quite considerable, the largest being those of the taxation division of the Department of National Revenue. At the end of 1962 they were to the order of \$203 million of which it was estimated nearly \$15 million would be uncollectable from previous years. A similar presentation is contained in my 1963 report under paragraph 123 at page 79. Uncollectable accounts are being written off each year, as you will see from the information given on page 76, which shows that accounts written off during the year were to the order of \$4.5 million.

The fundamental point I have to make about the manner in which these accounts receivable are maintained is contained in the last paragraph of this item on page 76. We find that most of the departments having extensive accounts receivable keep their records accurately and efficiently, but this does not always apply in the case of departments where accounts receivable are not an important factor. Those departments do not attempt to keep any controlling accounts and to provide for an effective internal verification by officers other than those responsible for keeping the accounts. I am of the opinion that this is a weakness in the system of internal control which should be remedied in order to ensure to the maximum extent possible that the accounts are not subject to being tampered with and that collections are not misappropriated. Auditing experience with accounts receivable maintained on a memorandum basis has shown that unless there is a control account maintained by people who themselves have nothing to do with the detailed accounts as such, the opportunity exists for an account to be collected and the funds misappropriated.

Now, I would hope my comments here will commend themselves to the members of the Committee and to Mr. Bryce. Also, I would hope that steps perhaps might be taken to review accounts receivable procedures where necessary and for independent control accounts to be set up and maintained by the chief treasury officers serving under the comptroller of the treasury. Mr. Bryce might care to speak to this, Mr. Chairman.

The CHAIRMAN: I see that Mr. Bryce has some notes here.

Mr. BRYCE: Mr. Chairman, I would not want you to be influenced by the fact that I have a few notes, because they start with the sentence, "This is a subject I have never had occasion to look into except as part of a general picture."

I must say it is my impression that this is one of the less tidy parts of the government's accounting system and will warrant some systematic review as part of the work that is being done on the improvement of financial management by departments which the treasury board has put in hand. As I think the members of the committee know, there have been at least four investigations by outside consultants in respect of the application of the general advice received from the Glassco commission. As a result of that, I think we can expect some improvement in this as well as in the other financial management practices of departments.

I would certainly wish to call to the attention of the treasury board any conclusions that the committee might reach on this matter as a result of the Auditor General's observations and, if it is desirable, to go into the thing in more detail, I think it would be better to have witnesses from the major departments concerned who could testify to the practice they actually follow.

As you can see from the table in the Auditor General's report, the Department of Finance, while it has millions and billions of figures in other accounts, has very few of these accounts receivable and, as a department, I do not think we are a large part of it. Normally the comptroller of the treasury does not deal with the accounts receivable aspect of the departments' operations; they are done as a departmental responsibility.

Therefore, I think I might sum up by saying I regarded the Auditor General's advice on this matter as important and meriting consideration by this committee and—if the committee so considers—meriting consideration and action by the treasury board as a part of its major efforts at the present time to improve the arrangements and practices in financial management by departments.

The CHAIRMAN: Thank you. Those comments may make our task easier.

Mr. HALES: Did I understand the Auditor General to say there are several departments which do not have an accounts receivable control?

Mr. HENDERSON: That is correct.

Mr. HALES: I am amazed at that. How can you control the accounts receivable at all; how can you, as Auditor General, verify them?

Mr. HENDERSON: So long as they are kept in this memorandum form I regard that as a dangerous method for the reason I gave. As I say, auditing experience has shown here that conditions can exist and where opportunities for tampering and misappropriation can breed. With all due respect to Mr. Bryce's suggestion, I think there is an important principle here and that it should not necessitate calling the departments before us to find out if this condition exists. We know this condition exists. I have expressed the hope, if you accept my view here, that something practical might be done about it perhaps by the chief treasury officers who are right there.

Mr. Bryce said these officials do not concern themselves with accounts receivable, but my point is I think they should concern themselves. They should see that the bills go out and that they get paid.

Mr. BRYCE: On that point, Mr. Chairman, I should say that I do not think the treasury officials have any authority to deal with this.

Mr. HENDERSON: They may not have the authority as such, but would it be a very difficult job to ask them as a separate agent to extend some supervision over this?

Mr. HALES: Mr. Henderson, would you as Auditor General not be in a position to request every department to have an accounts receivable control?

Mr. HENDERSON: My request here, Mr. Hales, in effect, is that someone interest themselves in this to see what could be done about it. Now, I can write to each deputy minister and tell him; however, I was hoping that perhaps the comptroller of the treasury might take some active steps on this. It might be true they do not have the authority now but there surely should be someone.

Mr. HALES: Mr. Henderson, can you cite to the committee an example of a department where you, in auditing the books, found it had no accounts receivable control, that you requested it to institute a system and the officials of this department have failed to put this system into effect.

Mr. HENDERSON: No, I have not addressed myself to any of the departments concerned, Mr. Hales. This is a general observation at this stage. As I said, this is the first time we have even shown or put together a summary of the accounts receivable which, in fact, are involved, and made these observations. But, if the point I make commends itself to the members of this committee I perhaps would go into it in rather more depth.

Mr. CARDIFF: If the income tax department went after the defence department the way they go after the farmers in respect of their bookkeeping and that sort of thing this would not be allowed and they would make thousands of dollars here, whereas in the case of farmers they make only hundreds. They go after the farmer because some poor sucker who has not any education cannot make up his income tax. However, there is no excuse for people who are educated along these lines and they should not be allowed to do business this way. That is my opinion, Mr. Chairman, and I am a farmer.

Mr. FORBES: Maybe the farmers can get a loan from this department.

The CHAIRMAN: Are you finished, Mr. Hales?

Mr. HALES: Mr. Henderson, have some of the departments of government an accounts receivable control?

Mr. HENDERSON: Oh, yes indeed, and we are quite satisfied with some of them. I would be correct in singling out, first of all, the taxation division, where they have established controlling accounts. Of course, they are handling a very large volume. But, there are others where they are inconsequential.

Mr. HALES: Would you name us one department which has not an accounts control system?

Mr. HENDERSON: I think comparisons might be invidious at this stage. I see several here but I do not know that I just want to name them individually, Mr. Hales.

Mr. HALES: Well, if you would name one department I think this committee would be well advised to look into this particular system.

Mr. FRANCIS: As an alternative, I agree with Mr. Hales' thinking. But, surely Mr. Bryce's comments speak for themselves. In effect, Mr. Bryce states that this is a valid comment and that treasury board should do something about it. I would hope that this committee would recommend that the treasury board consider looking at all the instances the Auditor General has noted and then make a general recommendation concerning the procedures to be applied.

Mr. CAMERON (*High Park*): Does Mr. Bryce agree with that line of thought, that we suggest to the treasury board, through you, they should institute within these various departments the practice of having internal control on accounts, and that you would feel free to do this.

Mr. BRYCE: I would see no objection to that. I hate to put myself in the place of the committee and say what the committee ought to say to the government. And, I would not like to be unfair to departments and say that I know

of my own knowledge that their accounts are inadequate. But I know of nothing that would controvert the statement of the Auditor General. From the inquiries I have made I have not been able to find evidence that would lead me to think that he is wrong.

Mr. FRANCIS: After that, further comment by this committee is superfluous. Mr. Bryce has indicated that the point is well taken and I am sure treasury board will co-operate in this.

Mr. HENDERSON: That would be satisfactory to me. It will be very helpful.

Mr. CAMERON (*High Park*): We do not want to get you into any difficulties.

Mr. LEBLANC: Does that include the recommendation that the accounts receivable be shown on the balance sheet together with the other recommendations the committee made previously regarding the checking of the accounts receivable or is it only to look after the accounts receivable in other departments to see that they are well taken care of.

Mr. HENDERSON: I have not made a suggestion that they be taken on to the statement of assets and liabilities. That opens up another whole field, much the same as the one Mr. Bryce was describing when he was explaining the national capital commission financial concept to you.

The government keeps its books on a cash basis, not on an accrual basis, and that is why these accounts receivable have to be kept in memorandum form. It would be much more effective if they were right on the books and were on the balance sheet. But, that would be opening up another line of thought which I have not thus far stated under this caption in my report. I am more interested in the internal arrangements in the departments themselves in order to be certain that people who are not responsible for these accounts have some control over them so that if an account, for example, is removed from the file because someone came in and paid the money then this can be cross-checked by someone else. It is the principle of internal financial control.

The CHAIRMAN: Seeing that Mr. Bryce and Mr. Henderson are generally in agreement we might move on before the committee puts them apart too far. We will proceed to item 142 in the 1962 report.

Mr. HENDERSON: This will not take long. The members will recall that this deals with the loans to the town of Oromocto, and this particular paragraph refers to the details given on page 81 in respect of the loans to the town, which we discussed at quite considerable length on July 14 when Mr. Armstrong, the deputy minister of national defence, was present.

You may recall that in view of the situation outlined in paragraph 81 the possibility of early repayment of these loans seems remote, the position as indicate here being that they total \$4,450,000 with only \$423,110 having been repaid to March 31, 1962.

My comment to the committee on July 14 and again here in this note is that with operating costs amounting to \$1,602,000 and revenues totalling only \$81,000, as was the situation in 1961, it seemed unrealistic to treat the loans to the town as an asset item for purposes of the annual statement of assets and liabilities. A similar comment, I might add, was made by my predecessor in his report in 1959 when these loans totalled about \$3 million. I do not know whether Mr. Bryce would care to add anything in respect of this subject but perhaps he would in view of his remarks in respect of the statement on assets and liabilities earlier when we were discussing the investment in the national capital commission.

The CHAIRMAN: Have you any comment in addition to the general statement made by the Auditor General Mr. Bryce?

Mr. BRYCE: Not really, Mr. Chairman. Unfortunately, I was not present at the time this discussion took place when Mr. Armstrong was before this

committee and the evidence has not been printed as yet, or at least I have not received it. I really know a good deal less about this than the members of the committee.

Particularly in regard to the situation, I would not dispute the fact that the town of Oromocto is not in a position to pay large sums on these loans and, of course, this raises the question of how much will eventually be paid in interest or repayment. On the other hand, it would be another matter to write the loans off entirely, because that would then raise the question of just how we are dealing with this town by comparison with other communities. There may well be a valid point in that we should not exaggerate the values in this regard on our books. Nevertheless, we have a problem in deciding the appropriate way to deal with the town. That really involves a separate problem.

Mr. FRANCIS: Is Mr. Bryce saying to us that if we write these loans off there will inevitably be additional demands on the federal treasury?

Mr. BRYCE: I would not want it to be thought that we have given this great gift by writing off these loans, because we are trying to deal in as sensible a way as we can with this community that the federal government has created with the assistance of New Brunswick.

Mr. FRANCIS: Mr. Bryce is apparently recommending that we take this action at this point; is that right?

Mr. BRYCE: I am incapable of making any suggestion at this point because I do not know what the evidence is that the committee received in regard to this subject. I think I would rather leave this situation to the committee to consider in the light of the detailed evidence it has received.

Mr. LEBLANC: Mr. Henderson, is this case more or less similar to the case we just discussed in respect of the National Capital Commission?

Mr. HENDERSON: There is a lot more value behind the National Capital Commission loans, as Mr. Bryce pointed out, and as Mr. Francis emphasized, than there is in respect of the loans made to the town of Oromocto. That is to say, the National Capital Commission has extensive property holdings which it is believed will increase very substantially in value over the years. The finances of the town of Oromocto are obviously in an unhealthy state, as we learned from the evidence of Mr. Armstrong. I am afraid there is not very much one can do about a situation like this, Mr. Chairman. We made reference to it because it was an item having implications to the Department of Finance. We did explore it pretty thoroughly with Mr. Armstrong.

The CHAIRMAN: If, after Mr. Bryce has received the evidence, he wants to make a communication to the committee we may receive such, but until that time I think we should leave this particular item at this point.

Mr. BRYCE: Thank you.

The CHAIRMAN: How do we stand now, Mr. Henderson?

Mr. HENDERSON: We have only four more items to deal with although they are not very long ones.

We marked down paragraph 45 of the 1963 report covering governor general's warrants for discussion with Mr. Bryce because several of the members of the committee I think at the time this was discussed at an evening meeting on June 30 with Dr. Davidson, secretary of the treasury board, felt that they might have several questions to put to Mr. Bryce.

In order to bring the committee up to date, I would sum up the views expressed by saying that the committee was concerned that payments which did not meet the test of being urgently required for the public good had been made and that to a large extent expenditures continued to be made in the same manner as if parliament had provided funds for carrying on governmental services between the sessions. Dr. Davidson informed the committee that in

his opinion section 28 of the Financial Administration Act did not make adequate provision for the carrying on of government service when parliament dissolves without having provided the necessary funds, and the committee endorsed my recommendation that a detailed study be made of the financing problems which result when this happens.

I mentioned to the committee on June 30, that I had had the benefit of a discussion of this subject with Mr. Bryce and he might therefore care to speak to the subject.

Perhaps I am the responsible one, Mr. Bryce, whose suggestion indicated that you might care to add a word today.

The CHAIRMAN: I see Mr. Bryce has his music here.

Mr. BRYCE: Thank you, Mr. Chairman. I have my music but I am not sure that I should play.

Perhaps I can just say that upon reflecting on this matter, and after reading Dr. Davidson's testimony, I did not entirely agree with it, although not in regard to the particular items that are enumerated here but rather in respect of the need for a detailed study or for any basic change in the law. I would be quite happy to explain my thinking in that regard if you wish.

The CHAIRMAN: I think the members of the committee might desire to have your explanation. How do the members of the committee feel in this regard? I think we were quite concerned about this item and it is my impression of the wishes of this committee, if I am interpreting their wishes correctly, that something should be done.

Mr. Bryce, I think probably we should have the benefit of your views in this regard.

Mr. BRYCE: I should like to stress that these are really my own views and not the views of the minister or anyone else particularly in the department. I have indicated that my views differ somewhat from those of Dr. Davidson who is in a position much more directly responsible than I am.

It is my impression that the use of warrants has not been seriously abused by any of the governments during the twenty-five years I have been here, and that the expenditures authorized by warrants would almost certainly have been authorized by the House of Commons if they had come before the committee of supply in the normal course of business. Whether they have all been "urgently required for the public good" is another matter, and a matter of opinion. The law places the power and responsibility for deciding this matter clearly on the minister in charge of such expenditures.

The chief use of warrants during this period—and on several occasions before that, I believe—has been to finance expenditures between the time of dissolution of parliament and the meeting of the new parliament. Warrants were used for this purpose in 1896, 1926, 1940, 1945 and 1958, as well as 1963. I have had the impression that this has been recognized and accepted by many members on both sides of the house for a long time, as well as by the public. The wording of the act does not suggest that this would be the main use of the power it confers, but in fact this is the case and has been recognized to be the case. It was only about six years ago that the wording was changed to make this somewhat more evident than it had been in the preceding version—one of long standing—which started out by reference to an accident happening to a public work. This change was made in 1958 after the most recent previous occasion when warrants were required on a large scale to meet expenditures after dissolution, and I think it was quite evident that parliament had this current problem in mind, although the language used in the debate was guarded. Moreover, a provision was introduced in the law at that time to ensure that the new parliament would consider and sanction such expenditure, by deeming the

amounts of the warrants to be included in the amounts appropriated by parliament in the next act passed for granting supply. It had been customary to ask parliament to approve, after the event, expenditures that had been made by warrant and this change required it—in so far as any parliament can by statute bind a later one.

In accordance with the intention of that parliament, as expressed in subsection (4) of Section 28, this parliament has already considered and approved on July 15 of last year the items covered by these warrants on which the Auditor General has reported. Opportunity was thus afforded to consider the need for any of them, and whether or not they contravened the law. They have been reviewed and sanctioned, in accordance with the earlier intention, and I don't think that any voice was raised against the provisions of the law or the way it was applied in the issue of any particular warrants.

Given this history, it seems to me somewhat less than realistic to suggest that this is a subject on which, by lack of proper attention, the law has been left in an ambiguous state, and that there is need of a detailed study of the subject to prepare an amendment to assure appropriate parliamentary control. After dissolution there is no parliament until the writs are returned for the new one, so we can have no current parliamentary control. The law of 1958, and the customary practice followed before that, provide for whatever review, control and sanction the new parliament chooses to enforce at the time. Those who authorize the expenditures in question and certify that they are required for the public good normally hope and expect to confront that new parliament as a government.

Therefore, I do not feel that a detailed review and basic amendment of the law would warrant a high priority on the time of parliament. There are a few simple things that can be done, and if desired certain of them could be written into the law at the first opportunity. I assume the committee would not wish to deal with such suggestions forthwith, but it might wish to bear them in mind on a future occasion. They might make more effective what is already in the law.

First, it has for years been recognized as most important that all warrants should be published promptly. The law presently requires publication within thirty days and tabling in parliament early in the next session. Bearing in mind the circumstances under which they are frequently used, perhaps they should be required—by law or custom—to be published, as an extra issue of the *Gazette* if need be, within, say, three days. There would then be a better opportunity for prompt scrutiny and any criticism, even in the midst of a campaign.

Secondly, the Auditor General could be requested, possibly even required by law, to report on the issue of warrants within, say, sixty or ninety days of their issue. This report could be requested by the government under Section 71 of the Financial Administration Act. Such a report could then be laid before parliament when it was considering the appropriation act required to sanction the expenditures made under the warrants. The annual report of the audit of the accounts will in almost all cases be too late to be of use for this one occasion when Parliament considers the warrants. Whether the house really needs or wants such a report one must leave to honourable members to judge.

In the last analysis, however, the effectiveness of any system for controlling expenditures made under warrants will depend on the willingness of the members of the house to devote the time and effort to deal with them when they come along in the supply bill. It is not for a civil servant to prescribe what parliament ought to do in this regard, nor what priority it should give to this kind of problem by comparison with others. Basically, however, I believe that the main problems in the use of warrants, and in controlling their use, are ministerial and parliamentary problems rather than legal and bureaucratic matters.

I have spoken so far in relation to the question of the need for a special study on the substantial revision of Section 28 of the act, on which I differ from other witnesses. Let me say that I feel the Auditor General has quite properly drawn attention to a number of cases where it appears that ministers have been inadequately advised in coming to a conclusion that the sums in question were urgently required—notably items 1, 2, 3 and 4 on page 18. I believe that the practice was changed on items of this character in the subsequent warrants issued. On the other hand, I do not feel that their inclusion caused any wasteful or improper use of public funds, even though their authorization in this way may have been open to question.

Perhaps I should add one minor legal point. The Auditor General says that the subsection of the law providing for the issue of warrants does not provide for any control of commitments. It should be noticed, however, that the very next subsection below it does provide for this control indirectly by saying that warrants shall be deemed to be appropriations, and this brings into effect in regard to them the sections of the act relating to the control of commitments. I would think there is more of a problem involved in the government having adequate authority to enter into commitments in the earlier months of a fiscal year without having to issue a warrant to cover the year as a whole, in order to meet the requirements of Section 30 of the Financial Administration Act.

If members of the committee wish to study the history of the law on this matter, and the use made of it, I commend to them the excellent scholarly article on the subject by Mr. Balls, the comptroller of the treasury, which appears in the *Canadian Tax Journal* for May and June 1963.

I wonder if I might conclude, Mr. Chairman, by drawing to the attention of the committee the old and well-known opinion given on the use of warrants by Sir Oliver Mowatt, as minister of justice, in 1896. It is most conveniently found in paragraph 305 of the latest issue of the Audit Office Guide. That is a very brief paragraph, and possibly I might be permitted to read it in full:

305. Subsection (1). Words that may present an audit problem are 'any other matter'. In 1896 parliament was automatically dissolved by reason of five years having elapsed since a general election. Supply for the new year (then starting on 1 July) had not been granted and after the election a question was whether warrants could issue to pay civil service salaries. The new Prime Minister requested an opinion from the Minister of Justice who replied that:

I think that the payment of the employees mentioned in your letter is 'urgently and immediately required' for the public good, within the meaning of the said enactment, and that, under the circumstances which have occurred, and the consequent present condition of public affairs, the governor in council may properly on the reports mentioned, order a special warrant to be prepared to be signed by the Governor General, for the issue of the amount estimated to be required.

This opinion has since been relied upon for the issue of special warrants for all administrative services during general elections called before full Supply for the year has been granted.

The CHAIRMAN: Have you a question, Mr. Francis, or has it already been answered by Mr. Bryce's comments?

Mr. FRANCIS: I have no immediate questions.

The CHAIRMAN: Mr. Rock?

Mr. ROCK: How much power has the comptroller of the treasury? I mean can the treasury be made to approve an account, or does it approve the account of the comptroller of the treasury?

Here we have the Auditor General bringing out a big report and in this report there is a lot of ambiguity on many of the departments regarding whether they have the right to make certain expenditures, and things like this. And yet, all this, I believe, goes to the comptroller of the treasury who is making the errors, if there are any errors. The point is that we have a comptroller of the treasury. How much power has this man to say "No" to these expenditures when he feels that these expenditures are illegal, in a sense?

The CHAIRMAN: Do you want Mr. Bryce to answer that as the former secretary of the treasury board?

Mr. BRYCE: I think, sir, the comptroller has to see that there is an appropriation for cheques that are to be issued, and this is one of his statutory duties, just as the one that I mentioned about seeing that money is available before a commitment is made. However, in the case of a Governor General's warrant, once he has received that warrant it is defined as an appropriation, and he cannot look beyond that to say whether the minister is exercising his proper judgment in holding that these are payments for the public good. Once the Governor General has approved that warrant, the comptroller will not look behind it and say that the governor general made a mistake.

Mr. ROCK: I do not want to restrict it only to the governor general's warrants.

Mr. BRYCE: I was applying it there. This is where he had some role in this particular case. The Auditor General is drawing attention to six or seven cases here where he thinks there is some question on whether it is possible to say properly that these were urgently required in the public good. However, I take it he is not questioning the legality of these but rather the judgment of the ministers in certifying that these were urgently required in the public good.

Mr. ROCK: I do not want to restrict this question to this item here. I would like to go beyond that to many other occasions that have come up in the report.

Mr. FRANCIS: We have had a very fundamental statement from Mr. Bryce and we have had an opinion which is, on the face of it, contrary to Mr. Davidson's opinion at the previous sitting of this committee. I wonder if this would be an appropriate time for members of the committee to adjourn so as to consider the statements before them and perhaps to possibly, at some future time, have the opportunity of asking Mr. Bryce for comments in the light of the record. I would personally welcome an opportunity to go back and do some homework.

The CHAIRMAN: There are, before we adjourn if possible, two small items left which I do not think will take very long and which would conclude everything which Mr. Bryce is concerned with. With regard to the questions which Mr. Rock has raised, I think that later on, during the consideration of the 1963 report, we could deal with them. This does not directly deal with the issue to which Mr. Bryce is directing his attention but it can come up for consideration at a further point.

Mr. FRANCIS: I hope we will have a further opportunity to come back and ask Mr. Bryce some questions on this point. He has made a careful statement which is on our record, and I for one would like an opportunity to study it in a little more detail.

The CHAIRMAN: Perhaps we could go on with the last two items.

Mr. HENDERSON: Yes, Mr. Chairman.

Paragraph 60 reads as follows:

60. *Overpayment to province under the Federal-Provincial Tax-Sharing Arrangements Act.* The estimated population figures used in the calculations of amounts payable to the provinces under the Federal-

Provincial Tax-Sharing Arrangements Act, 1956, c. 29, were subject to correction when the population figures resulting from the taking of a census became available. Accordingly, when the census figures for 1961 became available in 1962, the payments made to the provinces in the years 1958 to 1962 were recalculated resulting in additional payments being made to eight of the provinces and establishing that overpayments had been made to the other two, as follows: British Columbia, \$4,818,000; and Ontario, \$177,000.

The agreements with the provinces under the act provide for immediate repayment of any amounts overpaid, and the overpayment to Ontario was recovered from the payment due to that province in March 1963. The province of British Columbia maintained that the amount of \$4,818,000 was not due immediately since the succession duty rentals have not been finally determined. An amount of \$200,000 was withheld from a payment to that province in March 1963, leaving a balance of \$4,618,000 owing at March 31, 1963. Subsequently the province agreed to monthly deductions of \$175,000 which are now being made from amounts payable to the province. At the time of the signing of the 1957-62 agreements, the provinces had been given the option of receiving a succession duty rental on the basis of the one-year yield of these taxes rather than on the basis of the three-year average as specified in the act, provided they made their choice known at the beginning of the tax agreement period. British Columbia and two other provinces requested the one-year option. A recalculation on the basis of the one-year option is expected to result in an increase in the succession duty rentals payable to British Columbia for the fiscal years 1957-58 and 1958-59, and these will be applied to the outstanding balance of the claim mentioned above. The department expects that the application of these amounts together with the monthly deduction of \$175,000 now being made will extinguish the debt in full by mid-1964.

Paragraph 60 of the 1963 report deals with overpayment to a province under the federal-provincial tax sharing agreement. This note was stood over pending Mr. Bryce's appearance before the committee. It describes how overpayments were made to the provinces of British Columbia and Ontario under the Federal Provincial Tax-Sharing Arrangements Act. The overpayment to Ontario was recovered but the province of British Columbia maintained that the overpayment, in its case of \$4,818,000, was not due immediately since the succession duty rentals had not been finally determined. This appears to have led to a recalculation of the succession duty rentals payable to British Columbia for the fiscal years 1957-58 and 1958-59, and these were to be applied to the outstanding balance of the claim. The Department of Finance expected that the application of these amounts, together with the monthly deduction of \$175,000 now being made, would extinguish the debt in full by mid-1964. However, the Federal-Provincial Tax-Sharing Arrangements Act has not been amended to permit the payment of succession duty rental on the optional basis of the one year yield of these taxes, rather than on the three year average as specified in the act, and a balance of \$1,818,000 remained to be collected at July 20, 1964.

I do not know whether Mr. Bryce would have anything further to add to that. That is right up to date, Mr. Chairman.

Mr. BRYCE: Mr. Chairman, it seems to be a little more up to date than the figures I have as of June 30, but the difference is a small one, and there may well have been a payment applied since June 30. The change in regard to the succession duties is in the bill before the house now on the fiscal revision. We estimate that this change will mean an additional \$367,000 for British Columbia in respect of the year 1957-58, and an additional \$711,000 for 1958-59, a total of

something over a million dollars. This will be applied to the amounts still outstanding. Very shortly we will also be able to calculate the difference for 1959-60, and that further adjustment will probably be sufficient to offset the remaining amount of liability. It is just a matter of our getting the necessary information in regard to the assessment of estates to finish these calculations and make the collection once parliament passes the bill that will authorize this change in basis.

Mr. WINCH: Next time I see our premier in British Columbia I will tell him to pay his bills; otherwise he will not get more credit.

Mr. BRYCE: If I may use that as a point of departure, in all fairness I must warn the committee that in future years we have to expect more of this sort of thing, not less. These arrangements with the provinces are now very substantial, very complicated, and we have to make under the law, various forecasts of what the payments will be, and make interim payments based on those forecasts. We are finding that frequently these forecasts are wrong and we have substantial amounts to recover from the provinces, so I anticipate that we will be appearing before you on a number of occasions on items of this nature.

Mr. WINCH: Do not let Mr. Bennett say he is broke because he has one set of books saying he does not owe any money at all.

Mr. FRANCIS: Does the Auditor General have any specific remarks to make on this point?

Mr. HENDERSON: No.

The CHAIRMAN: Paragraph 61.

61. *Indirect compensation to chartered banks.* In paragraph 68 of last year's report reference was made to an arrangement between the Department of Finance and the Canadian Bankers' Association whereby the banks pay interest only on the amount by which the government's minimum weekly balances on deposit are in excess of an aggregate of \$100 million. The arrangement was continued throughout the year 1962-63 and interest at a rate equivalent to the weekly average accepted treasury bill tender rate for three months treasury bills, less 10 per cent of that rate, and amounting to \$14,395,000 was received from the banks. The corresponding amounts of interest received in the two previous years were \$6,394,000 in 1961-62 and \$6,645,000 in 1960-61. As was pointed out last year, the maintenance of substantial balances with the banks, including \$100 million interest-free, compensates them indirectly for handling cheques or other instruments payable by or to the receiver general, in violation of the requirement of subsection (1) of section 93 of the Bank Act, 1953-54, c. 48, which reads as follows:

No bank shall make a charge for cashing a cheque or other instrument drawn on the receiver general or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the consolidated revenue fund, or in respect of any cheque or other instrument drawn in favour of the receiver general, the government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the receiver general.

If the banks are to be compensated for services provided to the crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

Mr. HENDERSON: Paragraph 61 deals with my comment on indirect compensation to chartered banks. This matter was originally discussed on December

16 last when Mr. Bryce appeared before the committee and the members may recall it was discussed in considerable detail, and this in turn led to comment by the committee in its fourth report 1963, tabled on December 19, 1963. The committee stated that when considering the question whether or not the balances maintained by the government of Canada with the chartered banks interest-free to the level of \$100 million constituted indirect remuneration, it was assisted in its deliberations by the deputy minister of finance who outlined the arrangements which had been in effect since January 1, 1947, whereby the banks pay interest to the government of Canada on the amount by which minimum weekly balances are in excess of this sum.

The committee then reported its agreement with the Auditor General that this arrangement does constitute indirect compensation to the chartered banks and may be construed as being contrary to the intent of section 93 (1) of the Bank Act. The committee stated it believed that if the banks are to be compensated for services provided to the crown, consideration should be given to the most equitable manner in which this might be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

We discussed this matter again on May 26, when I submitted my follow-up report on the recommendations made by the committee in its fourth report. I advised the committee at that time that notice had been given by the Minister of Finance in the House of Commons on April 13, 1964, concerning the introduction of a measure to amend the Bank Act to extend by one year to July 1, 1965, the authority for the banks to which that act applied to carry on business, and in a statement to the House of Commons on May 6, 1964, the minister had said it was his hope that a bill relating to the decennial revision would be presented in the late fall of 1964.

That is where the matter stands at the present time, and I do not know whether Mr. Bryce would care to speak to it further, or whether members of the committee have any additional questions at this time.

Mr. BRYCE: Mr. Chairman, of course, we have noted this matter and I have drawn it to the minister's attention in connection with the revision of the Bank Act on which we are working now in the department and on which the minister is working. It would be helpful to be able to confirm what the Auditor General said last December, as reported on page 304 of the evidence, where I take it he did not criticize the substance of the arrangement and does not consider the present arrangement as wasteful, but as slightly illegal.

The CHAIRMAN: I think the suggestion made is that we should legitimize it. Are there any comments on this item under consideration?

This leaves us with the last item, paragraph 110, which reads:

110. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1963, unchanged from the two previous years, comprised the following balances:

Loans to China, in 1946, under the Export Credits Insurance Act	\$49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China)	14,470,000
Loan to province of Saskatchewan, in 1908, for the purchase of seed grain	74,000

\$94,824,000

Mr. HENDERSON: You may recall we discussed this matter in the committee on June 16, 1964, dealing with paragraph 127 of the 1962 report at which time several members asked questions with regard to why inactive loans and investments of this character continue to be carried as assets in the statement of assets and liabilities. It was agreed that we might bring this reference on page 71 of my 1963 report to the attention of the committee today while Mr. Bryce is present.

Mr. BRYCE: Mr. Chairman, if I might be quite succinct on this I could say it mainly indicates that we have not given up hope on any of these. I would not want to discuss Canada's international loans in any detail. We still believe there are opportunities for negotiating some recovery on these.

Mr. FRANCIS: Mr. Chairman, in the interest of confederation, I would like to suggest that the loan to the province of Saskatchewan in 1908 for the purchase of seed grain be written off.

Mr. BRYCE: I was going to add that that is the one item on which I could not get a satisfactory explanation until I came into the room and was handed some papers in respect of it. I have not been able to digest them adequately in order to present them to the committee. If we do not write it off in the meantime perhaps we can take it up next year.

Mr. SOUTHAM: May we thank Mr. Francis for his very benevolent suggestion.

Mr. FORBES: The government is waiting for the people of Saskatchewan to elect a government which will honour its debts.

The CHAIRMAN: I do not see any particular great interest at this time on the part of committee members, so I want to extend my thanks to Mr. Bryce for staying here this long. I am particularly grateful to members of the committee for their efforts expended in struggling through this.

I would remind you that we are going to have an in camera meeting at 3.30 tomorrow to consider our fourth interim report. The steering committee will meet at 3 o'clock here and the committee will follow at 3.30 in camera, in the hopes that we can complete our report and have it ready for presentation to the house.

APPENDIX

Report to the Public Accounts Committee by
The Minister of Finance on the Exchange Fund Account

The Public Accounts Committee in December 1963 requested me to present a Report on the Exchange Fund Account. The purpose of this Report was to provide explanations originally requested by the Public Accounts Committee in 1961. The following paragraphs appeared in the final report of the Public Accounts Committee (July 1, 1961). These refer to comments made in Reports of the Auditor General regarding the composition of the surplus account of the Exchange Fund Account. They also contain a request by the Public Accounts Committee to the Minister of Finance to comment on the desirability of writing off the surplus and also of transferring annually to the Consolidated Revenue Fund the various amounts which have been applied to Surplus in the past.

77. The Auditor General's Report explained (in paragraph 89) that the advances to this Account at March 31, 1960 were included in the Statement of Assets and Liabilities at their full value of \$1,960 million, although the value of the investments from advances was only \$1,746 million. To the extent of \$78 million this unrecorded deficiency of \$214 million was simply the exchange loss arising from the year-end valuation of United States dollar holdings at the ruling exchange rate. However, the remaining \$136 million represented the net loss on dealings in gold and foreign securities and on revaluations of gold and currencies, since the establishment of the Exchange Fund Account in 1935.

78. Since the \$136 million amount referred to in the preceding paragraph represents the loss realized from exchange management operations over the period since the establishment of the Account, the Committee recommends,

that the Minister of Finance be requested to submit to the Committee at the next Session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization of assets. The importance of the problem is such that your Committee believes that at the next Session of Parliament it should give special attention to the problem, including the question of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings.

A draft report was prepared prior to the devaluation of the Canadian dollar in 1962 which is out of date as a result of this development. In the hearings of the Public Accounts Committee in December 1963, the Deputy Minister of Finance said that he would like to see a report prepared which would be pertinent to the current situation and which would contain additional information. The Committee agreed, at the suggestion of the Deputy Minister, to defer consideration of the suggestions of the 1961 Committee until the next session at which time an up-to-date report would be available.

Before dealing with the request of the 1961 Committee, it is proposed to give a brief history of the Exchange Fund Account, and to analyse the movements in the surplus account since the Fund became operative. An understanding of the composition of this account will aid the Committee in approaching the problem. Finally, the suggestion in paragraph 78 of the report of the 1961 Committee requesting comments on the desirability of writing off the surplus account will be dealt with.

The Exchange Fund Act of 1935 established a special account, called the Exchange Fund Account, at the Bank of Canada to be held in the name of the Minister of Finance. The purpose of the Act was to create a fund which would be available "to aid in the control and protection of the external value of the Canadian monetary unit". The profit resulting from the revaluation of the gold holdings of the Bank of Canada from the statutory price of \$20.67 per fine ounce to the current market price was to be credited to the special account. The account could be invested in gold or foreign exchange upon the issue of an Order-in-Council under the Exchange Fund Act. Such an Order was issued in September 1939. A second Order on the same day provided for the institution of foreign exchange control and established the Foreign Exchange Control Board to administer this control as well as to operate the Exchange Fund. At the same time the exchange rate was fixed at \$1.00 U.S. = \$1.10 Can. The gold holdings of the Bank of Canada had been revalued from week to week since 1935 and when the Exchange Fund Act became operative, the accumulated profit was \$83.9 million (Canadian). This amount constituted the original capital resources of the Exchange Fund.

On May 1, 1940, \$325.0 million (Canadian) was advanced to the Fund from the Consolidated Revenue Fund under the Exchange Fund Order, 1940, to enable the Foreign Exchange Control Board to purchase the gold reserve of the Bank of Canada and foreign exchange held by residents of Canada. This second portion of the account, financed in the form of advances from the Consolidated Revenue Fund, fluctuated with the level of holdings of the Fund, while the original capital remained intact. This situation remained until the revaluation in July, 1946 when the Canadian dollar was raised to a rate of \$1.00 U.S. = \$1.00 Can., and consequently the value of the gold and U.S. dollar holdings of the Fund declined in terms of Canadian dollars. The resulting write-down was applied to the whole of the original capital and the surplus which had accumulated since 1939. Subsequently, the capital account represented the total amount owing to the Consolidated Revenue Fund in the form of advances. In place of the surplus there was now a small deficit shown.

In 1946, the Exchange Fund Act of 1935 was replaced by the Foreign Exchange Control Act. The purpose of this new Act was to put exchange control on a statutory basis and expand the powers in the Exchange Fund Act. The major portion of the new Act dealt with the rules and regulations of foreign exchange control, and the powers of the Foreign Exchange Control Board.

In September 1949, following devaluation by a number of other countries, Canada devalued her currency to \$1.00 U.S. = \$1.10 Can. and the resulting write-up of the Canadian dollar value of the assets of the Exchange Fund wiped out the accumulated deficit in the Exchange Fund and gave rise to a surplus.

In September 1950, because of a substantial inflow of capital—to a large extent speculative—and the general economic situation of Canada, it was decided to allow the exchange rate to be determined by the market forces of supply and demand. This policy continued to May 2, 1962 when the exchange rate was fixed at \$1.00 U.S. = \$1.08108 Can. During the period of the floating rate the Canadian dollar fluctuated in a wide range reaching a high of \$1.00 U.S. = \$.94 7/32 Can. in 1957.

In 1952, following the termination of foreign exchange control in 1951, the Currency, Mint and Exchange Fund Act was passed. The section dealing with the Exchange Fund provided for the continuation of the Account as established in the Act of 1935 and continued in 1946. It also changed slightly that portion of the Act of 1946 which dealt with the Exchange Fund Account. The main purpose of the Exchange Fund, however, remained what it was intended to be in the Act of 1935.

Turning now to consider the history of the surplus or deficit shown in the Exchange Fund Account from the beginning, it is first necessary to observe that, while the Account has been maintained with fundamentally the same accounting structure since 1939, the means of dealing with profits and losses have been changed twice since that time. The effect of these changes has been reflected in the surplus or deficit shown in the Account. The treatment of earnings and surplus each year is summarized in tables 1, 2 and 3.

Table 1 shows that from 1939 to the end of 1946, the total excess of revenue over expenditure was credited to a reserve to be used in case of a revaluation of the Canadian dollar. When the value of the Canadian dollar was raised to \$1.00 U.S. = \$1.00 Can. in 1946, it became necessary to revalue the gold and U.S. dollar and sterling holdings of the Exchange Fund. The resulting write-down or unrealized loss of Can. \$163.7 million was applied against the original capital (\$83.9 million) and the accumulated reserve (\$51.0 million) leaving a deficit of Can. \$28.8 million.

Table 2 reflects the change in procedure which was provided for in the Foreign Exchange Control Act of 1946. All earnings were now to be paid into the Consolidated Revenue Fund. During the period from 1939 to 1950, the main earnings of the Fund were derived from the margin established by the Foreign Exchange Control Board between its official buying and selling rates for foreign exchange and from interest earned on investments. Against these earnings the Fund charged expenses for interest paid on advances and for commission paid to authorized dealers. From 1939 through to 1946 the Foreign Exchange Control Board charged its general operating expenses to profit and loss. These included such items as salaries, communications, printing and rental of premises. Since 1947 these operating expenses have been absorbed by the Bank of Canada which has operated the Fund on behalf of the Minister of Finance. It would be difficult to separate these modest expenses from those applicable to the Bank's own operations.

When the floating exchange rate was adopted in September 1950, the chartered banks were permitted to resume dealings in foreign exchange as principals and the Board no longer maintained fixed buying and selling rates nor paid commissions to dealers. The major items of earnings and expenses thereafter were interest earned and paid. The total earnings of the Exchange Fund, including interest earned on investments, were paid to the Consolidated Revenue Fund in accordance with the Foreign Exchange Control Act. Advances to the Exchange Fund were used to finance the Fund's holdings of U.S. dollar investments and gold. Since only the investments provided any return, the Fund would be unable to pay interest at going rates on the whole of its advances. Accordingly, within the powers granted by the Act, it was decided that no interest should be charged on advances but that the net earnings of the Fund should be transferred to the Consolidated Revenue Fund.

The devaluation in 1949 increased the Canadian dollar value of the gold and U.S. dollar holdings of the Fund by \$75.3 million. This "profit" was applied to the Deficit Account at the end of that year producing a Surplus of \$46.5 million. Following September 1950 when the Canadian dollar was allowed to fluctuate, the Surplus/Deficit Account underwent large fluctuations depending on the year-end values of the gold and foreign exchange holdings which were valued at market prices. This continued until May 2, 1962, when a new par value for the Canadian dollar was established. As the rate is permitted to move only within 1% of the par value, much smaller fluctuations in the amount of the Surplus (or Deficit) Account take place when a par value is in effect. On December 31, 1963, the balance in the Surplus Account was \$30.3 million.

Table 3 covers the period since 1951. No interest has been paid on advances during this period and earnings from investments have been paid into the Consolidated Revenue Fund as the law stipulates. Since the end of foreign

exchange control the Exchange Fund has entered the market to buy and sell exchange from time to time. It makes small profits, or occasional losses, on such transactions. From time to time the Exchange Fund sells securities or gold at a price differing slightly from the Fund's book value for the asset in question and these differences are applied to the Surplus Account. However, the main factor contributing to the fluctuations in the Surplus (Deficit) Account has been the year-end revaluation of gold and foreign exchange arising from changes in the exchange rate for the Canadian dollar. This profit or loss is computed by comparing the value of the holdings at the beginning of the year with the value at the end of the year, making allowances for the net profit or loss on the change in the holdings over the year.

The following is a summary of the disposition of the major elements of profit and loss during the three periods.

	Total Earnings Before Payments to C.R.F.	To Consolidated Revenue Fund			To Surplus	
		To Surplus	Earnings From Operations	Interest Payments	Earnings on Investments	Profit or (Loss) from Revaluations
(in millions of dollars)						
1939-46....	90.6	51.0	—	39.6	—	(163.7)
1947-50....	60.1	—	35.2	24.9	—	(15.0)
1951-63....	327.7	15.1	—	—	312.6	59.0 ⁽¹⁾
Total.....	478.4	66.1	35.2	64.5	312.6	(119.7)
				↓		
				412.3		

(1) Includes net profit of \$7.1 million from unmatched purchases and sales.

The cumulative net loss on periodic changes in the value of foreign currency holdings has been charged to Surplus. This figure has displayed wide fluctuations in amount and has been the major factor in the large swings in the balance of the Surplus (or Deficit) Account. Of the sixteen year-end revaluations that have taken place, ten have been for amounts in excess of \$50 million, ranging from a loss of \$163.7 million in 1946 to a profit of \$84.1 million in 1961. The highest deficit shown in the Account at a year-end was \$224.0 million in 1959.

The following is a summary of total changes in the Surplus Account from 1939 to December 31, 1963.

(in millions of dollars)

Original capital acquired from the Bank of Canada in 1939.....					\$ 83.9
<i>Add:</i> Net increases from profits or losses on operations and interest earned.....					
Gold and security operations.....				\$ 15.7	
Exchange operations.....				115.3	
Interest earned on investments.....				347.4	
				\$478.4	
<i>Less:</i> Payments to the Consolidated Revenue Fund					
Interest on advances (1940-1950).....				64.5	
Net profits including interest earned (1947-1950).....				35.2	
Interest earned on investments (1951-1963).....				312.6	
				412.3	66.1
					\$150.0
<i>Deduct:</i>					
Net deficit from year-end revaluations of gold and currency holdings		126.8			
<i>Less:</i> Net annual valuation adjustment on unmatched purchases or sales of exchange.....				7.1	119.7
Surplus Account credit balance at December 31, 1963.....					\$ 30.3

It remains to deal with the request of the Committee for comment on the desirability of writing off the Deficit or Surplus and of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluation of holdings.

It is clear from the above description that the balance in the surplus account at December 31, 1963 results from a variety of causes, including the several revaluations as well as trading operations. I propose that this be left in the Fund, where it may serve as a modest reserve against any possible future revaluation losses.

I believe that in future it is desirable to distinguish between the profits and losses arising from trading and investment on the one hand and profits and losses arising from revaluations. I propose that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year should be transferred to the Consolidated Revenue Fund.

I would not propose that any decision now be taken to transfer to the Consolidated Revenue Fund any future profits or losses at our year-ends arising from changes in exchange rates. We now have a formal par value for the Canadian dollar established by law. In our accounts we now value our foreign exchange and gold holdings at that par value (with suitable allowance for shipping costs on gold). This will give more stability to the accounting valuations. Any change in the par value is a hypothetical contingency which does not require action now. To require by law that any profits or losses arising from changes in the year-end valuations of our reserves be brought into budgetary revenues or expenditures immediately thereafter could have led at times in the past to serious distortions of our budgetary accounts and caused undesirable confusion and uncertainty as to the state of the budget. We can and do take into our accounts the changes in value of the government's foreign cash balances that are held for current operating purposes, but these are significantly smaller and are required for immediate use. The exchange reserves are held for national economic purposes and can properly be treated in a different manner.

Authority will be required from Parliament to recoup the Exchange Fund for any deficit in accordance with the course of action I have proposed and some change in the law is desirable to make clear the authority to transfer profits or surpluses to the Consolidated Revenue Fund.

Ottawa, July 16, 1964.

TABLE 1

	Major Elements in Profit and Loss					Total Earnings to Surplus ^{1 2}	Contribution to Surplus from Revaluation	Value of U.S. \$ at year-end	Reserve Account	Capital
	Net from Exchange Operations	Net from Gold Operations	Net from Security Operations	Interest Earned on Investments	Interest paid to C.R.F. on Advances					
1940.....	4.5	0.1	—	—	1.6	8.9	—	1.10	8.9	83.9
1941.....	12.4	—	—	3.2	5.0	9.3	—	1.10	18.2	83.9
1942.....	13.0	(0.1)	0.7	3.0	4.3	11.2	—	1.10	29.4	83.9
1943.....	13.2	0.3	—	0.8	4.0	9.4	—	1.10	38.8	83.9
1944.....	12.3	0.1	—	1.4	6.4	6.7	—	1.10	45.5	83.9
1945.....	10.0	0.3	—	2.7	8.5	3.8	—	1.10	49.3	83.9
1946.....	8.0	0.1	0.1	3.8	9.8	1.7	(163.7)	1.00	(28.8)	—
					<u>39.6</u>	<u>51.0</u>	<u>(163.7)</u>			

¹ Earnings shown for 1940 apply only for the period from July 1, 1940. Included in the figure of "Total Earnings to Surplus" is \$6.4 million which applies to the period from September 16, 1939 to June 29, 1940.

² There were certain expenses charged annually to Profit and Loss not included in any of the sub-headings in the above table which amounted to \$5.7 million for the period covered. They are included in these figures for total earnings to surplus.

TABLE 2

	Major Elements in Profit and Loss					Total Earnings paid to C.R.F.	Contribution to Surplus or Deficit from Revaluation	Value of U.S. \$ at year-end	Accumulated Surplus or Deficit
	Net from Exchange Operations	Net from Gold Operations	Net from Security Operations	Interest earned on Investments	Interest paid to C.R.F. on Advances				
1947.....	13.3	0.4	0.2	2.0	5.1	10.8	—	1.00	(28.8)
1948.....	10.2	—	—	3.2	4.8	8.6	—	1.00	(28.8)
1949.....	9.8	0.1	—	6.1	7.6	8.4	75.3	1.10	46.5
1950.....	6.1	0.2	—	8.5	7.4	7.4	(90.3)	1.0594	(43.8)
					<u>24.9</u>	<u>35.2</u>	<u>(15.0)</u>		

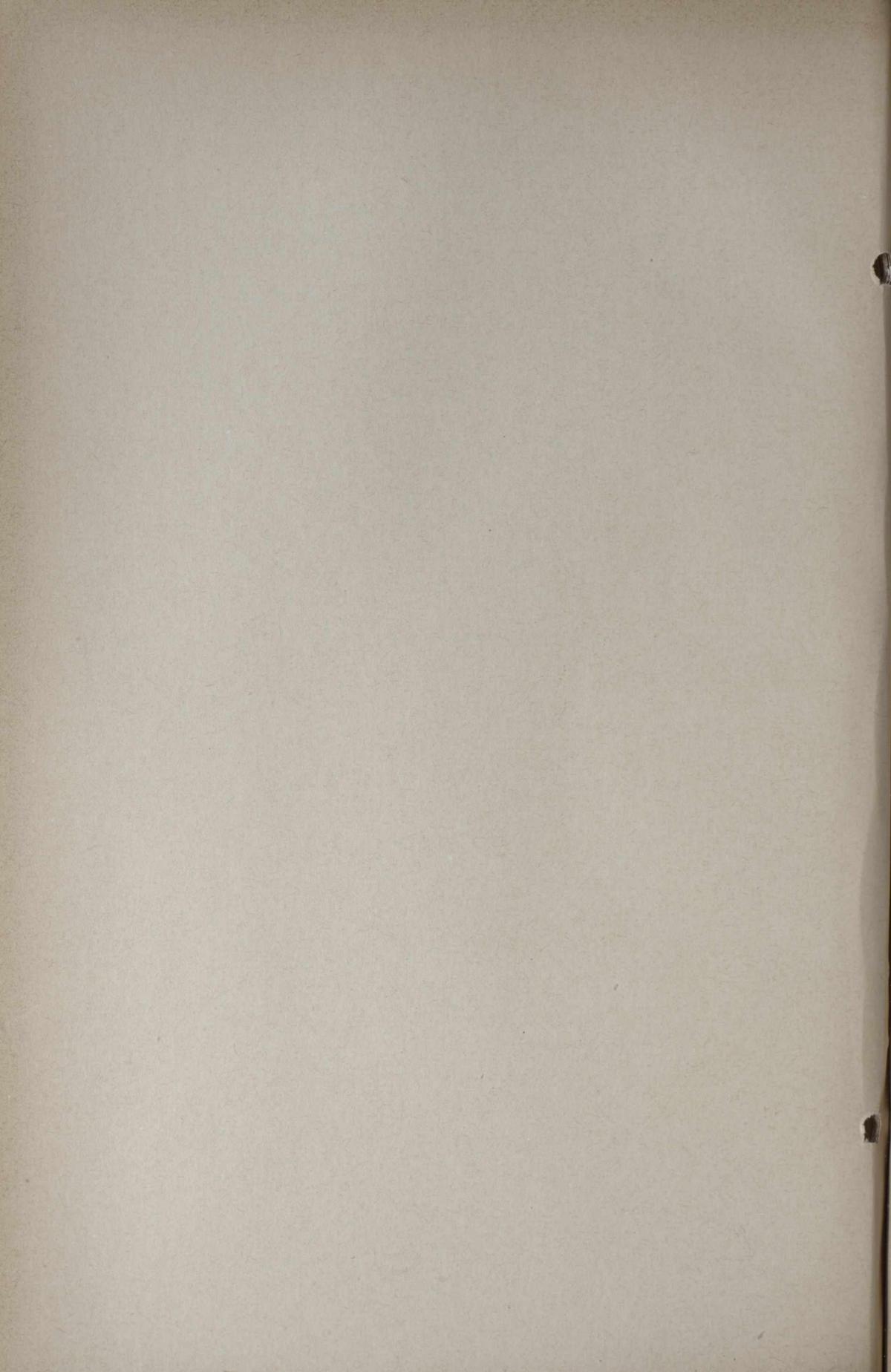
TABLE 3

	Major Elements in Profit and Loss				Disposition of Earnings			Contribution to Surplus					
	(1) Net from Exchange Operations	(2) Net from Gold Operations	(3) Net from Security Operations	(4) Interest Earned on Investments	Total Earnings (1) (2) (3) (4)			Contribution to Surplus	Payments to C.R.F.	From Revaluation	From Unmatched Purchases and Sales	Value of U.S. \$ at year-end	Accumulated Surplus or (Deficit)
1951	3.3	(0.2)	0.5	12.6	16.2			3.6	12.6	(83.9)	(1.5)	1.0119	(125.6)
1952	0.4	0.1	0.1	14.8	15.4			0.6	14.8	(72.6)	(1.6)	.9703	(199.2)
1953	0.5		0.1	16.3	16.9			0.6	16.3	6.1	1.3	.9737	(191.2)
1954	0.5		0.3	10.9	11.7			0.8	10.9	(14.0)	(1.0)	.9659	(205.5)
1955	(0.1)		0.7	10.8	11.4			0.6	10.8	59.9	2.2	.9991	(142.8)
1956	0.1		0.4	17.4	17.9			0.5	17.4	(71.3)	(1.4)	.9597	(214.9)
1957	0.4		0.4	22.9	23.7			0.8	22.9	43.7	1.3	.9841	(169.2)
1958	0.4		1.1	18.6	20.1			1.5	18.6	(35.3)	(0.7)	.9644	(203.6)
1959	0.3		1.4	25.5	27.2			1.7	25.5	(22.3)	0.2	.9522	(224.0)
1960	(0.1)	2.2	0.3	32.5	34.9			2.4	32.5	79.6	1.0	.9966	(141.0)
1961	3.5	0.5	0.5	32.6	37.1			3.5	32.6	84.1	6.5	1.0434	(45.9)
1962	(9.00)	2.1	2.85	35.2	31.15			(4.05)	35.2	68.1	0.25	1.0772	18.4
1963	1.65	(0.1)	—	62.59	64.14			1.55	62.59	9.77	0.55	1.08108	30.3
								15.1	312.69	51.87	7.10		

STANDING COMMITTEE

TABLE 4
 HOLDINGS OF GOLD AND U.S. DOLLARS
 (in millions of U.S. Dollars)
 - at December 31st -

December 31	U.S. \$	Gold	Total
1940.....	172.8	136.5	309.3
1941.....	28.2	135.9	164.1
1942.....	87.9	154.9	242.8
1943.....	349.0	224.4	573.4
1944.....	506.3	293.9	800.2
1945.....	922.1	353.9	1,276.0
1946.....	686.3	536.0	1,222.3
1947.....	171.8	286.6	458.4
1948.....	574.5	401.3	975.8
1949.....	594.1	486.4	1,080.5
1950.....	931.8	580.0	1,511.8
1951.....	879.4	841.7	1,721.1
1952.....	961.0	885.0	1,846.0
1953.....	800.2	986.1	1,786.3
1954.....	833.1	1,072.7	1,905.8
1955.....	677.2	1,133.9	1,811.1
1956.....	783.7	1,103.3	1,887.0
1957.....	691.5	1,100.3	1,791.8
1958.....	794.1	1,078.1	1,872.2
1959.....	873.6	959.6	1,833.2
1960.....	909.0	885.3	1,794.3
1961.....	1,081.6	946.2	2,027.8
1962.....	1,802.2	708.5	2,510.7
1963.....	1,755.8	817.2	2,573.0



HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, JULY 23, 1964

INCLUDING THIRD REPORT TO THE HOUSE

WITNESSES:

From the Department of Public Works: Messrs. Lucien Lalonde, Deputy Minister; G. B. Williams, Assistant Deputy Minister, (Technical); and L. P. Boyle, Financial Adviser; and Mr. A. M. Henderson, Auditor General of Canada; and Mr. D. A. Smith, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Grégoire,
Gray,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,
Pilon,

Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, July 24, 1964.

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

THIRD REPORT

Your Committee recommends that it be empowered to engage an accountant and clerical personnel, as it may deem necessary, for the purpose of its inquiry and relevant investigations arising from its study of the Public Accounts.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

(Note—This Report was concurred in by the House on Monday, July 27.)

MINUTES OF PROCEEDINGS

WEDNESDAY, July 22, 1964.
(27)

The Standing Committee on Public Accounts met this day, *in camera*, at 3.40 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Fane, Forbes, Frenette, Gendron, Gray, Hales, Harkness, Leblanc, Legault, McLean (*Charlotte*), Nowlan, Pilon, Ryan, Southam, Stefanson, Stenson, Tardif, Tucker, Wahn, Whelan and Winch (25).

The Committee proceeded to the consideration of its "draft" interim report to the House, and following its consideration and amendment, it was adopted. The Chairman was ordered to present it to the House as the Committee's Fourth Report.

At 5.30 p.m., the Committee adjourned until 9.30 a.m., Thursday, July 23, 1964.

Note: For Fourth Report, see later issue of Proceedings.

THURSDAY, July 23, 1964.
(28)

The Standing Committee on Public Accounts met this day at 9.45 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Francis, Frenette, Hales, Harkness, Leblanc, Legault, Mandziuk, McLean (*Charlotte*), Rock, Ryan, Southam, Stefanson, Stenson, Tardif, Wahn, Whelan and Winch (22).

In attendance: From the Department of Public Works: Mr. Lucien Lalonde, Deputy Minister; Mr. G. B. Williams, Assistant Deputy Minister (Technical); and Mr. L. P. Boyle, Financial Adviser. And Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Smith and Laroche of the Auditor General's office.

The Chairman tabled the 1962 and 1963 long form reports of the Auditor General with respect to Canada Council, which will be considered by the Committee on July 28th. Copies of these reports were distributed to the members.

Mr. Baldwin announced the membership of the Subcommittee on "Form of Public Accounts" as follows: Mr. Ryan, Chairman, and Messrs. Prittie, Southam, Smith, Pilon, Cameron (*High Park*) and Rondeau.

The Chairman also announced the membership of the Subcommittee inquiring into the sale of surplus equipment of the Department of National Defence by Crown Assets Disposal Corporation as follows: Mr. Tardif, Chairman, and Messrs. Hales, Winch, Côté (*Chicoutimi*) and Francis.

The Chairman reported as the first recommendation of the Subcommittee on Agenda and Procedure that the Committee seek permission to be empowered

to engage an accountant and clerical personnel for the purpose of its inquiry and relevant investigations arising from its study of Public Accounts. The Chairman noted that this was conditional upon discussions with the Treasury Board.

On motion of Mr. Winch, seconded by Mr. Wahn,

Resolved,—That the first recommendation of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

The Chairman reported the second recommendation of the Subcommittee on Agenda and Procedure recommending "a follow-up investigation of the matter drawn to the Committee's attention by the Auditor General under paragraph 87 in the report of 1963. And that in furtherance of same, the Chairman correspond with the former Minister of Transport at the time the contract was let, enclosing a copy of the Committee's transcript and asking for an explanation of the procedure. The steering subcommittee, on the basis of any reply received, to determine whether or not there is necessity to ask for a personal appearance before the Committee of the former Minister."

On motion of Mr. Southam, seconded by Mr. Leblanc,

Resolved,—That the second recommendation of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

The Chairman tabled a letter from Mr. G. A. Scott, Acting Deputy Minister, Department of Transport, supplying names of original directors of Air Food Caterers and other information requested on July 16. The Committee agreed that this letter be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

The Chairman also tabled a letter from Mr. E. B. Armstrong, Deputy Minister, Department of National Defence, enclosing information on National Defence Schools in Canada as requested July 14. The Committee agreed that this letter be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

The Committee resumed consideration of the 1962 carryover items and the 1963 Report of the Auditor General.

The Chairman introduced Messrs. Lalonde, Williams and Boyle.

On paragraphs 99 of the 1962 Report and 79 of the 1963 Report, *Payment of Maintenance Expenses of Civil Service Recreational Association Centre*, Mr. Henderson reviewed these paragraphs, and Mr. Lalonde was examined thereon.

On paragraphs 115 of the 1962 Report and 98 of the 1963 Report, *Non-productive payments*, Mr. Lalonde was examined, particularly on *Construction of breakwater, New Haven, N.S.*, and also *Construction of Surveys and Mapping Building, Ottawa*.

The questioning of the witnesses still continuing, at 10.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(29)

The Committee resumed at 3.35 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Forbes, Francis, Hales, Legault, Mandziuk, McLean (*Charlotte*), Southam, Stenson, Tardif, Tucker and Winch (16).

In attendance: (Same as at the morning sitting).

The Chairman tabled a letter from the Deputy Minister of Public Works, enclosing information requested at the morning sitting relating to "Construction of Surveys and Mapping Building, Ottawa." The Committee agreed that this letter be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (See Appendix 3).

The Committee resumed consideration of non-productive payments relating to the Department of Public Works.

Mr. Lalonde was further examined, assisted by Messrs. Williams and Boyle.

Mr. Henderson and Mr. Smith also supplied additional information.

On paragraphs 80, 81, 82, 83 and 96 of the 1963 Report, Messrs. Henderson and Lalonde reviewed these paragraphs and were examined thereon.

The questioning of the witnesses being concluded, the Chairman thanked Messrs. Lalonde, Williams and Boyle.

At 5.25 p.m., the Committee adjourned until 9.30 a.m. Tuesday, July 28.

Clerk of the Committee.

M. Slack,

EVIDENCE

THURSDAY, July 23, 1964.

The CHAIRMAN: Gentlemen, I see a quorum just about to sit down. Will you please come to order. Before we launch into the business scheduled for today I have some formal matters to deal with. First of all, I have here the long form reports from the Auditor General in respect of the Canada Council for the years 1962 and 1963, respectively. As officials of the Canada Council will be appearing before us next Tuesday, these documents are to be tabled in order to form a background for the discussion. Therefore, I would ask for a motion that these be tabled.

Mr. WAHN: I so move.

Mr. WINCH: I second the motion.

The CHAIRMAN: The motion has been moved and seconded. Is it agreed?

Motion agreed to.

In addition, for your information you should have received the annual reports for 1962 and 1963 of the Canada Council. These are the reports which have been referred to us. Any members who find themselves without too much to do over the week end may have an opportunity to spend a useful period of time examining these documents so they may come here prepared to ask searching and analytical questions.

Now I shall announce the formation of the two subcommittees which this main committee has instructed to be set up. First, the subcommittee on the form of the public accounts will consist of Messrs. Ryan, Prittie, Southam, Smith, Rondeau, Pilon and Cameron. Then the subcommittee to inquire into the question of national defence surplus and assets in connection with the Crown Assets Disposal Corporation will consist of Messrs. Tardif, Hales, Winch, Côté and Francis. In each case the first person named is the chairman. I shall get in touch with these committees later on. There will be reports made and information prepared for their use. Therefore, some time will be spent before the committees actually commence deliberations on the matters in which they are interested and get under way.

In connection with the latter committee, your subcommittee met yesterday and in view of the discussion which the Chairman had with the Auditor General in connection with the scope of this inquiry into the Crown Assets Disposal Corporation and the Department of National Defence, it has been suggested that a motion be presented with the approval of the steering committee, with conditions attaching. I shall speak about this later. It is also suggested that authority be requested from the house to engage accountants and clerical personnel for the purpose of this inquiry and relevant investigations.

In my discussion of the matter with Mr. Henderson two points were brought out. Since his staff has been stretched pretty thinly as the result of the requirements of this committee, this particular inquiry into Crown Assets Disposal Corporation matters will necessitate a very close and searching examination requiring the services of two or three people over a period of a number of weeks, probably five or six weeks at least. Secondly, by virtue of the position of the Auditor General as the auditor to which these two corporations report, it is felt that it might be better if the matters were pursued

under the guidance and supervision of independent accountants. Therefore, a motion has been proposed, and I shall now ask the committee for its approval. However, I should add that it is subject to this condition; before we actually proceed to engage any such personnel, we should discuss the matter with the treasury board to see if personnel of the kind required are available and can be secured for this purpose. So, if the motion is passed, as I hope it will, it will be passed on that understanding. Subject to that condition, the sub-committee, which will be making the investigation, will first go to the treasury board to see if they can secure the personnel required.

Mr. WINCH: I move the adoption of this motion.

The CHAIRMAN: All right. Here is the motion:

Your committee recommends that it seek permission to be empowered to engage an accountant and clerical personnel, as it may deem necessary, for the purpose of its inquiry and relevant investigations arising from its study of the public accounts.

It has been moved by Mr. Winch. Is there a seconder?

Mr. WAHN: I second the motion.

The CHAIRMAN: Is there any discussion? Are you ready for the question?

Motion agreed to.

You will recall that when Mr. Scott, assistant deputy minister of transport, was here representing the department, some question arose with regard to the Montreal airport. At that time Mr. Winch indicated to the committee that he proposed to bring before the steering committee a motion dealing with further investigation.

After consideration, Mr. Winch brought this matter up at the steering committee, and the steering committee having considered the matter has this proposal to make to the committee:

The steering committee further recommends a follow-up investigation of the matter drawn to the committee's attention by the Auditor General under paragraph 87 in the report of 1963. And that in furtherance of same the Chairman correspond with the former minister of transport at the time the contract was let, enclosing a copy of the committee's transcript and asking an explanation of the procedure. The steering committee on the basis of any reply received to determine whether or not there is necessity to ask for a personal appearance before the committee of the former minister.

I am advised this should be paragraph 87, which deals with the catering contract.

Mr. LEBLANC: It is catering instead of construction?

The CHAIRMAN: That is right. I was dealing with the whole airport, which is a very different kettle of fish.

Mr. SOUTHAM: I so move, Mr. Chairman.

Mr. LEBLANC: I second the motion.

The CHAIRMAN: Is there any discussion? Are you ready for the question? Will all those in favour please indicate. Contrary?

Motion agreed to.

Gentlemen, I have here a letter dated July 20 from Mr. Scott, the Acting Deputy Minister of Transport, furnishing certain information containing the names of the directors in respect of this particular arrangement. This was information which was asked for at the meeting. Is it agreed that this be tabled and printed as an appendix to the proceedings?

Agreed.

Finally, I have a letter from Mr. Armstrong, the Deputy Minister of National Defence, in which he encloses certain information which was asked for in connection with the Department of National Defence schools in Canada, their expenditures and their grants. This information has also been requested. Is it agreed that this be tabled and printed as an appendix to today's proceedings?

Agreed.

Gentlemen, we have with us today the officials of the Department of Public Works in the persons of Mr. Lalonde, the deputy minister, and Mr. Williams, the assistant deputy minister. Both of these gentlemen are known to members of the committee. Mr. Lalonde, prior to his present position, was Deputy Minister of Veterans Affairs and Mr. Williams has been with the Department of Public Works for some considerable time. In addition, they are accompanied by Mr. Boyle, their financial adviser. I am sure that after we have heard from Mr. Henderson with respect to various matters of concern to us today we will have the benefit of a statement from Mr. Lalonde and his officials; and the committee will then be free to ask questions, as we have in the past.

Mr. Henderson, would you mind opening the proceedings in connection with the first paragraph with which we have to deal?

Mr. A. M. HENDERSON (*Auditor General of Canada*): Gentlemen, the first paragraph for attention this morning is paragraph 99 of my 1962 report dealing with payment of maintenance expenses of the civil service recreational association centre. That appears on page 44 of my 1962 report. While this paragraph is being considered, may we also suggest that we deal with paragraph 79 of my 1963 report which deals with the same subject.

Members of the committee will recall that the subject matter of these paragraphs was discussed in the committee on June 16 last, details of which can be found at pages 142 to 146 of the evidence.

It was suggested by several members at that time that they might have a few questions they would wish to put to the deputy minister of public works as and when he was able to come before the committee. Very briefly, at that time, as you will recall, the members took note of the fact that, contrary to the long standing parliamentary practice that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purpose, maintenance expenses of this recreational centre, which is operated by the civil service recreational association, a privately managed staff organization at Ottawa, had been charged to the vote entitled "Maintenance and Operation of Public Buildings and Grounds".

In my paragraph 79 in the 1963 report I bring the matter up to date; that is to say, through March 31, 1963. It is our understanding that in the estimates in the future it is proposed to add the name of the building to the vote wording. But, I think it was brought out in the committee that a few extra words should be added after naming the building to indicate the nature of the charges that would be made to the vote.

Mr. Chairman, I think that is about all I would have to say on the background of that matter.

The CHAIRMAN: Thank you. Now, gentlemen, we had a full and interesting discussion on this matter just recently, and if any members want to add to their knowledge or change or vary the views they expressed at that time they may do so now.

Mr. Lalonde is present and I am sure he will be glad to answer any questions put by members who have formed a decision on the matter and who may feel their decision was right.

Mr. LEBLANC: Mr. Chairman, we discussed that matter yesterday.

The CHAIRMAN: Yes. Would you proceed, Mr. Ryan.

Mr. RYAN: Mr. Chairman, I have a couple of questions to put to bring out information which I would like to have.

How many civil servants are there in Ottawa who would use these facilities?

Mr. LUCIEN LALONDE (*Deputy Minister, Department of Public Works*): I would say between 55,000 and 60,000.

Mr. RYAN: And, in cities like Montreal, Toronto, and other cities in Canada have we any similar provisions for civil servants?

Mr. LALONDE: Not that I know of.

Mr. RYAN: How many civil servants would you have in the city of Toronto?

Mr. LALONDE: I am afraid I do not know.

Mr. WINCH: Is there any reason at all in the estimation of yourself or your department why there could not be a short explanatory note because this is not actually something in the nature of a government building or a government service. I agree with the principle involved, but should it not be shown more in the way of a grant for the specific purpose as between employer and employee in the capital city?

Mr. LALONDE: I am sure the department, in preparing its estimates for next year, will take note of the remarks of the committee.

As you know, it was only in the further supplementary estimates of 1963-64 that this item was included as a result of the observations made by the Auditor General. So, I think that in consultation with treasury board we will take this into account.

Mr. WINCH: Then there is agreement between the Auditor General and treasury board and, I presume, the department, so no further action is required at this time.

The CHAIRMAN: *Functus officio*.

Mr. TARDIF: How do you say that in French?

The CHAIRMAN: Tout fini.

Mr. WINCH: Just say *fait accompli*; that is easier.

The CHAIRMAN: We will now proceed to the next item, paragraph 115. Perhaps I should leave it to Mr. Henderson to give the order of these paragraphs. However, I assume this is the next one that appears on our agenda.

Mr. HENDERSON: The next item is paragraph 115, which again deals with non-productive payments. While we are considering those which deal with the 1962 year would it be your wish, Mr. Chairman, that you might also include the 1963 ones which are referred to in my 1963 report under paragraph 98 where, as you recall, they are shown in appendix form, in order that we might have just one discussion of non-productive payments without having to go back to the subject.

If that is agreed, the 1962 lot includes, as you will see, under paragraph 115 of the 1962 report, eight cases of non-productive payments shown in the listing which starts at page 54, involving an aggregate amount of \$345,000. In the 1962-63 fiscal year, as shown in appendix 1 of my 1963 report, which appears at page 148, you will note that out of the 37 cases of non-productive payments listed there 20 of them, having an aggregate cost of \$496,000, related to the Department of Public Works.

It might be useful if I were to first give you the numbers. You might care to tick them off the report.

The CHAIRMAN: I was going to suggest that.

Mr. HENDERSON: In the 1962 report under paragraph 115 the ones for discussion this morning would consist of items 12, 13, 14, 15, 16, 17, 18 and 19.

In my 1963 report, in appendix 1, on page 148, the pertinent numbers are: 7, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 35 and 37.

At this point, Mr. Chairman, the members may wish to ask some questions.

Mr. WINCH: My first question would be addressed to Mr. Lalonde. Could he explain to us why, for the first time in two years, they have been termed non-productive payments.

Mr. LALONDE: Mr. Chairman, I am not sure whether the interpretation that the committee places on the heading, "non-productive payments" means that every one of those is undesirable or a result of maladministration. If that is so, then I am afraid I have to disagree that all non-productive payments must, of necessity, be bad, because in some of the instances cited here the department has in fact saved money by taking the action which it took; in other cases there is no such justification. However, I would not accept the premise that all of these items are the result of bad administration.

Mr. WINCH: To save the time of the committee and yet get down to what the committee would like to know would you, of your own volition, point out those items which would be justified?

Mr. LALONDE: I can give you a few examples. For instance, in the 1962, list let us take item 13 first. It has to do with construction of a breakwater at New Haven. First, there was a contract awarded to a contractor at a certain price. The contractor started the work and then found that the quarry which he had been using could not supply him with the kind of stone that he needed to use to construct the breakwater. When he reached the stage where he could not use that quarry any more, he said to the department, "I will only continue if you change my contract to a cost-plus contract. I will find the rock somewhere else, but put me on a cost-plus contract". The department did not agree, as they do not, as a matter of policy, encourage the use of cost-plus contracts. They cancelled his contract and they had to pay him for the work he had done. The department subsequently called for new tenders. The prices that the second contractor quoted, based on another source of rock, were much lower than the original prices quoted by the first contractor, so that in effect the decision not to place the first contractor on a cost-plus basis and the fact that we got a better price on the second contract enabled the department to complete the job at a total cost which was smaller than what it would have been if we had continued at the prices quoted in the first contract.

Mr. TARDIF: That would be the exception.

Mr. LALONDE: This is an example of what can happen.

Mr. TARDIF: It is an example of an exception, not of the rule.

Mr. LALONDE: Let us take another example.

Mr. WINCH: I am sorry, I was thinking of different instances. I was going to ask whether we could get at least general explanations on different types of cases. I have just marked two examples on which you could give us some indication of your operation. Take No. 18 in the 1962 report where it says, "As the department's representative was remiss in completing arrangements". If you go to the 1963 report, under No. 7 we have a decision for a new route. In another item, I have not marked it, we have something owing to faulty plans. Perhaps I am being too general but it is information on this type of example that we would like to have regarding your operation and what happens to the taxpayers' money because a serious mistake was made, or else after deciding something, and you must have had reasons for that decision, you then completely change your route, or else your plans are wrong.

Mr. HARKNESS: Could we finish with item 13 before going on to the others?

The CHAIRMAN: I was going to say that. Mr. Winch indicated his general line of questioning but we are now on 13 and Mr. Tardif brought up a specific

question. Mr. Harkness has another one. Have you any specific question with regard to 13?

Mr. TARDIF: I was asking if this is the practice. If the department has saved money this is the exception, it is not the rule, because this normally would not happen. If you stop a contract in the middle and ask for further prices the normal result is that it will cost considerably more.

Mr. LALONDE: The only thing I was trying to prove, Mr. Chairman, is that you cannot say that all non-productive payments are bad. That is the only thing I am trying to argue at the moment before the committee. There are some that are bad, certainly. You pointed out a couple, Mr. Winch.

Mr. CAMERON (*High Park*): Mr. Lalonde made a statement and I agree with it. We are not looking at it from the standpoint that because it is a non-productive payment we think it is bad. We want to examine all of them. Some may be good, some may be bad. That is the principle on which I at least intend to proceed, and I would hope that that would be the consensus of this committee, that that is the basis on which we should proceed, not to pick a certain one out and say it is bad per se. We want to find out whether it is actually bad. There may be redeeming features in a lot of them.

Mr. HARKNESS: The explanation which Mr. Lalonde has given, it seems to me, does not tie in with the figures that are presented in the report. The original estimated cost of this particular work was \$125,000. The original contractor was paid \$121,000. Then the second contractor received \$134,000. That is the thing that strikes me, that you finally end up paying more than twice as much as the original estimated cost. The explanation is given that the second contractor put in a lower price than the first. I just do not see how these two statements can be reconciled, in view of these figures.

Mr. LALONDE: I think I have to admit, Mr. Chairman, that the original estimate was wrong. It was simply a departmental estimate; it was not the cost of the contract.

Mr. HARKNESS: It was not a fixed contract for \$125,000; it was a cost-plus contract, was it?

Mr. LALONDE: It was based on unit prices. The original unit price for core stone was \$1.71 per ton, and on the second contract we got a quote of \$1.20 per ton on that kind of stone. The first contract on armour stone was \$4.95 per ton, and the second contract was \$3.50 per ton.

Mr. HARKNESS: Then it would seem to be a serious error on the part of the departmental officials who made these estimates.

Mr. LALONDE: I agree with that.

Mr. HARKNESS: Parliament actually voted \$125,000 for this work and it ended up at more than twice that amount. Therefore, the money was voted on what you might call a misapprehension, or something along that line. What happens in a case like this? You have had an estimate which proves to be very, very wrong indeed; is there any disciplinary action directed towards the persons who prepared your estimates?

Mr. LALONDE: No, Mr. Chairman, because estimating, especially in a case of that type of construction, in many instances, is not an exact science, the same as preparing a budget is not an exact science. We have had mistakes in estimating and we admit it; I think this is one of those. However, I do not think you can dismiss an engineer or architect for making a mistake in estimating when you consider the number of estimates the department puts out in a year. I think the number is not that bad. I admit there are some errors, but it is not that bad.

Mr. TARDIF: Does this mean that the engineer finds it difficult to figure out the cubic footage of stone necessary to fill this?

Mr. LALONDE: There is something else involved in this; it is a rather technical matter and I would ask Mr. Williams to explain how it is determined whether you will get the necessary amount and particular type of stone.

Mr. TARDIF: I do not care where he gets the stone, but it should not be a great mathematical problem to figure out how many cubic feet is needed to fill a certain contract.

Mr. G. B. WILLIAMS (*Assistant Deputy Minister, Technical, Department of Public Works*): In this particular case you must realize that the stone was being placed in tidal waters. You have to protect it in the tidal waters by placing armour stone on the outside. It is impossible to control completely the matter of how much you will lose, and how much will roll down. Without a great deal of investigation work done in advance, it is difficult to determine how much stone will settle. In this particular case, when the contractor attempted to blast and get out the size of rock required, he could not get a system of blasting which would produce the required size of stone. Normally, we do not designate the quarry the contractor will use; we show him which ones are available and he chooses. However, in this case, the quarry was immediately adjacent and from all appearances it appeared to contain hard stone. The only way in which we could have determined this exactly would have been by going in and opening up a test quarry.

Mr. TARDIF: I know you are not answering in this way in an effort to confuse me; you would not do that. However, I did not ask about the stone which would go around it. I was speaking about the stone to fill this in, and I wondered whether the engineer calculated the type of bottom that is there, and how much sinkage there would be?

Mr. WILLIAMS: He made his estimate and it was not an accurate estimate.

Mr. CROUSE: The witness stated that the government referred the contractor to the quarry which he should use.

Mr. WILLIAMS: In this particular case we did.

Mr. CROUSE: And in this particular case he based his price on the quarry which you recommended?

Mr. WILLIAMS: Yes.

Mr. CROUSE: Did your governmental engineer make a test of that quarry to ascertain whether or not the stone contained any asbestos fissures, or anything else which would break up the rock when quarried, so that he could not get the stone he required.

Mr. WILLIAMS: We did not open up a test quarry.

Mr. CROUSE: You did recommend this and when he started he found fissures in the rock which prevented him getting suitable stone.

Mr. WILLIAMS: Yes.

Mr. CROUSE: Then your departmental engineers definitely were at fault in recommending this particular quarry?

Mr. WILLIAMS: I would not accept that they were definitely at fault. The engineer examined the site. He saw a large outcrop of granite which normally would have produced good armour stone. In this particular case his judgment was inaccurate and it did not. I might say, this is one case where we could not get the armour stone. However, if we were to open up a test quarry in every case on every job, it would be a very expensive and very slow proposition. If we were to open up a quarry each time in order to establish whether or not we were positive to get the type and size of stone required, I think this would

be impracticable from an engineering standpoint in time and cost. In this case, we were wrong; in many we are not.

Mr. CROUSE: In view of the figures which Mr. Henderson has presented to the committee, I would submit that the cost involved has been quite substantial. Would it not be advisable to allow the contractors to do their own assessment, because from the facts presented here it would appear that the contractor might not have chosen the quarry you recommended?

Mr. WILLIAMS: The normal practice is to let the contractor choose his own quarry. This is an exception where we selected it. You say it would cost more; that is true in this case, but if we were to open up a test quarry on every job we did, the cost would be more than the amount involved here.

Mr. CROUSE: Would it not be advisable to test the quarry before you recommend to a contractor or, if not, that you should leave the contractor to make his own assessment before bidding on a job?

Mr. WILLIAMS: As I say, this was the exception. Since that time, where we have specified a quarry we have test quarried.

Mr. WAHN: In this case, were tenders called on the first contract?

Mr. LALONDE: Yes.

Mr. WAHN: Did the man who eventually completed the job tender?

Mr. LALONDE: Tenders were called for the second contract.

Mr. WAHN: Did the man who got the second contract tender on the first contract?

Mr. LALONDE: I am sorry; I do not have that information.

Mr. WAHN: But tenders were called?

Mr. LALONDE: In both cases.

Mr. WAHN: Mr. Williams stated that ordinarily the department does not specify a quarry.

Mr. LALONDE: May I interrupt; the man who tendered and who was successful on the second contract did not tender on the first contract.

Mr. WAHN: The tenders were adequately advertised?

Mr. LALONDE: Yes.

Mr. WAHN: Mr. Williams said it is not usual to specify a quarry. Why was a quarry specified in this particular case?

Mr. WILLIAMS: To the district engineer, the outcrop right at the site looked like a natural for the job. He specified it in an effort to get lower prices for the total job. He thought that by specifying this it would remove some of the risk from the contractor and hence he would get a better price.

Mr. WAHN: I gather that when the job was officially completed it was found that suitable rock was available within a mile or so of the job. You said that if you opened a test quarry on each of these jobs, the total cost would be excessive. I would agree with you. But the suggestion made was that they should not have specified a particular quarry, or if they did specify one, that you then should make whatever tests are necessary in order to make sure that the stone from that quarry would be satisfactory.

I would go along entirely with what Mr. Cameron said earlier, that merely because this proves to be a non-productive expenditure it does not necessarily mean that it was undesirable. I think what the committee is concerned with is to find out if mistakes have occurred, whether they are recognized as mistakes by the department, and whether corrective action is taken. I do not think we are engaged in any witch hunting. All of us know that mistakes in planning occur, no matter how careful you may be.

I know in construction work, from my own experience, that the major overruns in cost occur because sufficient preliminary engineering and surveying and that kind of thing have not been done. That is when you get into the big ones. This is rather a minor case. However, it is another indication that you would have saved a fair amount of money if a bit more preliminary work had been done in this particular case.

The cost then was due to the fact that the stone from that particular quarry was specified, yet the preliminary engineering work that should have been done in this instance was not done.

Mr. WILLIAMS: That is right, and I may say that, where we contemplate for one reason or another specifying a particular quarry, we now do testing, and we have done so in two cases since.

Mr. WAHN: Do you save money by specifying.

Mr. WILLIAMS: It is always debatable, but in some cases it might cause a problem. If in our opinion there is only one source available, and there is the possibility of someone getting an option on that source, this would preclude a number of people bidding, and that could be the situation.

Mr. WAHN: I would think that when you specify a quarry, it would tend to increase the cost rather than to cut it, because if you do not specify a quarry, then the contractor may make his own deal with whoever happens to have the required type of rock. But if you specify a particular quarry, then you should make a very careful investigation to find out if it is the only type of material which would do the job, and that it is to be found in that specified spot. If I were a contractor I would like to have freedom not only to deal with the particular quarry owner you specify, but also with neighbouring quarry owners and perhaps thereby get better bids. You say you would save by specifying a particular quarry. How does this work?

Mr. WILLIAMS: I would say that in 95 per cent of this type of job, and perhaps in even more than that, we do not specify. We rarely specify. In this particular case the supervising engineer felt that here was a quarry within a matter of one hundred yards or so, and if he could use this quarry, he might be able to keep the price down.

Mr. WAHN: Who owned the quarry?

Mr. WILLIAMS: It was a local arrangement, but we could get control of the quarry.

Mr. WAHN: If the rock had been taken out of that quarry, who would have been paid?

Mr. WILLIAMS: I am afraid I cannot answer that question.

Mr. WAHN: I would like to know if it was a private owner? Is there something improper? That is what this committee is interested in.

Mr. WILLIAMS: No, I am sure there was nothing improper.

Mr. WAHN: I do not see how we can tell until we know the name of the quarry owner. If it was a crown owned quarry, that is one thing.

The CHAIRMAN: Maybe that information could be obtained.

Mr. HENDERSON: It is right here.

The CHAIRMAN: On what page?

Mr. WAHN: Then my question is irrelevant. I am sorry.

The CHAIRMAN: Now, Mr. Ryan.

Mr. RYAN: Mr. Williams said it was controlled by the crown. Surely there is a difference. Mr. Williams thinks it was controlled by the crown.

Mr. WILLIAMS: I said that we had control of it for the contract, but I do not know whether it was crown owned or not.

Mr. RYAN: It might have been leased by the crown.

Mr. WILLIAMS: It could have been.

Mr. WAHN: I would like to know if any private individual would derive profit as a result of the stones taken from that particular quarry, whether it be crown controlled or not. If it were the crown, presumably there would be no royalty payment for the stone.

The CHAIRMAN: If you do not have the information may we obtain it later on? You will get it later, perhaps by this afternoon? Now, Mr. McLean.

Mr. McLEAN (*Charlotte*): I was going to ask whether or not this was done on a unit basis, or if the contractor was obliged to keep on with this particular quarry, and if the unit price was much higher, it was going to cost the government a good deal more money. If the government owned the quarry, however, it would be a different proposition. But if the government did not own the quarry, it would be another matter. I can see where a unit basis of \$125,000 does not make much difference because it might take twice as much stone. If you get a bad lot or something, it might take twice as much stone. I cannot see where the trouble comes in unless it was privately owned and leased to the government, or something like that.

The CHAIRMAN: This information will be secured by the officials, Mr. McLean.

Mr. LALONDE: We will check all these details and I will provide them in writing to you.

The CHAIRMAN: Mr. Ryan.

Mr. RYAN: I would like to ask the gentlemen what it would have cost, in their estimation, to test this particular granite rock outcrop?

Mr. WILLIAMS: It is difficult to say how much drilling and blasting we would have had to do. We have spent in one case, \$56,000 on test borings, but we would not have spent that much for a job of this size. It would not be as much as reported here as a non-productive payment in this particular case.

Mr. RYAN: Would a simple test at the top of this outcrop have been of any value to you?

Mr. WILLIAMS: No. This was a rare problem. It was after he got into deep drilling that it was found that the contractor could not fracture the armour stone satisfactorily. The stone on the surface, from what we could see from our drill core, appeared to be solid and to fracture properly. But when we got into it, it just would not do so.

Mr. RYAN: Would it be possible to let the committee have the exact words of the specifications from the first contract, that is, the specifications which stated that suitable stone for the purpose could be obtained from the crown owned quarry adjacent to the site? Could we have those words for our record?

Mr. WILLIAMS: Perhaps I should emphasize that this was the exception to the rule.

Mr. MANDZIUK: Mr. Chairman, my question might be hypothetical, but I assume the committee can take it that the first contractor was quite competent to do the job; is that right? He could surely have given you an estimate of what the cost-plus job would run to, indicating whether it would amount to the \$134,000 some odd which you had to pay the second contractor. The second contractor built on the foundation, or at least some work had already been done; is that right?

Mr. WILLIAMS: That is correct.

Mr. MANDZIUK: He would then have benefited from that work?

Mr. WILLIAMS: We attempted to negotiate with the first contractor but he would not do it on any other basis than cost-plus. Cost-plus in itself is open

ended, because whatever the work cost the contractor we must pay, plus his percentage.

Mr. MANDZIUK: Could there not have been an estimate made of what the cost-plus contract would run to?

Mr. WILLIAMS: An estimate would be meaningless because when he reached that point, not being finished, he would just keep on working on the cost-plus basis.

Mr. MANDZIUK: Thank you.

Mr. WILLIAMS: In the atmosphere of trying to negotiate with him the price for settling the contract we felt that it would be better to go to a public tender for the job.

Mr. MANDZIUK: That is all, Mr. Chairman.

Mr. HALES: Mr. Chairman, this situation existed in 1962. We have asked these witnesses to appear before this committee to help us investigate these non-productive expenditures. This question seems to hinge on one thing, whether this quarry was owned or leased by the government, or owned by someone else. I am surprised that the department officials cannot furnish us with this information at this moment in view of the fact this occurred two years ago. I am surprised that information is not available right on the spot this morning. If this is an example of how work is being done by the department it is a wonder the loss was not more than \$95,000. I think we are entitled to an answer to the question at this moment. Who owned the quarry?

Mr. SOUTHAM: I should like to ask a supplementary question, or make a remark in respect of what Mr. Hales has said.

At page 58 of the 1962 auditor's report in paragraph 13 appears the following statement:

—suitable stone for the purpose could be obtained from a crown-owned quarry—

Is that statement correct or incorrect?

Mr. HALES: That is exactly what the members of this committee would like to know.

Mr. SOUTHAM: The Auditor General's report states at page 58 in the second line from the top that suitable stone could be obtained from a crown owned quarry adjacent to the site. Is there a difference of opinion whether it was crown owned or just leased? What is the status of this particular quarry? Is this statement to which I have referred incorrect?

Mr. LALONDE: I am quite certain that the Auditor General obtained that information from our files, and I am quite sure that the quarry must have been crown owned. I think what Mr. Williams was referring to was the fact he was not sure whether it was owned by the department or leased by the department with the department having control of it in any event. In the light of the wording of the Auditor General's remarks I am quite certain that it was owned by the department.

Mr. HALES: Mr. Chairman, have the officials of the department made a thorough study and investigation of this situation and, if so, how could those officials make a thorough investigation without knowing the answer to that question? That is the point I am making.

Mr. LALONDE: I am afraid we are becoming involved in an interpretation of words. Mr. Williams stated that he could not testify in that regard, but I am sure that the records of the department, all of which we do not have with us today, will indicate that this quarry was crown owned. Having read the remarks of the Auditor General I have no doubt that it was owned by the crown.

Mr. TARDIF: Was it stipulated in the original contract that the contractor must purchase the stone from this particular quarry?

Mr. WILLIAMS: Not necessarily, sir. The contract would probably have been awarded on the basis that the bid price took into account the fact that the contractor would use stone from that quarry, if the quarry was crown owned, as is indicated in the Auditor General's remarks, and which I am reasonably sure are correct. When I said I did not know I meant that sitting here at this moment I personally do not know whether the quarry was crown owned. That is what I meant when I said that in the first place. If the quarry was crown owned we asked him to bid on that site and he would pay no royalty to us. We had bought the quarry and it was available for any works we carried out. The contractor would take his units from that site.

Mr. TARDIF: Mr. Chairman, I am asking whether it was specified in the original contract that the stone must be taken from that quarry.

Mr. WILLIAMS: That is correct.

Mr. TARDIF: Would the price be averaged out? Was that portion done by the original contractor the most costly part of the contract, and would the \$1.31 or \$1.50 which was charged after, average out the price in any event?

Mr. WILLIAMS: No, that is not so. Part of the contract concerned core stone. The first contractor never did place any armour stone, which would involve a more difficult job.

Mr. TARDIF: If the contract was based on unit prices, would the officials of the department not know that the original unit price was too high?

Mr. WILLIAMS: No because this involved his bid price. It was after he started placing a certain amount of the core stone when we found we could not get any armour stone, and that is when he quit.

Mr. TARDIF: Everything was based on a unit price; is that right?

Mr. WILLIAMS: That is correct.

Mr. TARDIF: What caused the increase in his cost? The contractor was paid for every unit he produced; is that right?

Mr. WILLIAMS: Yes, but he could not produce the unit to the specifications so he could not be paid for it.

Mr. TARDIF: Thank you very much.

Mr. WAHN: Mr. Chairman, in order that I may be clear in this regard I should like to know whether the officials of the department can tell me if any payment was made to any person for stone taken out of that quarry, regardless of who technically owns it? I should like to ask another question arising out of that situation. Assume the quarry was crown owned; when did the crown acquire the quarry? Why did it acquire the quarry? How much was paid for the quarry and from whom was the quarry purchased? In other words, if the crown purchased this quarry for the purpose of this contract I am very interested in knowing how much it paid for the quarry?

Mr. RYAN: I am also very interested in having that information.

The CHAIRMAN: Perhaps that information could be obtained and made available later.

Mr. LALONDE: Yes, Mr. Chairman.

The CHAIRMAN: Are there any further questions in respect of this particular item, non-productive payments?

Being not a very good mathematician, I should like to ask whether the Auditor General has at some time or another added together all of the items of non-productive payments itemized both in the 1962 and 1963 reports?

Are the total figures available, and can they be put on the record for the benefit of committee members?

Mr. HENDERSON: Mr. Chairman, the 22 items listed in the 1962 report total \$627,547. The 37 items listed in the 1963 report total \$1,051,193.

Mr. FRANCIS: I should like to ask a question referring to item 15 in the 1962 report.

The CHAIRMAN: Yes, that question would be in order.

Mr. FRANCIS: I am wondering whether the costs referred to in that item apply to space under long term lease, in this case in London, which turned out to be space which could not be economically used or not required? The statement indicates that there has been no disposition of the residue of the leasehold interest, and I am curious to know what procedures are followed in an attempt to dispose of these things in situations of this kind. I should like to know whether the officials of the department have been able to make any more satisfactory arrangements subsequent to the report of the Auditor General?

Mr. HENDERSON: Mr. Chairman, perhaps I could answer Mr. Francis' question by saying that if he will look at item 17 in the 1963 report he will see that the situation did continue into that fiscal year but that the interest was disposed of subsequent to March 31, 1963. I think that will answer your query. It is item 17 on page 152, you see, in the 1963 report.

Mr. FRANCIS: Was it disposed of in terms which leave a continuing liability to the department, or was it disposed of in such a way that there would be no liability to the department?

Mr. HENDERSON: That would be within the next fiscal year. Perhaps Mr. Lalonde could answer that. I do not have that information.

Mr. BOYLE: There is no continuing liability on the department. The residue of the lease has been disposed of in its entirety.

Mr. WAHN: May I go back to item 12, which is a Department of Public Works item?

The CHAIRMAN: Of the 1962 report?

Mr. WAHN: Yes, 1962. Here again is a case where additional costs were incurred because the plans apparently were changed or were not available for the contractor.

I really do think this is the main source of overrun in costs in most construction contracts, and this seems to be another instance of it. Could the witness tell us why it was impossible for the specifications to be prepared for the equipment needed by the Department of Mines and Technical Surveys for these press rooms so the contractor could have proceeded without delay and without the additional cost that is incurred? Should the plans not be completed in advance?

Mr. LALONDE: This would be wonderful in so far as our department is concerned, but in providing service to other departments we have to take their requirements as they are produced for our use. In this case the experts in the Department of Mines and Technical Surveys did not know exactly in 1958 how many presses or what type of presses they were going to place there. I think there were a number of reasons, but it is a little hard for me to say what was in their minds. Undoubtedly, the question of volume and the question of new types of press were involved. It was only in November, 1959, that this knowledge was available. There was a delay there between February and November when the department did not have a firm decision on how many presses would be placed there or what type they would be.

Mr. WAHN: I think it is most likely, in any case where plans and specifications are not complete before the contract is let or when the contract is let, that

you will run into additional costs. I would think in most cases this would happen; correct me if I am wrong. If you do not have complete plans and specifications before you start a contract job, in many cases, at any rate, one is bound to run into additional costs.

Mr. LALONDE: Normally we would, yes.

Mr. WAHN: So when the Department of Mines and Technical Surveys asked you to go ahead with this building and were unable to give you the information needed to provide a contractor with complete plans and specifications on which he could bid accurately, you must have known that there was a danger of an overrun in costs. Then, presumably, the Department of Mines and Technical Surveys told you to go ahead anyway. In those circumstances, when you think there may be an overrun in cost because the plan is not ready, who makes the decision whether the urgency on the part of the Department of Mines and Technical Surveys for this building is sufficiently great to incur the risk of additional cost, which is almost inevitable? Who makes this decision?

Mr. LALONDE: I do not know who made the decision at that time, but I think that the factor involved in making the decision is whether there is a need to provide the total accommodation in spite of the fact that this small portion of it is not at the moment available for final planning.

If I remember correctly, the situation in the Department of Mines and Technical Surveys at that time was fairly bad, and I think it was bad until the buildings on Booth street were constructed. I am sure the deputy ministers involved and the Treasury Board looked at this and decided that they could not wait and delay the construction of the whole building itself for almost another year.

Mr. WAHN: In this case, Mr. Chairman, there was a fixed price contract of \$7,840,000. Would this be approved by the treasury board? What is the procedure? When you go ahead and erect a building such as this, what is the procedure?

Mr. LALONDE: We submit the project to treasury board for approval.

Mr. WAHN: The project?

Mr. LALONDE: Yes, we submit the project in detail. Then, when the tenders come in we submit the tenders for final approval of the project and of the tender to be accepted.

Mr. WAHN: They approved this specific tender?

Mr. LALONDE: Yes.

Mr. WAHN: Would you inform the treasury board at that time that in your view the plans and specifications were not sufficiently complete and that there would likely be additional costs incurred?

Mr. LALONDE: I am not sure whether this was done. I am not even sure whether at that time the Department of Mines and Technical Surveys was in a position to say whether there would be further costs. I think the only danger there was that the department could have proceeded with some plan and put in X number of presses, and then a year later the Department of Mines and Technical Surveys would come to us and say, "This does not work; you have to change this." Then it would have been more costly, I think.

Mr. WAHN: The amount involved is relatively small in relation to the total contract, but the point I am trying to make is that from what the witness has said it would appear that the decision on whether this job is to be done is made by the treasury board, because the treasury board is the one that first approves the project and then actually approves the tender.

Mr. LALONDE: The Department of Public Works clears with the department involved first—in this case the Department of Mines and Technical Surveys.

Then, having received acceptance or concurrence by the department involved, it submits the project to the treasury board.

Mr. WAHN: Would this be an impossible or undesirable suggestion: that, in cases where the Department of Public Works has not received the detailed plans and specifications required for the entire job—when these have not been made available to it—they should specifically notify the treasury board to this effect so that the treasury board, which presumably is the body which makes the ultimate decision whether the project is to proceed, can make a policy decision on whether it should proceed immediately, knowing full well that there is likely to be an overrun in costs because the plans are not ready, or whether they wait until the plans will be finalized.

Mr. LALONDE: Mr. Chairman, I think this is a very good method of proceeding except for the fact that, as I hope you realize, at that time we can only issue a warning because we could not at that time place a money estimate on what might be involved. In other words, when this was approved, prior to April, 1958, we could not say to the treasury board that this might cost \$50,000 or \$100,000. We could only say that the plans are not complete; and that we can do.

Mr. WAHN: You say the plans are not complete and, because the plans are not complete, in your experience this is likely to and probably will result in increased cost; and that I think would be a useful warning to treasury board.

The CHAIRMAN: I have Mr. Tardif, Mr. Southam and Mr. Ryan listed as wishing to ask questions. I will take Mr. Tardif's questions, and then I am afraid we will have to adjourn because the defence committee follows us in this room.

Mr. TARDIF: What is the name of the contractor involved?

Mr. LALONDE: E.G.M. Cape.

Mr. CROUSE: Is any disciplinary action taken against officials? It says "Result of delay in submitting finalized plans". I was wondering if any disciplinary action is taken by the senior officials when these mistakes are made by the engineers and engineering staff. You must be aware of these errors. What action do you take, if any, to discipline these people who make these mistakes?

Mr. LALONDE: There are a few instances where there has been a separation of some employees who were responsible, not for an error in estimating or a mistake in choosing a kind of material for a certain purpose, but where it was gross negligence. Although there have been some cases, as I say, there have not been very many. There are a couple mentioned in here where that happened.

The CHAIRMAN: We may be able to go on and have Mr. Southam and Mr. Ryan put their questions.

Mr. SOUTHAM: Mr. Chairman, I have a short question. It is supplementary and in respect of item 12. In the case of this contractor having been paid an extra \$141,300 for this work, I would like to know who arbitrates this. How does the arbitrator act in arriving at this extra amount of \$141,000? Because the contractor did not have a complete set of plans and specifications is there a tendency on his part to gouge a bit, or is it done fairly equitably?

Mr. LALONDE: Normally it is done by negotiations between the department and the contractor and eventually as a result of those negotiations the department makes a submission to treasury board explaining why it recommends a settlement at a certain figure.

The CHAIRMAN: Would you proceed, Mr. Ryan.

Mr. RYAN: Mr. Lalonde, was this building designed by your department or by an independent outside architect?

Mr. LALONDE: There would have been a consultant architect involved.

Mr. RYAN: Did your department do all the engineering for the air conditioning, heating and so on in respect of this building?

Mr. LALONDE: No. The consultant would have been responsible for this.

Mr. RYAN: Therefore, the architect in this case, as is usual, employed his own engineering staff?

Mr. LALONDE: Yes.

Mr. RYAN: I take it that there were complete working drawings before the fixed price of \$7,840,000 was tendered and accepted in this case?

Mr. LALONDE: Yes.

Mr. RYAN: And this extra money was really due then to difficulties either arising with the engineering or changes made by the Department of Mines and Technical Surveys?

Mr. LALONDE: That is right. It was as a result of a change in specifications which came out later following discussions between the representatives of the Department of Mines and Technical Surveys, our own architects and the consulting architects and engineers.

Mr. RYAN: Then, really the extra of \$141,392 is rather small compared with the original contract price of \$7,840,000; in other words, it is not unusual that a situation like this would arise, even in private construction?

Mr. LALONDE: I think it would happen in outside construction as well.

Mr. RYAN: Yes, I think it would.

Mr. CAMERON (*High Park*): Mr. Chairman, I have a supplementary question which, in part, relates to the question put by Mr. Southam. I would be interested in seeing a breakdown of how in March, 1962 the amount of \$141,392 to cover additional costs incurred as a result of the delay was made up. I wonder if that could be supplied at our next meeting?

The CHAIRMAN: What item is that?

Mr. CAMERON (*High Park*): Item 12, and it is in the amount of \$141,392.

Mr. LALONDE: Yes, we have that information right here. We can provide it in writing and it could form part of your record.

Mr. WINCH: Mr. Chairman, I am sorry but it was imperative for me to leave. Are you considering having Mr. Lalonde back again?

The CHAIRMAN: We have to adjourn to make room for the defence committee. However, we will be meeting again at 3.30 this afternoon, at which time we will proceed with this same subject in this same room.

For the benefit of the latecomers we have available for distribution the 1962-63 report of the Canada Council, which we will be discussing next Tuesday.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I see a quorum. The meeting will please come to order. Before we carry on from where we left off I wish to say that I have been given a letter by Mr. Lalonde to which he has attached the material which was asked for, and which covers a breakdown of the claim in connection with item 12 for the construction of a surveys and mapping building in Ottawa. There are a great many figures included and I suggest that the committee agree that this document be tabled and printed as an appendix to today's proceedings. It deals with item 12 on the construction of a surveys and mapping building, as mentioned in the 1962 report. We are asking that it be tabled and printed as

an appendix. If members wish to pursue any further questioning in the matter, here it is. May I have agreement in the matter?

Agreed.

Before we go on, let me say that Mr. Lalonde has also prepared additional information with regard to the other projects on which he was questioned. Rather than table it, when the time comes he will read it into the record and make a statement in which he will give the information requested.

Mr. MANDZIUK: My question does not relate specifically to this matter.

Mr. WINCH: After we adjourned the public accounts committee this morning we held a meeting of the defence committee which lasted until after one o'clock. When I left the room I left my public accounts documents in front of me with a note reading: "Harold Winch, please leave on table." Would the Chairman please find out who it was who removed my documents, and have them returned to me?

The CHAIRMAN: Would you check on it, Mr. McGee. Mr. Winch says that some of his documents were left here after the defence committee finished its proceedings, and they are now missing. Oh, they are at the back. Thank you. It would have been bad if they had been removed.

Mr. WINCH: I left a note on them saying "Do not remove from this table."

Mr. TARDIF: How is your handwriting, Harold?

Mr. MANDZIUK: My question is of a general nature. With all these additional payments for contracts, I would like to know what the yardstick of measurement is? On what grounds are they made? Is it on compassionate grounds or on legal grounds? Where there is some fault in the contract itself, and if it were a contract with a private individual, the contractor would probably be entitled to receive some consideration. But it is known across the country pretty generally that you can get almost anything out of the department if you ask for it. Rather than avoid court action, they will settle out of court and pay through the nose. I would like to know what the yardstick is, and if there are any legal grounds under which a contractor may ask for compensation. Does the Department of Public Works consult with law officers of the crown before making a settlement? That is the first part of my question. I shall put everything on the board.

The second part of my question is this: I take it that the treasury board, so we have been told, approves these additional awards to contractors when there is a recommendation. Does the treasury board get all the pertinent facts which justify them to agree to the payment of \$50,000 or \$100,000, or whatever it is? I think we should be made clear about it because I know in private business a contractor would have quite a time of it to get anything extra. Once he has entered into a contract, he must carry out his contract. At least, it usually would end in a lawsuit if nothing else. I have given you quite a big order, but maybe it will require only a short answer.

Mr. LALONDE: Perhaps I can best answer you in as few words as possible by explaining how we do it.

Mr. MANDZIUK: Yes, please do.

Mr. LALONDE: It is departmental policy that each claim by a contractor must be documented and justified. You mentioned the word "compassionate". I think we have been quite often accused of not being compassionate enough.

Mr. MANDZIUK: I have never heard of that.

Mr. LALONDE: So far as the department is concerned, that does not enter into the picture. The contractor must produce evidence to show that he has suffered damage because of some action which was unforeseeable, or which resulted from departmental action of some kind. He puts forward his claim.

His claim is then analysed by departmental officials. They give their opinion on whether each item in the claim is valid or not. Then this opinion is placed before the executives of the department where a decision is made on what items in the claim should be recommended by the department to the treasury board.

A complete submission is then drafted and forwarded to the treasury board giving the amount of the claim, the details of the claim by the contractor, and the departmental recommendation. Sometimes the treasury board approves our recommendation, and sometimes they vary it.

I do not know if I have answered all your questions.

Mr. MANDZIUK: After you have been given the facts that you require, you pass them along to the treasury board?

Mr. LALONDE: Yes, together with our comments. And in this particular case that I have left with the Chairman, the claim was higher than what we recommended to the treasury board, and what the treasury board approved.

Mr. MANDZIUK: You have answered it so far, but does your department ever ask for opinions from law officers of the crown? I can understand where through the fault of the department or the crown a contractor may have had to ask for some additional award. But it may be for something which he should have foreseen himself. If so, then why should he be compensated?

Mr. LALONDE: We have representatives of the Department of Justice attached to the Department of Public Works. We have a number of them. And before we make our own decision, we clear with them whether there are legal implications with respect to the claim, on whether it is legal or not to make a payment, or whether the statute of limitations operates.

Mr. MANDZIUK: What I am after is this. You would ask for a legal opinion whether you are liable. That is as far as your questioning of the law officer of the crown should go. If I employ a contractor, then what I would like to know from my counsel or from the court is whether I am legally liable to that contractor where through no fault of his own he has not been able to carry out his contract within the figure at which his tender has been accepted. If you can assure this committee that you are legally bound, then perhaps we can vary the heading which the Auditor General has put on these items as non-productive, because they are certainly non-productive. This is like giving a contractor an extra bonus for something or other.

Mr. LALONDE: I find it difficult to pinpoint the area of legal responsibility when we are talking about a claim which might depend on a change in specifications or something similar. There are certain terms in the contract which cover that sort of thing. This is something we would have to read to you to indicate the wording of the new contract form which, incidentally, is laid down by contract regulations.

Mr. MANDZIUK: If through no fault of the contractor something arises, then you are legally bound and perfectly justified in making additional payments, and I am sure you could justify this to the treasury board and the Auditor General. Is this procedure just an attempt to keep peace in the family by settling the claims? That is the impression I have.

Mr. LALONDE: Mr. Boyle could give you a little more detail in regard to the new contract form, which I think is relevant.

Mr. L. P. BOYLE (*Financial Adviser, Financial Services, Department of Public Works*): I think I followed your question and perhaps I can make this distinction. There are certain terms in the contract which give to the contractor entitlement for additional compensation when certain circumstances arise. I am thinking now in terms of soil conditions being not the same as the contractor

had a right to expect, or the crown taking some action which delays the contractor in his work. There is a legal entitlement under the contract to additional compensation under those circumstances.

Over a period of time, of course, departmental officials, on the basis of advice given by legal officers tend to become familiar with these areas in which there is a legal obligation and which would cause us to seek approval.

There is the other area of claim by a contractor, which is outside the contract range, and I rather think this is what you have in mind. When a contractor comes in and says, for one reason or another, he has lost money on a job, although there is nothing in the contract through which he can claim a legal entitlement to compensation, he still asks for consideration, I think I can say the department takes a particularly rigid view. These claims are outside the terms of the contract proper. Notwithstanding what you may have heard, we are not disposed to accept all these cases. We seek the advice of our law officers to support the position which we feel we should take on all these cases. We are prepared to do everything that the contract obligates us to do, but beyond that we feel the contractor must accept the risk he has assumed when he signed the contract. I think it is fair to say we can assure you that the number of cases in which compensation is paid now over and above the legal right of the contract is very small. Mind you, it is only since April 1, 1963 that the new contract has been introduced, building in certain rights for the contractor which previously he had not had.

I do not want to take up too much time but I should say that prior to April 1, 1963 a federal construction contract was very much weighed in favour of the federal crown, and there was no legal obligation on the crown to pay anything other than the price quoted in the bid.

Mr. MANDZIUK: Mr. Chairman, are we to understand that the contractor as a rule comes to the department after he has completed the contract and attempts to prove a case for entitlement to an additional award, or is this done during the process of the contract when something arises?

Mr. BOYLE: Yes, if during the course of the work a circumstance arises the contractor will bring that compensatable circumstance to our attention. Again, in the past, this was done in some cases, while in other cases the contractor held the claim until the end of the job because he obviously would not know whether he had a claim or not until he found out whether or not he had made a profit. Under the present contract the contractor must bring circumstances from which a claim might arise to our attention within specific time limits.

Mr. MANDZIUK: I have one further question. Do you now have a standard contract?

Mr. BOYLE: We do use a standard contract now.

Mr. MANDZIUK: Mr. Chairman, may we have a contract either incorporated in the evidence today or circulated among the members of the committee.

The CHAIRMAN: I think that could be done. Is it agreeable to members of the committee that contract forms be left with the clerk and circulated to the members.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Do you have a question to ask Mr. Winch?

Mr. WINCH: I have two questions I should like to direct to the deputy minister. As a result of my experience in industry, I completely understand that small and big mistakes can be made, but I am very interested in a remark made by the deputy minister at approximately five minutes before we adjourned this morning to the effect that on occasions gross mistakes are made. I should like to ask the deputy minister what his procedure is in

handling gross mistakes when they are discovered. Can you give us an example of a gross mistake being made and indicate how you handled it?

Mr. LALONDE: I have not been with the department long enough to come across a case of that kind, Mr. Winch.

Mr. WINCH: You made the statement that there are gross mistakes made.

Mr. LALONDE: There are one or two cases mentioned by the Auditor General in the 1963 report.

Mr. WINCH: Where are those items listed in the 1962 or 1963 report?

Mr. LALONDE: The first item is 18 in the 1962 report.

Mr. WINCH: At what page does that paragraph appear?

Mr. LALONDE: That paragraph appears at page 59 and involves the construction of some housing units in Fort Smith in the Northwest Territories.

Mr. WINCH: I think that was the item to which I drew your attention this morning.

Mr. LALONDE: Yes.

Mr. WINCH: The departmental representative was remiss.

Mr. LALONDE: In this case the departmental representative assured everybody concerned he would take the necessary action to provide power at a certain time. He did not do so and power was only provided a month later. This gave rise to a claim and there was a separation there.

The other item involves the construction of a building and is referred to in the 1963 report, paragraph 80 at page 49.

The CHAIRMAN: That item is not included in non-productive items, is it, Mr. Lalonde?

Mr. LALONDE: That is right, Mr. Chairman.

The CHAIRMAN: This is the next item we will refer to after we complete our discussion of the ones now before us. Perhaps the members of the committee will leave this item for consideration after we have completed the items with which we are now dealing.

Are there any further questions regarding the items now before us?

Mr. WINCH: Can you indicate what your general attitude is toward gross mistakes? I am not suggesting that a man should be fired, but how do you handle this situation?

Mr. LALONDE: I have experienced several cases during the past six months regarding departmental representatives being demoted for what I considered to be inefficient operation at the level at which they were making decisions. Certain individuals have been subjected to reductions in pay for what I considered to be gross negligence. These cases are not very numerous.

Mr. WINCH: Yes.

Mr. LALONDE: We feel that with the volume of work these people have to do—and there is no doubt that we have to decentralize more and more all the time—it is inevitable that there will be some mistakes if they are going to take any action at all. If they do not do anything, they will never make any mistakes, but we will never get anywhere.

Mr. WINCH: I am somewhat concerned about the relationship between your district engineering office and yourself on requests or demands, or whatever term you wish to use, by contractors when they think that your plans are incorrect. If I wanted to do so, I could give a number of instances. May I ask what is your procedure on these matters when you have a demand by a contractor for an additional sum? What is your procedure on your plans?

This came up the other day with regard to a duplex. They just gave the instructions for the one side and did not write on the plan or the specification that it must be the same for the plumbing on the other side. I have had instances from the Department of Public Works of a similar nature where your plans are such that neither the blueprints nor the specifications have shown that certain work has to be done, work which must be done. It is to my personal knowledge that the treasury board has not passed certain expenditures or authorized certain extra payment when it was not shown on your plans or specifications that the work had to be done in order to fulfil the contract.

I am now going to come to my specific point. Your regional office in Vancouver turned down a request, the architect turned it down; everybody turned it down; Ottawa turned it down. However, when the blueprints were really studied it was found that the regional office was wrong, the architect was wrong, the engineer was wrong, and you were wrong.

Mr. MANDZIUK: To err is human; to forgive is divine.

Mr. WINCH: How often are contractors stuck? I am speaking now on behalf of contractors. How often are contractors stuck because your architects, your regional office, your engineers say, "You should have known this". They say that although the blueprints did not show it and the specifications did not show it.

I think Mr. Williams knows the case to which I am referring.

Mr. TARDIF: Can the solution to that problem not be that if a contractor does something that is not shown on the specification or the plan he gets a working order?

Mr. WINCH: You try to get it from the district engineers of the Department of Public Works!

Mr. WILLIAMS: The procedure we have—and this is implicit in the new contract—is that the contractor bids on the information he has at the time he tenders and those inferences that it is reasonable to draw from them. In any set that goes out there are always supplementary drawings. There are, for example, shop drawings. In making up his bid there are certain things that he provides to meet the specifications. These provisions are not exactly the same among all bidders, and the differences may provide a different fit. He provides appropriate shop drawings, so to that extent the original drawings may not be complete, but they are complete within the concept of the trade.

From what you have said I am assuming you refer to a particular job in which there was a dispute at the district level with regard to whether he should, from the information given to him in the initial stage, have assumed and provided for certain additional works. It was checked with the consultant architect, and the consultant architect and district architect took the same view.

Mr. WINCH: That he had no claim?

Mr. WILLIAMS: That he had no claim. The matter was referred to headquarters. The report from the district architect and the consultant architect was reviewed in headquarters and, from the information provided, headquarters advised the contractor that he did not have a claim and the reason for which he did not have a claim. The contractor subsequently wrote to headquarters on the basis of reasons for which we turned it down and gave us information which, when we checked it through, we found to be correct; and then he was paid. This is not abnormal procedure although in most cases it does not arise.

Mr. WINCH: Harold Winch, M.P., who can read blueprints, read the blueprints and your staff agreed that I was reading the blueprints correctly. Then he was paid. Why? Your office can read blueprints; they draft them.

Mr. WILLIAMS: There was a difference in opinion and if there was an error made in our office we regret this. We took the necessary action to correct it as soon as we established there was an error.

Mr. CAMERON (*High Park*): With what additional information did he supply you when he wrote direct to headquarters? That is what I understood you to say he did.

Mr. WILLIAMS: When we wrote back to him we gave him the basis on which we rejected the request. We try to give the basis on which we do reject it so that if there is something we are not interpreting correctly or some information that he has to which we did not give proper consideration, he has the opportunity to present it.

Mr. CAMERON (*High Park*): I was interested to know what it was.

Mr. WINCH: Mr. Chairman—

The CHAIRMAN: May we get the answer to Mr. Cameron's question and then go back to Mr. Winch?

Mr. WILLIAMS: The answer to your specific question is that I do not know. I am treating it in a general way; I am not speaking of a specific case. I think I know the case to which Mr. Winch referred, but I do not know the detail.

Mr. CAMERON (*High Park*): I think I know, and probably we will agree. The plan for a double building showed heating on one side only; the other side of the building did not show heating.

The CHAIRMAN: I would suspect this possibly covers a building that is not within the ambit of our consideration. It has been discretely hidden in generalities so far, and we should probably not go into detail. We are getting into the field of 1964, which might be the subject of a non-productive payment in some other year.

Mr. Winch, have you finished?

Mr. WINCH: I mentioned that in a general way but I was referring to the British Columbia penitentiary, and that you probably know.

The point I am after here is this: Is it not your architectural and engineering practice that, if something has to be duplicated or if you have to go through a certain procedure in order to be able to do what the contract calls for, it should not be shown on the plan? Does a mistake like this occur very often?

Mr. WILLIAMS: I am not clear what you are getting at, Mr. Winch, but I would hope it is not very often that a mistake like this occurs.

Mr. WINCH: Is it the general practice in the Department of Public Works? You must have to do thousands upon thousands of blueprints and drawings. Is it not the general practice in that department when something has to be duplicated, if you do not show it on the actual blueprint, to mark on the blueprint itself that there has to be a duplication in such and such a circumstance or, if one thing is shown on the first floor and the third, you will show on the blueprint that the same thing has to be done on the second floor although it is not in the contract? Is it not the case that you do this when, although something is not shown on the blueprint, it has to be done in order to complete the job properly?

Mr. WILLIAMS: If it is shown as a detail on the mechanical engineering plan, then it should be referred to on the architectural plan on each floor as it applies.

Mr. WINCH: Thank you. It should be?

Mr. WILLIAMS: Yes.

Mr. WINCH: So the matter to which I am referring is just one of those occurrences when it was not shown?

Mr. WILLIAMS: That is right.

Mr. WINCH: It was not shown?

Mr. WILLIAMS: That is right.

Mr. WINCH: Thank you. It should be.

Mr. WILLIAMS: Yes.

Mr. WINCH: So, what I am referring to is just one of those occurrences when it did not.

Mr. WILLIAMS: Yes.

Mr. WINCH: It was not shown.

Mr. WILLIAMS: That is right.

Mr. WINCH: Is there any check made by any senior officer between the production of the final drawings and the one who uses them?

Mr. WILLIAMS: Yes, there is a check made to the extent that we have to make sure the plans conform all the way through. Now we, like other people, have a volume of work to do with a certain number of people. Admittedly, in some cases we miss them.

Mr. WINCH: Well, I know I never have caught up on all the mistakes I made in the construction business.

The CHAIRMAN: Would you proceed, Mr. Southam.

Mr. SOUTHAM: Mr. Chairman, this morning the Auditor General Mr. Henderson, in answer to a question in respect of non-productive payments, summed up the total amount for 1962 as roughly half a million dollars and I think in 1963 it added up to a little over \$1 million. This in itself is startling. Could you tell us the reason for the increase between 1962 and 1963? Is it possible that this may be due to what Mr. Smith referred to a short while ago in answer to questions put by Mr. Mandziuk, as recent changes in the contract form in order to make it a little more favourable or flexible to the contractor? As I say, is it possible that this would be the reason for this large increase in non-productive payments between 1962 and 1963?

The CHAIRMAN: If I may interrupt, Mr. Southam, that was Mr. Boyle.

Mr. BOYLE: Mr. Chairman, if I could deal with the question, I do not believe the introduction of the new form has had any effect on these non-productive payments. Perhaps it is the success Mr. Henderson has had in some small way of increasing his own staff to make it possible to produce more evidence and, perhaps, there was a greater number reported in 1962 than in 1963.

Mr. SOUTHAM: I have a further question on that subject. Who directed this pressure upon the department to have these contract forms changed to make them more favourable or flexible?

Mr. BOYLE: There is a body in existence, the treasury board advisory committee on contracts, which is chaired now by the comptroller of the treasury, on which representatives of the major construction agencies, public works, transport, northern affairs, D.C.L. and so on are represented. This group has been working for a very long time under terms of reference given by treasury board to produce a contract. It has three terms of reference, (a), to make it as fair as possible between the contractor and the crown; (b) to make it as simple and as easy to understand as possible, and, (c), to identify the professional responsibilities of the professional persons involved. These are in the terms of references set out by treasury board, and the contract was developed by the treasury board advisory committee.

Mr. SOUTHAM: To follow along that line of questioning and the number of items listed in 1962 in respect of non-productive payments, with an increase

in 1963, could you advise what the percentage of the non-productive payment items were compared with the total number of applications which came before the department for revision of contracts. I am trying to get this into the proper perspective.

Mr. BOYLE: I would not want to answer without doing further research in this connection. However, I will be glad to supply you with this information.

Mr. SOUTHAM: The reason I put the question is that it might put this whole thing into a better perspective so far as the department is concerned. We are dealing with a number of cases here which look fairly glaring; however, the over-all picture may not be so bad when we are supplied with the information in respect of the total number of applications reviewed.

Mr. BOYLE: We will be glad to do some research on this. We are unable to give you this information today but we will be glad to furnish it later.

The CHAIRMAN: Does the committee agree that when this letter is received it should be tabled and printed as an appendix to these proceedings so the information will be available to the members?

Some hon. MEMBERS: Agreed.

Mr. SOUTHAM: In answer to my first question, will Mr. Henderson or someone advise why the increase in 1963 is almost double that of 1962 in respect of these non-productive payments?

Mr. HENDERSON: First of all, I might just say that the number of people that Mr. Smith has on his establishment handling the auditing work for the Department of Public Works has not been increased in 1963 or 1962.

As you know, our work is a test audit; it is not a complete check of all the transactions of the department, and the non-productive payments listed here are only those which come to our attention in the course of carrying out that test audit. We discuss them with the department. In fact, they are good enough to check the correctness of the facts with us before the note is even put in, and we have sought to eliminate any so-called border line cases.

I would like to just mention to the committee that there never really has been a precise definition given to me or my predecessors of what constitutes a non-productive payment. In 1962, as you will see from my reference at the beginning of paragraph 115, I refer to the committee's direction to me to list all of these encountered in the course of my work, and that I do. We go to considerable pains to present the facts just as fairly and as clearly as we can.

I think in our discussion today about the cases we encounter in connection with our work with the Department of Public Works you do have to realize that the department, as the deputy minister said, is essentially a servicing department, and they are by no means to be blamed at all for a number of these because they are caused by circumstances beyond their control. For example, number 19 in 1962, in respect of architectural services in connection with the proposed R.C.M.P. building in Markham, the R.C.M.P. decided after the work had been started that Markham was not the place they wanted to locate because it was too far from Toronto. Nevertheless, acting on earlier instructions, the department had proceeded to make commitments. Therefore it is factors like these that I know you will want to bear in mind as you assess the situation. Mr. Lalonde this morning discussed the construction of a surveys and mapping building in Ottawa, item 12. Again, that was as a result of action taken by the Department of Mines and Technical Surveys. Now, Mr. Lalonde and his associates are speaking to these things because, of course, they take place on their books. I just felt I should mention this, Mr. Chairman, because I think this whole thing should be brought into the proper perspective and, in fairness to the Department of Public Works, these things must be borne in mind.

Mr. SOUTHAM: As I stated, you summed this up this morning as approximately one half million dollars in respect of 1962 and a little over \$1 million for 1963 and, as I understand it, this was for all departments. Is it possible that you made more spot checks in the latter year which enlarged this figure or was there, in fact, that much of an increase?

Mr. HENDERSON: Perhaps I could have Mr. Smith say something in that connection. He is in charge of this work in the Department of Public Works.

Mr. SMITH: Mr. Chairman, I think there is bound to be a variation from year to year in the number of items which we have selected as fitting into this rather nebulous definition of non-productive payments. While our examination is on a test basis I think that the items which appear in the reports for the respective years in which we are dealing do, in fact, represent practically all, if not all, of the non-productive items in excess of \$1,000.

Undoubtedly there will be smaller claims which our test audit did not bring to light.

Mr. SOUTHAM: I was just wondering in view of these two years and the total amount, whether we should not go back a year or two and get the figures for 1960-61. Would they show a gradual increase, or this much of an increase? This seems like a fairly large increase. Maybe we should get the whole thing into perspective and see whether this is accelerating or maintaining a happy medium.

Mr. SMITH: For some reason, which I cannot explain, the number of items of this nature relating to the fiscal year 1962-63 was greatly in excess of anything which we had experienced in the past.

Mr. STENSON: I would like to ask did Mr. Boyle, intimate to us that a contractor, if he lost money, could come back to the department and put his case before the department and secure some help?

Mr. BOYLE: In the department we try to live within the terms of the contract on the basis that it has now been made equitable and therefore is enforceable.

Mr. STENSON: They would not receive any money whatsoever?

Mr. BOYLE: I cannot say a definitive no. Our position would be that we could give them compensation owing to them under the contract.

Mr. STENSON: Would they have to show something for it?

Mr. BOYLE: The loss of money in itself would not be sufficient grounds to consider additional compensation.

Mr. MANDZIUK: Mr. Chairman, my question stems from Mr. Southam's questions. I believe Mr. Boyle promised to give us the number of contractors whose claims for additional awards were rejected. Could Mr. Boyle at the same time, while on that task, give us a list of the number of claims made and paid, because we are given to understand that these came up from a spot check by the Auditor General and therefore there could be others amounting maybe to considerably more than a million or a million and a half dollars.

Mr. BOYLE: I will try to give you a list of the contracts, those paid and those rejected. This might involve a considerable amount of work, and some of them may escape us. Could I confine myself to a given fiscal year 1962-63?

Mr. MANDZIUK: Yes, just the years under discussion.

Mr. WINCH: Mr. Chairman, I am basically asking for your advice because I would like to ask a question and I do not know at which point to ask it. It relates in general to non-productive payments. I am asking for your advice, sir, because as we have these distinguished witnesses from the Department of Public Works with us I would like to ask them a question, either at this point or at some other time, about their specifications which are non-productive in

that they specify, in construction work, that a contractor must instal equipment of a trade name, which often has to be imported into Canada, when the same equipment or its equivalent which is even more efficient, can be obtained at a much smaller price. I am very much intrigued with this, and I will say right now that at the moment my studies make me believe that it is not in the Department of Public Works but somewhere else there are kick-backs on the specifications. I am asking you, Mr. Chairman, at which point I might ask this question, now or later on?

The CHAIRMAN: This is a question of general nature. I do not know whether the department officials are in a position to answer it.

Mr. WINCH: If my question can be asked now I would like to make it more specific. Can I do it now?

Mr. MANDZIUK: I think this is practically a charge, and a serious one. I think Mr. Winch should be more specific. It is a reflection on somebody or other in the department. We are not trying to put them through the wringer, but we are trying to find out facts.

The CHAIRMAN: Not only that, of course, but the department officials are here to deal with specific matters which are contained in the Auditor General's report.

Mr. WINCH: Could I ask the question at the end of the meeting?

The CHAIRMAN: You could frame your question specifically. If it is a matter which comes within the ambit of Mr. Henderson's report, it is a matter which these gentlemen must be prepared to answer. If it is not in Mr. Henderson's report, but if it is remotely related to it, we might be able to consider it. We will get through the other items, if we can, and then we will consider it.

Mr. CARDIFF: I have been following this very closely and I would like to ask the following question: Is it not a case of a lack of direction from some person who is responsible and in charge? We cannot get that information out of the deputy minister or anyone else because they will not pinpoint anybody down, but is it not a case of a lack of direction from some responsible person who is in charge which causes a lot of these mistakes? Mind you, I can pick up the book here and pick out a dozen items where the contractor received twice as much as the contract price in the first place owing not to his fault but to a lack of direction from the department. I can name the cases, if you want me to.

Mr. LALONDE: Mr. Chairman, I am afraid these are general questions that are very difficult to answer. Is this lack of direction on the part of the consultant or the architect or the engineer? Is this lack of direction on the part of the district official?

Mr. CARDIFF: I would say it was lack of direction on the part of somebody responsible for these changes being made. I have not the slightest doubt that the deputy minister knows pretty well where these mistakes are made. Perhaps he corrects them, I do not know. If he does not, he should. It is the responsibility of the Auditor General, as far as I can see, to find these things and to point them out to the committee. He has a double-barrelled responsibility because he has also to protect the contractor.

Mr. LALONDE: Once we get the report of the Auditor General it is too late to take corrective action on that particular item. The only thing we try to do is to prevent a recurrence, but we are not always successful.

Mr. CARDIFF: This has been going on for years.

Mr. LALONDE: Yes, ever since there has been a government. You cannot stop this altogether.

Mr. CARDIFF: That is true, but mistakes can be corrected. I am not critical when someone makes a mistake because if you do not make mistakes then other people want to know why you are not doing very much. However, we want to know who is responsible for these mistakes. This is costing this country a lot of money. That is what we are here for; to try to correct them.

The CHAIRMAN: While Mr. Lalonde is considering whether there can be a further answer, Mr. Hales has a question.

Mr. HALES: Mr. Chairman, I apologize for being late but there is a fact I want to point out. While we were on item 13, construction of a breakwater at New Haven, Nova Scotia, which we were discussing this morning, I think the committee wanted to know who owned the other quarries. Has this been answered?

The CHAIRMAN: No, we got started on the other matter and we are projecting ourselves in several directions, Mr. Lalonde has this material and he is going to read it before we leave.

Mr. TARDIF: The same thing worries me as worries Mr. Cardiff. I know it is inevitable that there will be some errors in a big operation such as the Department of Public Works, but although these errors are drawn to our attention there is no specific blame put on anybody. For instance, let us take the purchase of land for the R.C.M.P. building at \$127,000. Somebody must have given the O.K. for the purchase of this land at Markham, Ontario. Was it the same person who a couple of weeks ago found that it was in an improper place and that the \$127,000 had been spent for nothing? I think what Mr. Cardiff and I are worried about is that we find out that these things have been done, but we never do find out who did them.

Mr. CARDIFF: That is the point; nobody is ever pinned down.

Mr. TARDIF: Then we ask whether any disciplinary action is taken. If a person is guilty of one or more mistakes which cost the country a lot of money, it is a proper question to ask whether any disciplinary action is taken. Certainly, we know there are going to be mistakes, but we would be interested in knowing whether these mistakes are made by the same persons all the time.

Somebody must have been responsible for giving the O.K. to purchase the land at Markham, Ontario, for the R.C.M.P. headquarters. Certainly, if the person who did that did it without finding out how impossible it would be to give the expected service from such a distance, then definitely there must have been a lack of efficiency, a lack of knowledge, or both. We never find out who did it. The department says, of course there are mistakes and that efforts will be made to see that they do not happen in the future; but if the same man makes several of these mistakes, I would think that if he were transferred somewhere else, or if he were given a ten month leave without pay, this might help cure these things in the future.

Mr. CARDIFF: If this land was acquired for an R.C.M.P. building at Markham, Ontario, and the government does not use it for that purpose, what happens to the land?

Mr. TARDIF: It is still there.

Mr. LALONDE: We are in the process of declaring it surplus to requirements.

Mr. MANDZIUK: Is it still worth the amount of money that you paid for it?

Mr. LALONDE: We think so.

Mr. MANDZIUK: We have had experience in respect of what the Crown Assets Disposal Corporation does with these things; they sell it for a buck.

Mr. TARDIF: Is there an answer to my question?

Mr. LALONDE: I am endeavouring to find out who wrote to us to tell us to buy this.

Mr. WINCH: Was it the R.C.M.P. who said they wanted it there?

Mr. LALONDE: That is right.

Mr. HALES: Mr. Chairman, may I ask which is the next item we will take up so that we might be studying it?

The CHAIRMAN: We will be taking up paragraph 80 in the 1963 report.

Mr. HALES: What about item 17 in paragraph 115?

The CHAIRMAN: We have been dealing with the non-productive items in a group. We are still on those items, both in the 1962 and the 1963 reports. When we finish those, we will proceed to paragraph 80 in the 1963 report.

Mr. TARDIF: May I suggest that for future meetings the persons who are going to be witnesses before this committee, and who I presume know what is to take place, bring along with them the documents pertaining to the items which will be discussed.

Mr. LALONDE: We are going through the notes right now; they are here.

Mr. TARDIF: I am glad you are not guilty of this, but previous witnesses have been guilty of it. Members of parliament do not have a tremendous memory; sometimes they forget, and eventually do not obtain their answers.

The CHAIRMAN: At this time I will ask Mr. Lalonde to give an answer to the question in which Mr. Hales is interested.

Mr. LALONDE: This is with regard to the breakwater at New Haven, which is item 13. The question was asked: Who did the quarry belong to in the first contract? I now have the information which is contained in the specification, clause 19, in respect of procurement of rock. The information is to the effect that the site is owned by the Department of Public Works, and that there is a sufficient quantity of suitable rock on the site. This is where the specifications were wrong, because it turned out later there was not sufficient rock.

Then, on the second contract the contractor was told to make his own arrangements to provide whatever rock was necessary to complete the job. One of the queer things in this matter of public bidding is that on the first contract there was no charge made for the rock taken out of our quarry. That quarry was next to the site and had been purchased not as a quarry, but as a suitable approach to the breakwater, and at the same time served the dual purpose of providing the rock. If the intention had worked out, it was good but the unit prices were higher on the first tender than on the second tender, although they were not by the same people. There were public tenders in both instances.

Mr. HALES: In the second case, the quarry was the responsibility of the contractor?

Mr. LALONDE: Yes.

Mr. HALES: To go back to the first tender, the Department of Public Works was going to supply the quarry stone out of their own pit, as it were.

Mr. LALONDE: That is right.

Mr. HALES: This had been purchased for approach purposes?

Mr. LALONDE: Correct.

Mr. HALES: Did the department take any soundings or make any investigations in respect of whether or not rock was available on that property?

Mr. LALONDE: There were no actual drillings, as Mr. Williams explained this morning, to test the quarry. It appeared to be sufficient and this is where we admit a mistake was made.

Mr. HALES: We do not need to pursue that any further. The department admits they made no soundings and no testings, and thought there was sufficient rock there.

Mr. LALONDE: Yes.

Mr. HALES: And they thought wrong. The specifications were drawn up on this basis?

Mr. LALONDE: Correct.

Mr. HALES: Who in the department would say that there was rock on this property; would it be the area man?

Mr. LALONDE: The district engineer.

Mr. HALES: Is he still on the job?

Mr. LALONDE: Yes.

Mr. HALES: He is located in Halifax?

Mr. LALONDE: Yes.

Mr. HALES: How long has he been there as the district engineer in Halifax?

Mr. LALONDE: Since 1955 or 1956.

Mr. HALES: He went there in 1955 or 1956 as area engineer?

Mr. LALONDE: As district engineer for harbours and rivers.

Mr. HALES: Has he had any promotion since then, or has he had a promotion since this particular case happened?

Mr. LALONDE: No.

Mr. HALES: I believe this was in 1962?

Mr. LALONDE: No; this was in 1958-59.

Mr. HALES: The work was done in that period?

Mr. LALONDE: Yes.

Mr. HALES: You do not know whether or not he has had a promotion since then?

Mr. LALONDE: He has had no promotions.

Mr. HALES: Has he had an increase in pay since then?

Mr. LALONDE: Yes; the usual salary adjustments or increments.

Mr. HALES: I do not think I need pursue this any further.

The CHAIRMAN: Mr. Stenson.

Mr. STENSON: My question is in respect of item 13 in paragraph 115. What I cannot understand is that if the estimated cost of the contract was \$125,000, he certainly did not complete it, or nearly complete it and yet he was paid \$121,000. Could you explain to us why he was given so much money and was not able to complete the contract?

Mr. LALONDE: I think the estimate of the cost was based on unit prices. This is what we explained this morning. This is where the whole thing went wrong. The basic items on which you had to pay were so many tons of rock at so much, plus overhead and everything else.

That is why the whole construction became much more expensive than the original estimate.

Mr. STENSON: Would he have a fixed unit price when he got this contract?

Mr. LALONDE: Yes, I mentioned it this morning.

Mr. STENSON: He must have delivered very few units. How did they figure paying the contractor \$121,000?

Mr. LALONDE: You had better explain it, Mr. Williams.

Mr. WILLIAMS: Because the contract was not practical; he could not perform the contract because he could not get the rock. He could not be paid at the unit price in the contract, because it was impossible for him to perform because of our error. In a situation like that you negotiate, or you try to negotiate a settlement. And in the absence of that, you must pay under the contract cost-plus; so we had to pay him his costs under the contract, plus.

Mr. STENSON: You feel that the costs were shown as his expenses?

Mr. WILLIAMS: His costs were examined. He provided us with his books, his costs, the amount of money he spent on his equipment, and the work he did in moving his equipment in and out; the formula is cost plus ten per cent.

Mr. MANDZIUK: Was there any consideration given to the obligation of the contractor to check, on his part? Was there any obligation on the contractor to find out whether this particular quarry was suitable or not?

Mr. WILLIAMS: As I said this morning, this was an exception where we undertook to say "That is where you will get it." Then it became our responsibility, when it otherwise would have been his responsibility.

Mr. HALES: I am sorry to have to come back to this, because I did not think of it earlier; but this approach land which you bought and eventually found to have rock on it for this job, from whom was it bought, and what price was paid for it?

Mr. WILLIAMS: It was purchased by the crown from Mr. John Jacob McLeod of New Haven; and the price was \$6,270. It was an expropriation.

Mr. HALES: That seems to be in order; first—how many people tendered on this first contract, and was the lowest tender accepted?

Mr. LALONDE: Nine people tendered, and the lowest tender was accepted.

Mr. HALES: So it is pretty much the one point, an error in judgment on this particular piece of property, where the department said there was rock, while in fact there was no rock; and the man who said there was rock there was your district engineer, and this mistake cost the taxpayers of Canada \$95,000.

Mr. WINCH: I have a question which I think is important, at least it is to me. Is it general policy of the public works department that if a contract bid is accepted and a contract awarded, and then because of an error in judgment of the department the contractor is unable to complete his contract, he is then paid off on the basis of his costs plus ten per cent profit on his actual costs? Is that a general policy that is applied here?

Mr. WILLIAMS: Yes. You have three alternatives: you may negotiate for an amendment to the contract taking into account the change; or you may negotiate, or if you have to terminate, you can negotiate a lump sum settlement; or, if you cannot make a satisfactory negotiation, you may pay the contractor on a cost-plus basis, that is, cost plus ten per cent.

Mr. WINCH: Is it always cost plus ten per cent?

Mr. WILLIAMS: That is right. The ten per cent is for overhead, not profit.

Mr. WINCH: I have worked on jobs over 35 years where it is T.M. plus, time and material plus. Is cost not the same thing?

Mr. WILLIAMS: Costs are defined as being the actual cost.

Mr. WINCH: Is it not the T. and M.?

Mr. WILLIAMS: Time and material, yes it is essentially that.

Mr. WINCH: Plus ten per cent?

Mr. WILLIAMS: Yes.

Mr. WINCH: So it is ten per cent profit.

Mr. WILLIAMS: No, the ten per cent is to cover his overhead such as insurance, workmen's compensation, and so on. If there is a mark up in it, I suppose, there is some profit.

Mr. WINCH: I always understood that T. and M. meant all the cost of the contractor plus.

Mr. WILLIAMS: It depends on the definition of costs.

Mr. WINCH: Even in compensation you can go as high as 6 per cent alone; especially on quarry work you can go to 6 per cent.

Mr. WILLIAMS: Under wages yes.

Mr. BOYLE: In a construction contract the cost formula is defined as costs acceptable in a settlement of this kind. It is the time of persons who are employed directly on site.

Mr. WINCH: I do not know about Ontario, but in most provinces there must be vacation pay, compensation, and so on included. Are they not included as being costs of the contract?

Mr. BOYLE: Yes, but in addition there is ten per cent to cover the head-office costs, and there is no provision for anticipated profit or loss of profits.

The CHAIRMAN: Have your officials any other information available?

Mr. LALONDE: Yes. We were given instructions in a letter from Assistant Commissioner Perlson of the R.C.M.P. on January 10, 1958, to expropriate the Markham site, and informed that the expenditure had been approved by the treasury board.

Mr. WINCH: These were orders given to public works upon instructions from the Royal Canadian Mounted Police?

Mr. LALONDE: That is right.

Mr. WINCH: I want to be very careful because I want to be fair. Therefore, while you are nominally involved, you had to operate because you had received instructions from the R.C.M.P. through the Minister of Justice.

Mr. LALONDE: That is the way we work most of the time. You see, we are a service department. We are told to do something. We are a construction agency. We may be asked to do something by another department, and the decision has usually been approved by that other department.

Mr. WINCH: Does the Department of Public Works expropriate land at the request of other departments?

Mr. LALONDE: That is right.

Mr. TARDIF: It is unfortunate, because when reading this one would tend to say that the responsibility for doing this was the responsibility of the Department of Public Works. But when we ask questions about it, we find out that the responsibility was that of the R.C.M.P., with the approval of the treasury board.

Mr. HENDERSON: I pointed this out earlier. I drew your attention to this one example, when I said there were circumstances over which they had no control because of the nature of their operation being largely as a service agency.

Mr. TARDIF: Would it be possible to put information of that type in next year's report so that instead of questioning the Department of Public Works we might question the R.C.M.P. or representatives of the treasury board?

The CHAIRMAN: That is an excellent suggestion, Mr. Tardif. We can consider it when we reach our consideration of the report for the House of Commons regarding the non-productive items.

Mr. WINCH: I think this is one point we should be very careful to keep in mind when considering our report.

Mr. HENDERSON: I should like to point out that if you read that paragraph you will note it states:

In April 1960, following a review of the suitability of the Markham site, the conclusion was reached by the force that it was too remote from downtown Toronto—

Are you suggesting I should put that in bold type?

Mr. TARDIF: No, that would not help.

Mr. HENDERSON: This statement is here and we have tried to give the facts.

Mr. TARDIF: The paragraph states that the Department of Public Works purchased this property for the R.C.M.P., and then in the later part of the paragraph you state that the R.C.M.P. decided it was not a suitable location.

Mr. HENDERSON: That is right.

Mr. TARDIF: I do not have a degree in literature, but those words indicate to me that the Department of Public Works is responsible for the mistake yet the R.C.M.P. told the department, as is indicated at the end of your paragraph, that the Department of Public Works should not have purchased that property because it is not suitable. That is the impression I gain in reading that paragraph.

Mr. HENDERSON: That is right.

Mr. WINCH: I think I have the situation clear in my mind but I should like to ask this question to get the information on the record. Mr. Lalonde, do I understand correctly that your department is obligated at any and all times to expropriate property and prepare plans on the instructions of any other department of government?

Mr. LALONDE: If a department has obtained the approval of the treasury board for the construction of a building and the purchase of a site on which to construct it we will on occasion point out, if we have reasons to doubt that we can build the kind of building required on the kind of site suggested, that it is not a good site. Otherwise we do not question the choice of location by another department.

Mr. WINCH: You are obligated to follow through any instructions from a department through the treasury board in respect of expropriation of land; is that right?

Mr. LALONDE: If we think the suggested site is not suitable we do comment on that fact but if the department insists on going ahead I think we are obligated to do so.

Mr. WINCH: Bearing in mind your own words regarding this situation, did you raise any objection to this particular site?

Mr. LALONDE: There was no reason for any objection because we were able to erect the kind of building the R.C.M.P. wanted on that particular site.

Mr. WINCH: I am referring to what you said earlier, that if in your estimation the site chosen by a department is unsuitable you so indicate. Did you question this site for this purpose?

Mr. LALONDE: We did not question this one, no.

The CHAIRMAN: Are there any other questions in respect of non-productive payments or may we now move on to a consideration of paragraph 80, reserving to Mr. Winch the right to ask a question at the end of our meeting, which may or may not be in order? Paragraph 80 reads:

80. *Failure to recover, or seek recovery of, cost of remedial work.* The construction of a public building at North Bay, Ontario, to accommodate personnel of a number of departments was substantially completed in April 1957. Because of certain known deficiencies in the work, the final payment to the contractor was not made until December 1957 and his security deposit was released in the following month. In the meantime, the premises had been progressively occupied and, during the winter of 1957-58, the district representative of the Department of Public Works received many complaints from the occupying departments. In March 1958, he informed the contractor of 39 deficiencies which required correc-

tion. Of these, 34 were of a minor nature and were corrected by the contractor but, although over a period of four years he was repeatedly ordered to deal with the remaining items, he refused on the grounds that he had followed plans and specifications. On the other hand, the department took the stand that the repairs were required because of poor workmanship or faulty materials, and the cost of the remedial work would undoubtedly have been withheld from the security deposit had it not been released prematurely.

Early in 1962, because some of the unsatisfactory conditions had created a public hazard, a contract was placed with another contractor for the correction of the outstanding deficiencies. The cost of \$40,156 was charged to the 1962-63 appropriation for "Balances required to complete any projects undertaken in previous fiscal years and for which no specific provision is made in the fiscal year 1962-63" (Public Works Vote 190).

Efforts to recover the cost of the remedial work from the original contractor have not included recourse to legal action.

Mr. HALES: This paragraph refers to a public building in North Bay. I should like to know the tender price paid for erecting this building and why the department released full payment to the contractor before these deficiencies had been corrected?

The CHAIRMAN: Have you any comment in this regard Mr. Lalonde?

Mr. LALONDE: Yes, Mr. Chairman. The contract was in the amount of \$1,347,658 and was awarded to the low bidder, Bennett and Pratt of Weston, Ontario, in December, 1954. It was completed on April 29, 1957.

Mr. HALES: How many firms tendered, Mr. Lalonde?

Mr. LALONDE: When the building was completed there were some deficiencies and there was an argument between the department and the contractor regarding responsibility for the deficiencies. The department claimed they resulted from faulty workmanship on the part of the contractor. The contractor claimed this was not so. The contractor argued that he had lost money. He said he had lost \$172,000 and refused categorically to undertake any repairs. In 1962, another contract was awarded to repair the deficiencies. These negotiations took quite some time and the department eventually felt, because there had been some dispute whether these deficiencies were entirely or only partly the contractor's fault, there could be no successful legal action taken against the contractor for the amount involved.

Mr. HALES: Some things may be easier to say than to execute and I realize that, but you accepted a tender at a certain price to construct the building under specifications prepared by the department, and it was the contractor's obligation to complete that building according to your specifications. The contractor was responsible to complete the building according to your request and he did not, yet you released his security deposit and made the final payment to the contractor in December. The contract commenced in April and the building was substantially completed in 1957. At the end of 1957 you released his security deposit. Can you tell members of this committee why you did not keep the deposit until you were satisfied the job had been properly done?

Mr. WILLIAMS: Up to April of 1957 there were some deficiencies which the contractor did correct. During the following winter additional deficiencies became apparent. These deficiencies showed up between the end of 1957 and April of 1958. We tried to get the contractor to correct these deficiencies. I think we must add that in the atmosphere of getting the previous 34 of 39 deficiencies corrected during that winter we would have been better off had we not released his total security deposit in December of 1957. The district architect or his representative at the time did inspect the building on completion of the correction of those deficiencies and gave a clearance, so we

released the funds. Following that release we were then in the position of having recourse only in terms of legal action. There was a difference of opinion whether the four deficiencies in dispute were design faults or the contractor's faults.

Mr. LALONDE: I may say, Mr. Hales, this case is another one in respect of which there was a separation on the part of the district architect and the department. He had inspected the building and gave a certificate when obviously he should not have done so.

Mr. HALES: The district architect of the Department of Public Works?

Mr. LALONDE: Yes.

Mr. HALES: What do you mean by a separation?

Mr. LALONDE: He resigned from the department.

Mr. HALES: I know in my own case there was a holdback with the consulting architect in a public building, and he was not paid for two to three years after the building was completed. He was not paid until he was sure that it was properly done. There was a holdback there, and it was fixed up even though it did take two or three years. But in this case you went ahead and paid this man before you should have done.

I do not suppose there is much to be gained by pursuing it any further, but what are the largest items in this \$40,000 that were deficiencies in the building? Just give us a few of the largest items.

Mr. WILLIAMS: The major item was the facing stone. There was a leakage. Water leaked in and it froze in that first winter, and it loosened up the facing stone. That was the largest single item. There was also a problem of a similar leakage in some of the flashing on the roof. There was some plaster cracking, I think, and there was some problem in the ventilation. Those were the four major items.

Mr. HALES: Has this firm received any tenders from your department since then?

Mr. WILLIAMS: They have never had any work from us since and, to my knowledge, they have not tendered.

Mr. TARDIF: If they have lost \$172,000 they cannot afford it any more.

The CHAIRMAN: Paragraph 81, Mr. Henderson?

Mr. HALES: Before you proceed, Mr. Henderson, may I ask if the separation was related to this particular incident?

Mr. LALONDE: To that and other things.

Mr. HENDERSON: Paragraph 81 is entitled "Failure to recover part of dredging costs."

81. *Failure to recover part of dredging costs.* It has long been the policy of the Department of Public Works to limit its participation in the cost of dredging access channels from private areas to main channels, to sharing the cost equally with those desiring such access, and not to accept any financial responsibility for dredging slips or berthing areas considered to be of a private nature. A departure from this policy was observed during the year when a payment of \$45,000 was made to the City of Trois-Rivières as a charge to the Public Works appropriation for "Dredging-Maintenance and Operation of Plant and Contract and Day Labour Works" (Vote 150).

In October 1962 the Department of Transport requested the Department of Public Works to undertake dredging in the St. Maurice River in connection with the development of a municipal park and marina by the City of Trois-Rivières. The former Department had already requested quotations for the work involved, from three dredging firms

in the area. The Department of Public Works, in reply, referred to its policy in such matters and stated that it would be prepared to recommend only the sharing of the cost of dredging the access channel, which would mean a departmental outlay of about \$9,000, but that it could accept no financial responsibility for the mooring basin and berthing area associated with the municipal park. The Department also stated that it could not award a contract on the basis of the bids already obtained by the Department of Transport because section 36 of the Public Works Act required that tenders be invited by public advertisement. It suggested, therefore, that the City negotiate a contract for the dredging, with the payment by the Department being in the form of a contribution to the City.

After further representations by the Department of Transport that the Department of Public Works should make a contribution of \$45,000 to the City to cover the full cost of dredging not only the access channel but also the mooring basin and berthing area, the Treasury Board was approached for authority to make the contribution on this basis and such authority was given in January 1963.

As well as being at variance with the policy with respect to sharing dredging costs, the priority of the charge to Public Works Vote 150 is open to question because of the long-standing policy that financial assistance may be given to outside organizations only from parliamentary appropriations specifically provided, or clearly intended for such assistance.

In the opinion of the audit office, this payment, in addition to being at variance with the policy outlined, is open to question because of the charge to public works, vote 150, violating as it does the long standing policy that financial assistance may be given to outside organizations only from parliamentary appropriations specifically provided or clearly intended for such assistance.

I understand that in the departmental view this expenditure did not represent an expenditure in the normal sense but rather an alternative method of carrying out the work which, in the circumstances, the department would have undertaken itself directly or by contract.

Perhaps Mr. Lalonde would care to add something to that, Mr. Chairman.

Mr. LALONDE: I think Mr. Boyle is the financial expert and I will ask him to answer that.

Mr. BOYLE: This is a difficult area for departments, I think, in trying to adhere strictly to the principle that payments in the nature of grants and subsidies must be included in the wording of the vote. We do subscribe to it, of course, and we have a number of votes in which this is made quite clear.

In this particular case, as was indicated by Mr. Henderson, there was a recognition on the part of the department that departmental responsibility could be argued to be involved. Therefore, in other circumstances, we would have undertaken this work on our own account either by entering into a contract on our own account or using our own dredges.

Because of the rather fortuitous and, we thought, favourable circumstances in which we found ourselves, namely that tenders had been called and the prices obtained had been very good, we felt that it was in the public interest to permit those tenders to be acted upon, thereby letting another non-federal agency in effect become the contracting agency, and we would pay the amount.

I think it is at least arguable that this is not in the nature of a subsidy or contribution as is contemplated by the principle that such contributions must receive parliamentary authority.

From another practical point of view, in order to validate the contribution it would have been necessary to introduce a change in our estimates' wording which would, of course, have delayed the processing of the whole project itself.

Mr. TARDIF: If the price is good—I say this because you said that it was, because the price was good that you thought it would be all right to do it—if the price is good, it changes the policy and it allows you to do some dredging on private property?

Mr. BOYLE: It was not entirely a matter of the price being good. Tenders had been sought.

Mr. TARDIF: Were the tenders called for doing some dredging on private property?

Mr. BOYLE: On municipal property, yes.

Mr. TARDIF: Is it not the policy that you do not do any dredging on private property?

Mr. BOYLE: That is the policy, yes.

Mr. TARDIF: Who changes the policy? Who changed the policy in this particular case?

Mr. BOYLE: In this particular case, again, as has been said, the recommendation was put forward by our department to the treasury board, who concurred in the action we proposed.

Mr. TARDIF: Someone in your department recommended that you forgo the established policy and do dredging in this particular case at this particular time on private property?

Mr. BOYLE: Yes, there was a combination of factors which in other circumstances we recognize as federal responsibility. There was a tourist element involved, and also a navigation element and an element of harbour of refuge. The city was embarking on a very large development on their own, and the cost of the dredging in which we were asked to participate was 20 per cent of the cost of the harbour development and less than 7 per cent of the cost of the whole project.

Mr. TARDIF: I am not too interested in the cost. If you are not allowed to do it and you do one per cent, it is wrong; if you do 10 per cent, it is wrong too.

Mr. BOYLE: This is a policy followed by the department, and this was a case in which the department felt there was reason to depart from their policy.

Mr. TARDIF: Mr. Chairman, there is no doubt some policy in some place or other which states that you are not to do dredging on a piece of private property. Is there also in this printed policy—and I am sure it must be printed—the provision that there are exceptions?

Mr. BOYLE: No.

Mr. TARDIF: There are no exceptions?

Mr. BOYLE: No.

Mr. TARDIF: In this case, who was responsible for creating or okaying this exception?

Mr. BOYLE: In the final analysis it was the deputy minister of the department who put forward the recommendation to the treasury board.

Mr. WINCH: Under what authority? If there are no exceptions in the law or in the regulations, under what authority can the deputy minister make the recommendation?

Mr. LALONDE: I think we have to clarify the situation a little here. It is not a question of law. Ever since I joined the department I have found this

business of marinas, dredging, and where the approach area starts and finishes and where the inner berth starts and finishes to be a very difficult and nebulous area of policy.

I think even though there was a policy at the time—and it was definitely a departmental policy—to do certain things and not to do others, it was never written or even confirmed by an act of parliament that this would be an absolute policy. As a matter of fact, at the moment I am in the process of trying to evolve with the departmental officials what we consider could become a practical and applicable policy for tourism, for dredging and all the related problems so that there is no question of law involved. I think we must not condemn what has been done.

Mr. WINCH: It is common sense?

Mr. LALONDE: Yes.

Mr. TARDIF: As a matter of fact there may be no question of law in connection with the dredging, but certainly in some place or other there is a question of law in doing work on private property by any public body. If it does not apply to the federal government it certainly applies to the province, and that is stipulated in the laws of the province. It applies to all the municipalities in Ontario, I am sure; and if it does not apply to the federal government it is time something was done about that, and that should be one of the recommendations.

Mr. LALONDE: As I understand it, it was done on the property by mutual consent of the federal government and the municipality.

Mr. TARDIF: There is no law in the municipality that prevents anyone from doing anything for nothing, but there is a law in municipalities that prevents work on private property for something, and I am surprised that the federal government does not have the same law.

How many times has this exception been applied in the year 1962-63, let us say?

Mr. LALONDE: That is the only case, Mr. Tardif.

Mr. TARDIF: Were there any occasions in 1961-62?

Mr. LALONDE: No.

Mr. TARDIF: Were there any cases before this of which you know?

Mr. LALONDE: No.

Mr. TARDIF: This is the paragraph that establishes the precedent?

I would like to know, Mr. Chairman, who was responsible for giving the direct order that this should be done at the cost of \$45,000?

Mr. WINCH: If I may put it in a different way, because I am interested in what Mr. Tardif says, if it is common sense then that is all right but if there has never been a case like this before, if this is the only time it has ever happened, what was the occasion that made the department, in a common sense approach, say that this had to be done for the first and only time before or since—the only time?

The CHAIRMAN: That is added as an appendix to Mr. Tardif's question.

Mr. TARDIF: May I add one more question, a question I did not have time to ask? Was the cost charged to the Minister of Transport or is it an expenditure of the Department of Public Works, or are we blaming the Department of Public Works for something that the Department of Transport should have done?

Mr. BOYLE: This was a cost to our department.

Mr. TARDIF: But the request came from the Department of Transport?

Mr. LALONDE: The first request came from the Department of Transport.

Mr. WINCH: Now, we are getting to the crux of this. We are going back now to the previous one. Is Mr. Lalonde now saying because of this request

coming from the Department of Transport it was obligatory on the Department of Public Works to do it?

Mr. LALONDE: No, it was not.

Mr. WINCH: I thought the request came from the Department of Transport.

Mr. LALONDE: The request did, yes.

Mr. WINCH: Then why did you do it? This was unprecedented and yet you agreed to do it. This is a very interesting phase. Why did you do it?

Mr. LALONDE: I do not know.

Mr. WINCH: May I ask you, Mr. Lalonde—this is most intriguing—in how many places does the Auditor General report on what the Department of Public Works does because of requests of an obligatory nature from other departments? Are the two examples we have the only two, or are there others? In other words, are you the fall guy for all the departments of the government? Are you the fall guy for all departments?

The CHAIRMAN: Wait a minute, Mr. Winch. The question has been asked.

Mr. LALONDE: I think if we were to look over each and every one of the non-productive payments we will find there are others where we were following instructions from the department involved in getting the accommodation or whatever it is.

Mr. WINCH: I have no other questions but I would like to put on record now that this committee, in drafting its report, should give very serious consideration to the situation that the Department of Public Works finds itself in, in doing things because of demands of other departments.

Mr. TARDIF: Mr. Chairman—

The CHAIRMAN: Mr. Cameron has a question first, Mr. Tardif.

Mr. CAMERON (*High Park*): I think Mr. Henderson has spelled out the case very well. He starts it by saying:

It has long been the policy of the Department of Public Works . . . Then he sets out the policy. Then, having had a request from the Department of Transport the Department of Public Works does not adhere to the policy. Then, the work is not done by the Department of Public Works but by an outside agency. Following that the Department of Transport comes in and says to the Department of Public Works, "We think you should make a contribution of \$45,000". Then, Mr. Boyle suggested certain reasons for the Department of Public Works coming to the conclusion that was a reasonable thing to do, and he mentioned tourism and helping develop the city of Three Rivers, and so on.

I think Mr. Henderson has got down to the point of it, and without going into whether it was a proper or wrong decision it should have been spelled out in the vote exactly what it was for, and then we would have known. That, I think is the whole germ of the complaint. Here is something that was done and it is not properly spelled out in the estimates so that anyone looking through them could inquire and find out what this is all about. Is that not the situation?

Mr. LALONDE: I am quite happy to take this as guidance in the future, Mr. Chairman, because I would hope that we are not going to have to make exceptions to our general policy once we lay it down.

Mr. CAMERON (*High Park*): I would imagine when there is a change in the policy, then the ministerial decision is one that governs it. There has to be a ministerial decision or you would not change your policy. Is that not so?

Mr. LALONDE: That is correct, and it has to be approved by treasury board.

Mr. TARDIF: What I wanted to ask is this. Is there any method by which the Department of Public Works could charge this amount back to the department that ordered it. If the \$45,000 was ordered by the Department of Trans-

port, could there not be a method by which the Department of Public Works would charge that \$45,000 to the Department of Transport?

Mr. LALONDE: This might be the new method once they get this new system of budgeting through, following the Glassco report, where the Department of Public Works always will charge for every service rendered to someone else. In this case we might still carry, even under the new program, the cost of all dredging, no matter who requests it. I think this particular aspect of our work may be charged entirely to us; that is, the whole dredging program.

Mr. TARDIF: Does the Department of Public Works pay for all dredging at this time?

Mr. LALONDE: We pay for the bulk of general dredging done at federal cost but sometimes we have an agreement with the province or a municipality where we do pay for the dredging of the access channel, and we do the rest and they pay us for it.

Mr. TARDIF: That means—and perhaps I misunderstood—that the Department of Public Works pays for the dredging on Department of Public Works property and that they do not pay for the dredging on private property.

Mr. LALONDE: That is right.

Mr. HALES: May I make a comment at this time. With the low water situation in Georgian bay and lake Huron this year, I imagine this will create quite a problem for you?

Mr. LALONDE: We are doing a fair amount of dredging in that area now. We have some contracts in existence and these are being pursued.

The CHAIRMAN: Gentlemen, we have three more items left. What is your wish. Do you want to tough it out and finish it now or come back at 8 o'clock?

An hon. MEMBER: Finish it now.

Mr. HENDERSON: The next is paragraph 82.

Mr. CARDIFF: Will we have to come back at 8 o'clock tonight, anyway?

The CHAIRMAN: No. If we finish these items we are finished. Paragraph 82 reads:

82. *Construction of ferry landing facilities for provincial government.* For a number of years it has been the general policy of the Department of Public Works to regard the landing facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned. Two departures from this policy in 1962-63 attracted attention.

In the early part of the fiscal year the department sought treasury board authority to enter into a contract for major wharf improvements at Les Eboulements, Que. The board noted that a significant part of the proposed expenditure—at least \$100,000 of the accepted tender of \$575,000—would relate to the construction of a loading facility for the ferry service operating between Iles aux Coudres and Les Eboulements, which is subsidized by the Canadian maritime commission. Accordingly, while the board authorized the department to enter into the construction contract, it was suggested that the province of Quebec should be asked to make a capital contribution which would bear a direct relationship to the cost of the facilities being provided in connection with the ferry service. Several months later the department informed the board that the province had shown a reluctance to participate financially in the provision of the improved facilities. The board directed that in future instances of a similar nature the department was to approach the province concerned at the outset and obtain an undertaking regarding “an appropriate financial contribution”, in order that

the board might be "in a more favourable position to assess the merits of the planned work".

In the second case referred to above, tenders were called in 1961 for the construction of terminal facilities at Matane, Quebec, for a proposed ferry service between Matane and Godbout. Treasury board approval of entry into a contract was initially withheld because it was felt that an exception should not be made to the general policy with regard to facilities for intra-provincial ferry operations. Eventually, however, "since some commitment had been given to the private interests, on which basis they undertook substantial commitments related to the acquisition of a vessel and the construction of the Godbout terminal", the board reluctantly approved proceeding with the project. They directed, however, that "the expenditure involved was definitely the limit of federal assistance to this service, and wished it to be made very clear that no operation subsidy payment would be made". The terminal facilities were completed during the year under review at a cost of \$171,557.

Notwithstanding the board's previous direction as to the limits of federal assistance to this service, executive authority was granted in August 1963 for entry into a three-year agreement with the company operating the ferry, for a subsidy of \$50,000 for 1963, \$40,000 for 1964, and \$30,000 for 1965, with a recapture clause for amounts earned in excess of \$39,400 per annum.

Mr. HENDERSON: Mr. Chairman, paragraph 82 relates to construction of ferry landing facilities for provincial government.

This paragraph refers to the general policy of the Department of Public Works to regard the landing facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned.

Particulars of two cases are set out in this note. The first relates to major wharf improvements at Les Eboulements, Quebec, to the extent of at least \$100,000, and the other at Matane, involving terminal facilities for a proposed ferry service, at a cost of \$171,557.

The CHAIRMAN: Has Mr. Lalonde or any of his officials any comments to make upon this, or are there any questions to put in respect of this matter?

Mr. CARDIFF: Yes, Mr. Chairman, I think there is. I am not ready to ask one yet but I will be in a minute or two.

The CHAIRMAN: You are giving notice of your intention to put a question.

Mr. CARDIFF: Did the province of Quebec ever make any contribution to this?

Mr. LALONDE: No, Mr. Cardiff.

Mr. CARDIFF: They should have, but they did not.

Mr. LALONDE: At the moment, anyway, our position with respect to this type of wharf where a ferry service is involved, is that we attempt to enforce the policy whereby we consider a ferry service as an extension of a provincial highway. In other words, we consider it for local purposes as transportation by water instead of by road. I am afraid, however, we have not been entirely successful over the years in that policy being accepted by all provinces, and being enforced. I think those are two cases where we could not enforce the policy. However, I would say that in both instances those are public wharves, they are not wharves owned by the ferry services. The ferry has used the wharves but they are still owned by the government.

Mr. CAMERON (*High Park*): Mr. Chairman, it looks to me as though the Department of Public Works is not involved in this at all. We have not the

proper witnesses for this item. We should have before us members of the treasury board and the executives who authorized these departures from this policy if we are to get to the bottom of it. It seems to me the Department of Public Works had no decision whatsoever to make in connection with this.

Mr. TARDIF: They just picked up the tab.

Mr. CARDIFF: But the responsibility lies with the province in the first place. They should have paid it regardless of whether they were asked for it or because it was for their benefit.

The CHAIRMAN: Is there any further comment? Can we pass on to No. 83 which reads:

83. *Cost of constructing additional wharf.* In 1955 the Department of Public Works constructed a wharf at Desbiens, Quebec, at a cost of \$10,828. While title to the site of the wharf had been acquired by the Department, control of the approach remained vested in the municipality, which undertook to maintain the roadway at its own expense. In 1958 the department was requested to provide a new wharf at Desbiens, at a location approximately 1,000 feet distant from the structure built in 1955, because access to the existing wharf had been closed to the public by the municipal authorities. The department was not prepared to expropriate the approach to the existing wharf because of local feeling nor was it prepared to build a new wharf, and matters were allowed to stand until 1961. In that year, without having sought or obtained the approval of the Treasury Board, the department agreed to build a new wharf at the site suggested in 1958, provided it could obtain clear title to all the necessary properties, and in March 31, 1963 costs of \$11,808 had been incurred. In the meantime, efforts to sell the first wharf for its salvage value, through Crown Assets Disposal Corporation, were unsuccessful.

Mr. HENDERSON: Paragraph 83 deals with the cost of constructing an additional wharf. This paragraph describes how the department constructed a wharf at Desbiens, Quebec, in 1955 at a cost of \$10,828. Three years later the department was requested to provide a new wharf which it did in 1961 and 1962 at a cost of \$11,808. Efforts to dispose of the first wharf were unsuccessful.

The CHAIRMAN: Is there any comment on this or any questions from members of the committee?

Mr. HALES: They got a good price on the second wharf.

The CHAIRMAN: Can we pass on to the last item, paragraph 96?, as follows:

96. *Identical tenders.* In Paragraph 114 of last year's report (and in paragraph 77 of the 1961 report) reference was made to identical bids received by the Department of Public Works for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada. Last year, after commenting on other cases of identical tenders which had also been observed in our examination of departmental records during the year then under review, it was stated that we had suggested to officers of the combines branch that it might be desirable were all identical tenders received by government departments, Crown corporations and other agencies to be listed each year by the combines branch in the annual report made by the director of investigation and research to the Minister of Justice under section 44 of the Combines Investigation Act.

Following the tabling of my 1962 report, the director informed us that he did not feel that he would be justified in accepting this suggestion. His view was that where certain economic facts exist, such as

"a relatively small number of sellers and a homogeneous product", identical tenders or prices of themselves are not sufficient evidence of collusion to warrant commencing an inquiry, and he felt that the publication of identical tenders received by departments and agencies of the crown might lead to an assumption on the part of the public that they were to be regarded with suspicion, and were published because they raised some serious question as to their legality under the Combines Investigation Act. He was accordingly unwilling to take the initiative in providing details which might give rise to such an inference and felt that the adoption of a policy of publishing identical tenders in some form would be a matter for the government rather than the director to decide.

Since the close of the year under review, the Treasury Board has expressed concern to departments that equally low bids in respect of a number of products frequently come to its attention and has indicated an intent to give further consideration to the situation. On November 14, 1963 the Board decided that a uniform policy should be established and to that end directed that, in future, when identical bids are received, all proposed contracts, regardless of amount, should be referred to the Board for selection of the contractor. The Board stated that the only products which are exempt from this procedure are milk products where prices are controlled by provincial authorities.

Mr. HENDERSON: The last item is on identical tenders. As this note indicates, I had reported on this subject in my 1962 report under paragraph 114 and in my 1961 report under paragraph 77.

The subject matter of these two references in those years was discussed by the committee at its sessions last November and December. A lengthy discussion took place on December 2, 1963, following which it was decided to ask Mr. D. H. W. Henry, director of investigation and research under the Combines Investigation Act, to appear as a witness. Mr. Henry appeared before the committee on December 6, 1963, and, as members will recall, made a lengthy statement on the policy of his office in dealing with cases of identical tenders. The committee, however, made no recommendation on this subject to the house in tabling its fourth report on December 19, 1963.

As my initial reporting on this subject was based on the experience of the Department of Public Works in its procurement of incandescent lamps and fluorescent bulbs, members may have some questions to put to Mr. Lalonde today. It will be recalled that in 1961 I had shown how the department had called for tenders to meet the needs of the various federal buildings throughout Canada for the fiscal year 1961-62, and how, based on the application of unit prices to estimated quantities, identical bids of \$301,191.16 were received from the three companies submitting the lowest complete tenders.

During the next year, the Department of Public Works called for tenders again for the supply of incandescent lights and fluorescent tubes which it was estimated would be required during the two year period commencing April 1, 1962. The department hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened it was found that the same three firms that had submitted the identical low bids for 1961-62, had again submitted identical low bids in the amount of \$645,264.16.

I do not know what the present situation is in this regard in the Department of Public Works but perhaps Mr. Lalonde will say something about it. I might just say, Mr. Lalonde, that this was a subject of a meeting and discussion with your predecessor in office who was quite concerned at being on the receiving end of these particular tenders.

Mr. TARDIF: What is the practice in a case like this? Do you divide the contract three ways?

Mr. LALONDE: No, Mr. Tardif, we submit the quotations to the treasury board and ask them for their decision.

Mr. TARDIF: Does the treasury board give the total amount to one firm?

Mr. LALONDE: They used to, but this year we did something which I might perhaps explain to the committee. As Mr. Henderson has pointed out, we are concerned about this. We do not know exactly what the answer is. The Auditor General has said we went from a one year to a two year contract hoping it would be attractive enough to make it competitive. The last tenders that we received on this kind of material were from three firms who tendered on everything. This request included incandescent lamps of two types and fluorescent tubes. The bulk of the order was for fluorescent tubes. We found that the three major firms who tendered on everything were just about identical. We then tried a new thing.

There were other people who submitted tenders on parts of the contract because those firms were not large enough to tender on everything. We broke the tenders down into three groups. We awarded one part of the contract on the incandescent lamps to a smaller firm who had tendered a lower price for those than the larger firms. They got that portion of the contract. Of course, our recommendation went to the treasury board and was approved by the treasury board and the orders were placed accordingly. Then there was another order for miniature lamps and electronic tubes on which Westinghouse produced the lowest figure. We gave them the order on this one. On the fluorescent tubes the three firms who had quoted a price, that is Westinghouse, Sylvania and General Electric, came up with identical tenders. We therefore went to the treasury board and we pointed out that one of the firms which had not received the contract in a previous year was in an area which they called a "manpower surplus area". On the basis of that recommendation the treasury board approved the award to that firm.

Mr. TARDIF: Some of the firms you mentioned were fined in the United States for price fixing. I am wondering whether your department sent that information to the Department of Justice and asked them to find out whether there had been any price fixing in Canada.

Mr. LALONDE: We had done this every time.

Mr. WINCH: Was there any reason given why the combines branch of the Department of Justice arrived at no conclusion with respect to a contract of over \$100,000 which received identical bids?

Mr. LALONDE: I am not sure whether the reason is that there is no collusion or that they cannot prove it, but so far no action has been taken.

The CHAIRMAN: I should say here that Mr. Henry appeared before the committee and was questioned. His reasons, as he assigned them, are contained in the transcript of last year's proceedings. We questioned him on this particular issue.

Are there any further questions on this? It is agreed.

Mr. LALONDE: I have here copies of the new contracts for which the members asked. There is a copy for everyone.

The CHAIRMAN: They will be distributed to the members of the committee.

On behalf of the committee I wish to thank Mr. Lalonde, Mr. Williams and Mr. Boyle and other officials for coming here and giving us this information.

Next Tuesday we will have our last meeting and our witnesses will be from the Canada Council.

We will now adjourn until 9:30 a.m. Tuesday.

APPENDIX 1

DEPUTY MINISTER OF TRANSPORT
SOUS-MINISTRE DES TRANSPORTS
OTTAWA, CANADA

July 20, 1964

Mr. G. W. Baldwin, M.P.,
Chairman,
Standing Committee on Public Accounts,
Room 534 C,
House of Commons,
Ottawa.

Dear Mr. Baldwin:

In response to questions put to officials of the Department of Transport when appearing before the Standing Committee on Thursday, July 16th, I would advise that—

1. The names of the original Directors of Air Food Caterers at the time a tender was submitted in May, 1960, were as follows:

Messrs. Lionel Paquette, President; Jean-C. Fournier, Vice President; Henri Belanger, Vice President; Rolland Desroches, Treasurer; Guy Moreau, Secretary; Rolland Desjardins, Lt. Paul A. Fournier, Paul H. Lapointe, Arthur St. Arnaud, Claude Danis, Lucien Belanger, Lt. J. Louis Fontaine M.C.

2. The liquor licence was first issued on February 22, 1961.

3. The \$31,000 was paid to the Department on February 28, 1964, and the company is up to date on all current payments.

Yours sincerely,

G. A. Scott,
Acting Deputy Minister.

APPENDIX 2

DEPARTMENT OF NATIONAL DEFENCE

OTTAWA 4, July 22, 1964.

Mr. G. W. Baldwin, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa, Ontario.

Dear Mr. Baldwin:

At a recent meeting of the Public Accounts Committee information was given on the operating costs for the Department of National Defence schools in Canada, grants received from Provinces and the pupil population in our schools. It was requested that the figures be broken down by Provinces and I attach as Appendices "A" and "B" a distribution of the costs, grants received and the pupil population by Provinces.

Yours sincerely,

E. B. Armstrong,
Deputy Minister.

"A"

DND SCHOOLS CANADA

	<i>Expenditures</i>	<i>Grants</i>
Newfoundland	243,630	
Nova Scotia	1,105,662	
New Brunswick	216,500	
Prince Edward Island ..	150,200	
Quebec	1,721,546	37,918
Ontario	4,779,927	2,212,019
Manitoba	1,578,781	97,378
Saskatchewan	393,545	6,800
Alberta	2,058,818	407,950
British Columbia	534,284	48,500
Yukon	406,792	
	<hr/>	<hr/>
Total	13,189,685	2,810,565
	<hr/>	<hr/>

"B"

DND SCHOOLS CANADA

	<i>Pupil Population</i>
Newfoundland	642
Nova Scotia	4,043
New Brunswick	850
Prince Edward Island	500
Quebec	3,312
Ontario	12,785
Manitoba	2,972
Saskatchewan	663
Alberta	4,312
British Columbia	1,358
	<hr/>
Total	31,437
	<hr/>

APPENDIX 3

DEPUTY MINISTER OF PUBLIC WORKS

OTTAWA 8, July 23, 1964.

Mr. G. W. Baldwin, M.P.,
 Chairman,
 Public Accounts Committee,
 House of Commons,
 Ottawa, Ontario.

Dear Mr. Baldwin:

At this morning's meeting of the Public Accounts Committee, the question was asked as to the breakdown of the claim and the payments in connection with Item No. 12—"Construction of Surveys and Mapping Building, Ottawa".

The information is attached hereto.

Yours sincerely,

Attachment.

Lucien Lalonde.

<i>General Contractor</i>	<i>Claim</i>	<i>Recommendation</i>
(a) Financing	\$ 21,195.64	Nil
(b) Job office rental	2,003.78	\$ 2,003.78
(c) Supervision and General Ex- pense	38,387.94	28,387.94
(d) Fire insurance	1,980.30	1,980.30
(e) Temporary light and power .	1,857.07	1,857.07
(f) Temporary heat	17,627.11	17,627.11
(g) Plant rentals	5,541.48	5,541.48
(h) Hoist operator	2,176.96	2,176.96
(i) Small tools	2,332.29	2,332.29
(j) Increased labour rates	5,289.26	5,289.26
(k) Travelling expenses	1,097.44	371.05
(l) Contract Dept. costs	6,405.45	Nil
(m) Accounting Dept. costs	3,783.50	Nil
(n) I.B.M. (Payroll) Dept. costs .	3,402.00	3,402.00
	<hr/>	<hr/>
	\$113,080.22	\$ 80,969.24
 <i>Sub-Trades</i>		
(o) Kolostat Heating	9,169.53	8,757.15
(p) Winer and Chazanoff	11,199.00	10,135.13
(q) Meco Electric	34,594.16	28,676.47
	<hr/>	<hr/>
Totals	\$168,042.91	\$128,537.99
	<hr/>	<hr/>
10% overhead		12,853.80
		<hr/>
		\$141,391.79
		<hr/>

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Canada Council—March 31, 1962 and
March 31, 1963

INCLUDING FOURTH REPORT TO THE HOUSE

TUESDAY, JULY 28, 1964

WITNESSES:

Hon. George Hees; Mr. G. A. Scott, Acting Deputy Minister, Department of Transport; and *From the Canada Council*; Mr. Jean Martineau, Q.C., Chairman; Mr. Marcel Faribault, Member; Mr. Trevor Moore, Member; Dr. A. W. Trueman, Director, and Mr. E. Bussière, Associate Director; Mr. Peter M. Dwyer, Assistant Director (Arts). And Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Grégoire,	Prittie,
Cameron (<i>High Park</i>),	Gray,	Regan,
Cardiff,	Harkness,	Rinfret,
Choquette,	Horner (<i>Acadia</i>),	Rock,
Côté (<i>Chicoutimi</i>),	Leblanc,	Rondeau,
Crouse,	Legault,	Ryan,
Danforth,	Lessard (<i>Saint-Henri</i>),	Smith,
Drouin,	Loiselle,	Southam,
Dubé,	Mandziuk,	Stefanson,
Fane,	McLean (<i>Charlotte</i>),	Stenson,
Fisher,	McMillan,	Stewart,
Forbes,	Muir (<i>Lisgar</i>),	Tucker,
Francis,	Nowlan,	Wahn,
Frenette,	O'Keefe,	Whelan,
Gendron,	Pigeon,	Winch—50.
Graffey,	Pilon,	

M. Slack,

Clerk of the Committee.

CORRECTIONS

Minutes of Proceedings and Evidence No. 14

TUESDAY, July 14, 1964

Page 603—line 15; should read:

“uniformity” instead of “unification”

lines 17 and 18; should read:

“Our man is at fault” instead of

“our man is not at fault”

ORDER OF REFERENCE

MONDAY, July 27, 1964

Ordered,—That the Standing Committee on Public Accounts be empowered to engage an accountant and clerical personnel, as it may deem necessary for the purpose of its inquiry and relevant investigations arising from its study of the Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, July 28, 1964

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

FOURTH REPORT

1. On April 10, 1964 the members of your Committee were appointed.
2. On May 22, 1964 the House passed the following resolutions:

Ordered,—That the Reports of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963, tabled on October 10, 1962 and on July 11, 1963 respectively be referred to the Standing Committee on Public Accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

Ordered,—That the Public Accounts, Volumes I, II and III for the fiscal years ended March 31, 1962 and March 31, 1963, and the Reports of the Auditor General thereon, tabled on January 21, 1963 and on February 19, 1964 respectively, together with the financial statements of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963 and the Reports of the Auditor General thereon, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the Standing Committee on Public Accounts.

3. Your Committee held its organization meeting on April 30, 1964 and unanimously elected as Chairman, Mr. G. W. Baldwin, a member of Her Majesty's Loyal Opposition. Mr. Paul Tardif was elected Vice-Chairman. At the next meeting on May 26, 1964 the Chairman announced the composition of the Sub-Committee on Agenda and Procedure as follows: Messrs. Baldwin, Tardif, Ryan, McMillan, Hales, Winch and Côté (Chicoutimi).

4. Your Committee held eleven meetings during the period from May 26, 1964 to June 30, 1964, in the course of which there were in attendance Mr. Louis Richard, President and General Manager of Crown Assets Disposal Corporation, Dr. G. F. Davidson, Secretary of the Treasury Board, and the following from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General; Mr. George R. Long, Acting Assistant Auditor General; Mr. B. A. Millar, Audit Director; Mr. A. B. Stokes, Audit Director; Mr. D.A. Smith, Audit Director; Mr. J. R. Douglas, Audit Director; Mr. H. G. Crowley, Mr. S. E. Chapman, Mr. L. G. Sayers, Mr. A. Harris, Mr. J. M. Laroche, Mr. T. S. Hogan, Mr. G. Laframboise.

5. The following is a progress report made on the work done by your Committee up to and including the meetings held on June 30, 1964.

6. In the course of its meetings your Committee gave consideration to (a) the action that had been taken by departments and other agencies as a result of recommendations made by the Committee in its Fourth Report 1963, and (b) the Report of the Auditor General for the fiscal year ended March 31, 1962 in respect of paragraphs 75 to 201, inclusive, and paragraphs 1 to 48 and paras. 50, 93, 94 and 95 of the Report of the Auditor General for the fiscal year ended March 31, 1963.

Action taken by departments and other agencies as a result of recommendations made by the Committee in its Fourth Report 1963

7. A memorandum dated May 15, 1964 was filed by the Auditor General (Minutes of Proceedings, pp. 25-33) reporting on the action that had been taken by departments and other agencies in this regard.

8. The Committee noted that action had been taken by departments and other agencies concerned with respect to only 3 of the 10 cases where recommendations had been made by the Committee in its Fourth Report 1963.

9. In this connection your Committee had requested each deputy minister concerned to advise the Auditor General within three months of the date on which its Fourth Report 1963 was presented to the House (December 19, 1963) as to what action had been taken on matters on which the Committee had made recommendations in its report. Although there were a few exceptions, the majority of the deputy ministers concerned failed to respond to the suggestion. Your Committee attaches particular importance to having an effective follow-up of the Committee's recommendations and believes that this should henceforth be a standing requirement with respect to any and all recommendations made by the Committee in these reports. It accordingly requests the Minister of each department concerned to advise the Auditor General within three months as to what action has been taken on matters on which the Committee has made recommendations in this and future reports. In order that the matter cannot be overlooked, your Committee requests that the Auditor General provide to each such Minister a copy of this and each subsequent report of the Committee to the House of Commons.

Findings of the Royal Commission on Government Organization

10. The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations as, for example, through the medium of internal auditing.

11. By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings can be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to enquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be and is the sole responsibility of management.

12. With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving

efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

The Form and Content of the Estimates

13. In its Third Report 1963 tabled in the House on December 19, 1963, the Committee made the following immediate recommendations under paragraph 3:

- (a) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.
- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.
- (c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:
 - (i) the number of employees actually on the payrolls at the latest date available during the course of the Estimates preparation; and
 - (ii) brief notes explaining proposed major increases in the size of establishments.

14. The Committee recommended the adoption of as many of the foregoing improvements as might be practicable in the Main Estimates for 1964-65 and has since noted that adoption of the revised vote pattern under (a) above was introduced by the Treasury Board into the Main Estimates for 1964-65 tabled by the Minister of Finance in the House on March 3, 1964.

15. The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee. He stated that the Minister of Finance does propose to present the additional staff information recommended by the Committee under (c) above in the Main Estimates commencing with those for the fiscal year 1965-66.

16. The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

17. The Committee also recommends to the House that consideration be given to referring the departmental Estimates in greater numbers to the Standing Committee on Estimates so that it might examine them in detail and report back thereon to the House. It believes such a procedure would not only accele-

rate the work of the House but contribute materially to improving parliamentary control of public funds before those funds are committed or spent.

Living allowances to federally-appointed judges

18. In its Fourth Report 1963 the Committee noted that in cases where federally-appointed judges are appointed from time to time as conciliators or arbitrators on boards, they are paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs.

19. The Committee stated that it was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

20. Despite this recommendation, a case has since been noted by the Committee where a rate of \$100 a day was approved on May 7, 1964 under authority of the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

21. The Committee reiterates the recommendation made in its Fourth Report 1963 that if additional remuneration is to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought.

Governor General's special warrants

22. In view of the report of the Auditor General, your Committee recommends that a study be made of Governor General's warrants.

Remission of sales tax on oleomargarine

23. The Committee was concerned to learn that the undertaking given in 1949 that

The Canadian Government will be prepared to submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada

had not been carried out. Instead, the authority provided to the executive by section 22 of the Financial Administration Act had been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

24. The Committee does not consider that section 22 of the Financial Administration Act should be used in this way.

Advertising costs

25. The Committee noted that an arrangement with the Canadian Daily Newspapers Association which had existed prior to 1954 whereby government advertising enjoyed a special rate had been allowed to lapse, and was pleased to learn from the Secretary of the Treasury Board that the negotiation of advertising contracts is to be centralized in the Department of Defence Production.

26. The Committee would appreciate being informed by the Auditor General in his next follow-up report as to the progress made with respect to this matter.

Cost of gasoline used in departmental vehicles at Ottawa

27. The Committee considered with the Auditor General and the Secretary of the Treasury Board the matter of savings which might result from changes in the manner of procuring gasoline for departmental motor vehicles.

28. This matter was first brought to the attention of the Secretary of the Treasury Board by the Auditor General in May 1961, and in his 1962 Report the Auditor General stated that he had been informed in September 1962 that a study by the Government Motor Vehicle Committee of the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from a central supply depot was almost complete and that a presentation was to be made to the Treasury Board in the near future.

29. The Committee learned from the Secretary of the Treasury Board that an alternative means of effecting savings in the purchase of gasoline was presently being considered. Having in mind the time which has elapsed since this matter was first taken under consideration, the Committee urges the Secretary of the Treasury Board to have the matter finalized at the earliest possible date. The Committee further requests that the Secretary of the Treasury Board provide it in due course with information as to the final decision in this matter and also as to the various alternatives which were considered and, with respect to those which were rejected, the reasons for such rejection.

Educational leave costs

30. The Committee considered, with the assistance of the Auditor General and the Secretary of the Treasury Board, the desirability of having all costs of financial assistance to persons on educational leave assembled in one place so that Parliament might be better informed as to the total cost of this particular phase of the educational program designed to increase the capacity of public servants.

31. The Committee recognizes that this particular class of leave differs from vacation leave and sick leave in that it is available only to specially selected members of the public service and may be granted for periods up to three years. It also recognizes that the costs involved are in a special category in that they represent payment of allowances in lieu of salary, fees and expenses of public servants who are attending universities or other institutes in order to improve their scholastic standing. These costs differ materially from costs involved in courses and in-service training provided within the government organization itself.

32. The Committee was pleased to hear the Secretary of the Treasury Board undertake to have a study made of this matter and requests the Auditor General to keep it informed as to the progress being made.

Payment of maintenance expenses of Civil Service Recreational Association Centre

33. The Committee noted that grants or other forms of financial assistance to non-governmental organizations should be made only from parliamentary appropriations specifically provided or clearly intended for such purpose. However, maintenance expenses of a recreational centre operated by the Civil Service Recreational Association, a privately managed staff organization at Ottawa, had been charged for several years to a Public Works appropriation for "Maintenance and Operation of Public Buildings and Grounds".

34. The Committee is of the opinion that Treasury Board should give consideration to a re-wording of the Estimates to deal with problems arising out of non-governmental organizations receiving financial assistance.

Unemployment Insurance Fund and its administration

35. The Committee reviewed the summaries of the operations of the Unemployment Insurance Fund contained in the Report of the Auditor General for the fiscal year 1961-62 with particular reference to the cost and size of its administration and the manner in which claims are verified before payment. In its Fifth Report 1961, the Committee, having expressed concern over the sharp reduction in the balance of the Fund at that time, had recommended "that the entire matter undergo immediate and careful study and that action be taken to re-establish and maintain the Fund on a basis consistent with insurance principles." Following this recommendation, a special Committee of Inquiry was established by the Governor in Council on July 17, 1961 to inquire into and report upon the suitability of the scope, basic principles and provisions of the Unemployment Insurance Act, including its relationship to other social security programs, the measures needed to deal with seasonal unemployment and the means of correcting any abuses or deficiencies that might be found to exist. The Committee's report was tabled in the House of Commons on December 20, 1962.

36. The Committee feels it to be in the public interest that the government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

37. The Committee also reiterates the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

Subsidies

38. Reference was made by the Committee in its Fourth Report 1963 to a listing prepared annually by the Treasury Board staff for the information of the Board showing the provision in the Estimates for grants, subsidies and special payments for the period 1959-60 to 1962-63, inclusive. Copies of the listing were made available to the members of the Committee while in session.

39. In recording its appreciation of the courtesy of the Secretary of the Treasury Board in making this useful information available to the members in this manner, the Committee requests that similar listings be made available to the members of the Committee for the fiscal year 1964-65 and annually thereafter.

Board of Grain Commissioners

40. In its Fifth Report 1961 the Committee had stated that it felt concerned that in each year since 1953-54 the expenditure of this activity had exceeded its revenue by more than \$1 million and it requested the Auditor General to keep this matter under review and report thereon to the Committee in due course.

41. The Committee learned from the Auditor General that he had been advised by the Deputy Minister of Agriculture that effective August 1, 1965, the Board of Grain Commissioners proposes to amend its regulations to increase inspection and weighing fees by 50% in order to enable the Board to meet expenditures involved in providing these services. The Committee noted that the Board had had in mind a revision of these fees for the present crop year but due to the very narrow margin in which the grain trade was operating

under the current international agreement, it was not considered equitable to announce changes after those contracts had been entered into.

Prairie Farm Assistance Act

42. The Committee was advised by the Auditor General that due to staff limitations he had only been able to carry out one test audit of expenditures under the Prairie Farm Assistance Act in western Canada since 1957.

43. The Committee expressed the view that expenditures under this Act require that a test audit be carried out at least once a year and was glad to receive assurance from the Auditor General that he expects his staff arrangements will enable this to be done commencing with the 1964-65 fiscal year.

Office of the Auditor General

44. At its request, the Auditor General brought the Committee up to date on the progress of his staff recruitment under the arrangement outlined in the Committee's Fourth Report 1963 to the House on December 19, 1963.

45. Members of the Committee were disturbed to find that the actual working strength of the Office had only increased from 159 to 161 between the period November 30, 1963 and April 30, 1964 due to delays which had developed in the procedures of the Civil Service Commission and the Treasury Board in connection with recommendations made by the Commission that revised rates of pay and new classes be established for the existing Auditor strength. Consequently, the Office remained 18 auditors short of the total approved establishment of 179 originally agreed to with the Minister of Finance and the Treasury Board in July 1960, or four years ago.

46. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

47. The Committee believes that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and the Crown corporations generally. The Auditor General informed the Committee that the recruitment outlook is currently satisfactory and that, barring any unforeseen developments, he believes that he can fill his presently approved staff establishment under existing arrangements by the end of the year. The Committee has therefore asked him to render a further report on this situation in due course.

48. The Committee has noted that amendments to the Financial Administration Act are to be introduced in due course and believes appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office.

A copy of the relevant Minutes of Proceedings and Evidence (*Nos. 1 to 10 inclusive*) is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, July 28, 1964.

(30)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Choquette, Danforth, Fisher, Francis, Gray, Hales, Horner (*Acadia*), Leblanc, Loiselle, Mandziuk, McLean (*Charlotte*), O'Keefe, Pigeon, Prittie, Regan, Rinfret, Rock, Rondeau, Ryan, Southam, Stenson, Stewart, Tardif, Tucker, Wahn, Whelan (28).

In attendance: The Honourable George Hees; Mr. G. A. Scott, Acting Deputy Minister, Department of Transport; and *From the Canada Council:* Mr. Jean Martineau, Q.C., Chairman; Mr. Marcel Faribault, Member; Dr. C. J. Mackenzie, Member; Dr. A. W. Trueman, Director; Mr. Eugène Bussière, Associate Director; Mr. Peter M. Dwyer, Assistant Director (Arts); Miss Lillian Breen, Secretary-Treasurer; Mr. David W. Bartlett, Acting Secretary General of Canadian National Commission for Unesco; Mr. Lewis Perinbam, Secretary General of Canadian National Commission for Unesco (presently on leave of absence); Mr. Douglas H. Fullerton, Investment Consultant; and Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Hayes and Laroche of the Auditor General's office.

Pursuant to a resolution of the Committee of July 23, regarding paragraph 87 of the 1963 Report of the Auditor General, the Chairman made a brief statement and then introduced the Honourable George Hees.

Mr. Hees made a statement relating to the contract for restaurant facilities in the Montreal International Airport and was examined thereon, assisted by Mr. Scott.

The questioning of Mr. Hees being concluded, he was thanked by the Chairman and permitted to retire.

The Chairman then called Mr. Jean Martineau, Q.C., who after introducing the members of his Canada Council delegation, made a brief introductory statement.

The Auditor General reviewed his 1962 and 1963 long form reports to the Canada Council which were ordered to be taken as read and included in this day's evidence.

At 12.15 p.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(31)

The Committee resumed at 3.35 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Choquette, Fisher, Francis, Grégoire, Hales, Leblanc, McLean (*Charlotte*), O'Keefe, Pigeon, Prittie, Rinfret, Rock, Rondeau, Ryan, Southam, Tardif, Tucker, Wahn (21).

In attendance: (Same as at morning sitting with the addition of Mr. Trevor Moore, Member, The Canada Council, and with the exception of Messrs. Hees and Scott.)

The Chairman tabled a letter from the Deputy Minister, Department of National Defence, supplying information requested by Mr. Winch at sitting of July 14; this letter was ordered printed as an Appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix*).

Mr. Tardif made a brief statement regarding the Subcommittee inquiring into the matter of surplus materials.

Mr. Faribault was examined on the allocation of interest and profits accumulated in the University Capital Grants Fund and elaborated on the interpretation of sections of the Canada Council Act related thereto. Mr. Henderson was also examined on this subject.

Dr. Trueman was then examined on various aspects of the Canada Council operations, assisted by Messrs. Martineau, Moore, Fullerton, Dwyer and Bussière.

At 4.40 p.m., the Vice-Chairman took the chair.

The questioning of the witnesses being concluded, at 6.15 p.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

Note—The evidence, adduced in French and translated into English, printed in this issue, was recorded by an electronic recording apparatus, pursuant to a recommendation contained in the Seventh Report of the Special Committee on Procedure and Organization, presented and concurred in, on May 20, 1964.

EVIDENCE

TUESDAY, July 28, 1964.

(Text)

The CHAIRMAN: Gentlemen, I believe I see a quorum present. The meeting will come to order.

In accordance with our agenda, this morning we were to deal with the report of the Canada Council and its financial statement. I am pleased to advise that as a result of arrangements the gentlemen who are interested in that organization, including the chairman and other officials, are here and we will be proceeding with that business in due course. However, pursuant to instructions of the committee which were given as a result of a resolution last Thursday, I wrote Mr. George Hees who had been the minister of transport at the time a certain contract had been let, which contract was the subject of a discussion before this committee a week or ten days prior to that. Before my letter had reached Mr. Hees, I received a telephone call from him asking whether it would be in order for him to appear before the committee to discuss the matter we had before us. Having in mind that this would be our last open meeting for some weeks, and having in mind that this is the only time this could be arranged, I felt the committee would wish me to express assent to this proposition, and I so indicated to Mr. Hees.

I did discuss the matter individually with a majority of the members of the steering committee who concurred in this action. Therefore, hope with the approval of the members of the committee and the pardon of the members of the Canada Council who are here, we may trespass lightly on the time allotted to the Canada Council in order that we might hear from Mr. Hees in connection with this particular matter.

I will now ask Mr. Hees to make a statement. I do not think I really need to introduce the Hon. George Hees, president of the Montreal and Canadian Stock Exchanges. Mr. Hees for many years has been a familiar figure around here as a member of parliament, minister of transport, and minister of trade and commerce.

Hon. George HEES: Thank you very much, Mr. Chairman. I think, perhaps, I might start by very briefly going over for the benefit of the committee the two types of restaurant which we have in our large airports across Canada, and in respect of which the department from time to time calls for tenders from those who would like the privilege of operating these restaurant concessions. The first type is one with which you are all familiar; it is the cafe or snack bar type which does not sell liquor. It is inexpensively decorated, inexpensively operated, and as a consequence a facility of this kind has a relatively low overhead. The operators of a facility of this kind make their profit on the sale of food and non-alcoholic beverages.

The second type of facility which we have at our larger airports is one with which you also are familiar since I feel sure you have been in these in all parts of the country, in our large airports, in hotels, and in international airports around the world; this is the dining lounge type of operation. These dining lounges are expensively decorated and expensively furnished.

From reading the evidence taken before this committee on July 16, I know that you are familiar with the fact that those who tendered on this dining lounge operation were asked to guarantee or assure that they would

spend a minimum of \$350,000 in decorating the dining lounge at the Montreal airport. Therefore, you can see that this is a very expensive type of operation; it has a high overhead because of the cost of decoration, the cost of furnishings, and because operations of this kind have considerably more staff than the simple type of facility. There not only are more employees in number, but they are also more highly paid because of their much greater experience in serving food and liquor. In addition, these facilities often offer music and other inducements to the dining public. You can see that compared to the cafe and snack bar type of operation, this is an expensive type of operation.

Now, because of this very high overhead and because of the fact that competition limits the charges which the operators of these dining lounges can charge for their food, those who operate this kind of facility try simply to break even on the sale of food and in many instances; actually, they make a loss. Their profit is made on the sale of liquor which I am told is a very profitable operation.

In respect of this particular contract in question, tenders, I believe, were called in March of 1960, and all of those who tendered did so in complete confidence that a liquor licence would be granted for the operation of these facilities. A liquor licence had been granted to the far smaller and simpler dining operation in the very small original airport at Montreal. I believe in March of 1960 the last government's policy on the use of liquor at airports had changed, and it permitted the use of liquor at airports provided the provincial government concerned was willing to grant a liquor licence to the dining facility in exactly the same way they granted liquor licences to other dining facilities throughout that particular province. Therefore, because of that in a relatively short time after the federal government had made it possible for liquor to be sold in our airports, and a licence had been granted to a much simpler and smaller operation in the old airport, it no doubt was in the mind of anybody in the Department of Transport or those who were bidding for the privilege of operating this dining facility, that a liquor licence very quickly would be granted when an application was made.

The decision in respect of who was to receive the contract to operate the dining lounge, I believe, was made in April or May of 1960. In June of that year the provincial government in the province of Quebec changed. The successful tenderer for the dining contract applied for a liquor licence, but such was not granted until well on into the fall of the following year. So, the successful tenderer was obliged to operate this facility without a liquor licence for something like nine months.

Shortly after this dining facility was established, I visited it because, having been the minister in charge of the department when the Montreal airport was being built, naturally I was interested in seeing how this dining facility had made out. At this time I was not the minister of transport, having been appointed minister of trade and commerce in October of 1960. I found that this dining lounge had been well decorated; the food was good in quality, and was well and attractively served. I found, in fact, that everything was pleasant in this dining lounge except a product on which those operating this facility could make a profit, namely liquor. As I said, they were not permitted, because they did not receive a licence from the provincial government, to sell liquor for some nine months of their operation. The result of not being able to sell liquor in a facility of this kind, in which, as I said earlier, liquor always is sold and on which the proprietors make their profit, was that people stayed away from this dining facility in droves.

People who are going to use a dining lounge of this kind demand for the greater part the privilege of buying a drink before a meal, or during a meal, or after a meal; and some people like the privilege of buying drinks at all three times.

I am convinced that without a liquor licence, as was the case in the dining lounge of the new Montreal airport, no operator could have made a profit, and that no operator could have been more successful than the company which was awarded the contract for operating this dining facility.

Now, Mr. Chairman, I know, from having read the evidence that was given before this committee, that the question was asked on several occasions why it was that I, as minister of transport at the time, favoured a particular company which was awarded the contract as opposed to the one which the department recommended, namely, the Hilton organization of the United States.

I would therefore like to state five reasons why I decided that this company should be awarded the contract for operating this dining facility. The first was, as it was stated by Mr. George Scott, acting deputy minister of the Department of Transport at page 680 of the evidence taken before this committee, that the company which was awarded this dining concession made the best offer to the Department of Transport for operating this restaurant facility.

The second reason was, as stated by Mr. Ray Goodwin, director of civil aviation of the Department of Transport at page 687 and 688 of the transcript of evidence, the president of this company was, and I quote from Mr. Goodwin's words: "A very well-established restaurant operator in the city of Montreal". And he said in the same paragraph—the other members of the company, numbered I believe three or four, were—and again I quote his words: "Very highly regarded citizens in business in Montreal who provided excellent bank references". That is the end of Mr. Goodwin's statement on this matter.

For these reasons I decided that this company had, first of all, the necessary technical experience to enable it to carry out a successful restaurant operation at the Montreal airport. Second, that this company had the necessary financial backing and a first class reputation in the business world for ability and honesty; and the fourth reason I decided in favour of this company was that it has always been my belief that if other things are equal, local enterprise should have an opportunity to carry out important undertakings in an area.

This company had, first of all, as I have said, made the best offer of those tendering for the contract, and had the technical knowledge and the financial backing necessary to carry out a successful restaurant operation.

The fifth reason I decided in favour of this company was that once again, if other things are equal, I have always favoured Canadian enterprise as opposed to enterprise owned and controlled in another country, in this case, the Hilton operation.

Now, the Hilton people have proved themselves in hotel and restaurant management to be very able indeed. They operate the Queen Elizabeth hotel very ably indeed. They were brought in primarily because the Queen Elizabeth hotel is a convention hotel, and its success or failure depends upon attracting a great many conventions to that hotel.

Also, the Hilton people have a tremendous organization for bringing conventions to any of the hotels in their management chain, and the Canadian National believed that being managed by the Hilton organization would make it possible to bring to Montreal, to the Queen Elizabeth, the number of conventions which would be necessary for a successful operation of that hotel.

So, Mr. Chairman, as you can see, I have nothing against the Hilton organization. They are very able indeed. But there are a great many hotels and restaurants of a very high calibre across Canada which are operated by Canadians just as well as the Hilton organization operate the Queen Elizabeth hotel.

I believe that Canadians can operate hotels, dining lounges, and expensive restaurants just as well as people who come from any other country in the

world, and they demonstrate it every year. The fact that we have the tremendous tourist trade that we have bears out that assumption. It is my belief that if we have to invite the Hiltons, the Sheratons, and the Statlers to come to Canada to operate our important restaurant facilities in our airports and other places, it is denying this opportunity to Canadians, and it is a very sad state of affairs indeed.

I, for one, as I say, if other things are equal—and in this case I believe that other things were equal or better for the company which was awarded the contract—for that reason, as one additional reason, I was glad to award, or rather to recommend to the treasury board that this contract be awarded to the company which did receive the contracts for operating these facilities.

I think that is all I have to say. I shall be very glad, as I assured you over the telephone when I talked to you on Friday morning, to answer any questions put to me by any members of the committee. Thank you very much.

The CHAIRMAN: Thank you Mr. Hees for that very full and comprehensive statement.

As Mr. Hees has suggested, the usual procedure is to turn the committee over to Mr. Hees and Mr. Hees over to the committee for a question and answer period.

Mr. WAHN: Mr. Chairman, I think all of us will agree with Mr. Hees that we should not deny Canadians the right to run restaurants and operations of this sort in Canadian locations. Should we not insist as Canadians that when these contracts are given to Canadians, as we feel they should be, care be taken to make sure that the contract and arrangement are in accordance with sound business principles? If such is not done the result will be exactly the opposite to that which Mr. Hees desires. If we experience this type of thing happening, as reported in the Auditor General's report, we will in desperation end up by giving our contracts abroad.

My point is this. It is quite clear that the four or five people who obtained this contract were, according to Mr. Hees, business people with good bank references, yet the vehicle they chose to handle the contract was a completely new company with apparently no credit rating whatsoever. The evidence discloses that very little equity capital was put into the company in relation to the size of the operation. Mr. Hees very properly pointed out that an operation such as this involves a large expenditure. The government and people of Canada have a direct interest in projects such as this because if they are not successful they are going to lose, as they have lost in this instance.

Usually when a new project is entered into by a new company a financial plan is carefully developed. Usually there is a requirement that a new company have certain equity capital available and perhaps some bond money. Certainly there is always a very carefully developed financial plan in existence enabling the interested parties to be assured that the project has a reasonable chance of success.

I should like to ask Mr. Hees whether this was done in this instance and, if it was not, what are the reasons it was not done? The fact that the four principals had good bank references does not necessarily mean that the company being incorporated is of any substance, and apparently it did not have any substance in this case. The effect of this transaction, Mr. Chairman, seems to me to throw the entire risk on the Canadian public. If the operation had been successful and a liquor licence obtained it would have been very profitable for this company and the principals would have been quite happy. In actual fact the Canadian public assumed the risk.

My specific question is this. Was there not some specific financing plan developed for this company and, if there was not, why was there not? If

there was such a specific plan developed why was it not carried out? Apparently the furnishings were supplied on credit and the total equity, according to the report, was \$150,000.

Mr. HEES: Mr. Wahn, in cases where ministers submit projects to treasury board they go over the broad plan and decide from a policy point of view, a general economic point of view and from other points of view, which company they consider should receive a particular contract. It has always been my experience that when contracts of this kind have gone forward to treasury board over a minister's signature the treasury board staff then have gone into these contracts very carefully indeed before a contract has been passed by the treasury board, because a contract of this kind has no meaning simply because it is signed by the minister of a department, and it has no meaning as far as the government is concerned until it has been passed by the treasury board. Before a contract is passed by the treasury board, it has been my experience, in each case, that the treasury board staff very carefully examine all of the financial details such as you have mentioned. When a contract of this kind comes before the treasury board the treasury board officials express opinions pro and con and decide whether or not they feel it is a good and sound contract.

Very often a contract recommended by a minister is materially changed by the treasury board, or is passed over for another submission which the minister did not send forward. This is often done because the treasury board officials consider a certain other proposition is sounder than that put forward by the minister. In my experience in all of these cases, before they are passed, the treasury board staff, whose duty it is to do so, examine carefully the provisions contained in a proposed contract to make sure that the government is completely covered from every point of view and that the contract will be successfully carried out. I agree that these matters should have been checked. What I am saying, as the minister involved, is that no minister of transport physically has the time to check all of the details to which you have referred in respect of every contract that comes before him. There are literally hundreds of contracts that come before the minister of transport each year and he simply does not have the time to check these details. It has always been my experience that the treasury board staff did that and did it extremely well. On many occasions I was asked to come back to the treasury board to answer certain questions the treasury board staff asked and very often, as I say, contracts were changed or rejected and given to someone else. I agree that these things should be checked but suggest to you that the minister of transport does not have time to check all the details you have mentioned. It is desirable that someone check over all the details very carefully.

Mr. WAHN: Mr. Chairman, perhaps I have not made my question clear. If a contract of this kind were to be let to a well established Canadian company with a good credit rating, then the Canadian public and the minister would know that that company was capable of carrying out the contract. In this case the contract was let to a completely new company or corporate shell. Under those circumstances I should like to ask Mr. Hees whether the minister has a responsibility in making such a recommendation to the treasury board, realizing that he is a busy man and cannot go into detail in respect of every contract, to consider the financing arrangements before doing so? Surely such a consideration is imperative?

Mr. HEES: Mr. Chairman, I became convinced after examining the bank references of each of the four or five principals of this company that this company was made up of very responsible citizens of the business community of Montreal, and each one of them had extremely good, to use the words of Mr. Goodwin, bank references. These were first class people with

first class bank references and, as I said earlier, I was convinced, from what I learned when I asked my departmental officials about this company, that it not only had the experience necessary, because of experience in restaurant operations in the past, to do a good job, but that the members who formed the company were financially responsible and possessed the kind of financial backing necessary to allow me to make a recommendation of this kind to the treasury board.

You are asking me why I did not consider all the details of how the operation was to be paid for. I say that in all cases these kinds of details were checked by the treasury board staff to make sure that the government would be adequately paid for all expenditures or liabilities it might incur. I agree, and it is very easy to see after the event that something should have been done. It is awfully easy to call the right play on Monday morning, but it is much more difficult in the heat of battle on Saturday afternoon.

I agree that someone should have checked to make sure that these payments would be made. I am explaining to you why I did not. I am surprised that the treasury board staff did not, and I am surprised that the treasury board of the day did not make sure that the treasury board staff had checked these matters because, in my experience—and I served on the treasury board for about two years—it was always the kind of thing that the treasury board staff did check, and the treasury board chairman always made sure that it had been done.

Mr. WAHN: Mr. Chairman, the witness has said that the bank references of the principals were carefully checked by him or by officials of his department. Were they asked to provide any guarantee of the contract which was given to them? Were they asked to provide any guarantee?

Mr. HEES: Are you asking me or the Chairman?

Mr. WAHN: I am asking you.

Mr. HEES: That, I believe, Mr. Wahn, was very ably stated in the evidence taken on July 16. The answer was no. That is why you are asking your question.

Mr. WAHN: If that is so, since this was a corporation and they were not personally liable, their personal bank references were of no value to your department.

Mr. HEES: Mr. Wahn, I checked the personal bank references of the people who made up this company. You as a businessman know that you do not get—as described by Mr. Goodwin—an excellent bank reference unless you are an excellent credit risk, unless you have an excellent reputation in the business world for being a successful businessman, paying your bills and being thoroughly responsible in all matters financial.

If you had a company made up of people all of whom had excellent bank references, then I think you would have confidence in the fact that the company would be a responsibly operated company, would you not?

Mr. WAHN: No, not unless I obtained guarantees. I would say—and we all realize how well banks are operated—that no bank would lend money to a corporate shell, no matter how responsible the principals, unless the principals were prepared to back up their corporation by guaranteeing their corporate loans in the bank. What is good enough for the chartered banks is surely good enough for the government of Canada. These banks would require personal guarantees, as I know and Mr. Hees knows. Why should we not do the same?

Mr. HEES: We have agreed that this kind of check should have been made. We are not arguing about anything here. You are asking me why I did not personally check to see this was done. I have tried to explain to you why I did not do this.

It was never the case, as far as I was concerned, in a department like that to check into details of that kind. This was always done by the department and particularly by the treasury board staff, whose job it is to check important details of this kind. I agree that this should have been done. I have tried to explain to you, Mr. Wahn, why I did not do it, and I hope I have explained.

The CHAIRMAN: Mr. Tardif and then Mr. Prittie.

Mr. TARDIF: Some of the questions I was going to ask Mr. Hees have been partially answered. However, what I want to know originally, Mr. Hees, is whether that tender was advertised.

Mr. HEES: That is a detail with which I am not familiar; this happened four years ago. I would prefer you to ask that question of Mr. Scott.

Mr. G. A. SOTT (*Acting Deputy Minister, Department of Transport*): Yes, they were advertised.

Mr. TARDIF: I imagine the Queen Elizabeth hotel was opened when you were minister of transport.

Mr. HEES: I had just taken over, about a month before.

Mr. TARDIF: What surprises me is that in the case of the airport, you advertised for this tender and you preferred that it would be a Canadian company. I do not disagree with you; I think that is a good principle. However, for the Queen Elizabeth I am told that many Canadian companies would have been interested but that the department found the Canadian companies did not have sufficient experience to, let us say, gather or encourage conventions. Was that a basis for the decision to give the Queen Elizabeth hotel concession to Hilton?

The CHAIRMAN: We are getting a little off the track, Mr. Tardif.

Mr. HEES: May I answer that? The Queen Elizabeth hotel was actually opened about a month or two months after I took over as minister. All of these arrangements were concluded by the previous minister.

Mr. TARDIF: I am sure you would agree with me that people who are able to interest people to use their facilities for convention purposes could probably also make it pleasant for people to go and have food in their dining room.

Mr. HEES: I think attracting international conventions, Mr. Tardif, is a different matter from attracting people from a locality and the travelling public to come into a dining room facility and use it. There is no problem in attracting people to come into a dining facility if it has what the public wants. This company was very anxious to give the travelling public what it wanted, but it was not allowed to do so because the provincial government, which had been elected in June of 1960, did not see its way clear, for reasons best known to itself, to grant this licence for a period, I believe, of something over a year. As a consequence, this facility was forced to operate for nine months without a liquor licence.

You have travelled extensively, Mr. Tardif, I know, and you have gone into a great number of international airports. I feel sure you have used their dining facilities, and you will know that they are the same all over the world. They are very elaborate; they serve their food extremely well; and you can get drinks before, during and after dinner. All that was necessary for this to be a very successful operation was for it to have had the provincial government of the day grant to this concessionaire a liquor licence to start operating with the sale of liquor when the concession opened. This was not done. Many people went there thinking they could get a drink and were very disappointed. Then they said, "This is a rather dull place. We don't think we'll go back again." So, for nine months, the situation became worse and worse.

When something does not start off with a bang and people do not get the idea of using a facility, it is very hard or relatively hard for the ball to be

picked up again. That is the case today. It has picked up somewhat, but I feel sure if the facility had been granted a liquor licence at the very beginning, this dining lounge operation would have been a great success, because the people of the Montreal area are very hospitality minded, they are people who like dining out, and they like dining well. Many people of the city of Montreal would have got into the habit of using that dining facility when going to catch a plane or arriving from a plane. The travelling public would have got the idea that Montreal airport was a good place to have dinner and to have drinks in between planes. I feel sure if that licence had been granted this whole operation would have been a great success; but, as I have said, no operator of a facility of this kind anywhere in the world of whom I know makes any money on his food. I talked to a great many of them in the days when I had to deal with granting concessions for restaurant operations in our airports because I wanted to know how these things operated. I was told universally that the best they could hope for was to break even, that most lose money on food and could hope only to make money on liquor. If they didn't have liquor, all they could do would be to lose money.

Mr. TARDIF: If it was that important, and if it would make the difference between the operation making a profit and being in the red, was that very important condition not drawn to your attention when you were minister?

Mr. HEES: I left the department in October, 1960. This was three or four months before the restaurant opened and it was two months before the airport opened in the middle of December. At the time when I was in the department the concessionaire, I know, had applied for a liquor licence or was in the process of applying for a liquor licence. I do not know the dates and I do not know any of the details, but I know this concessionaire did apply and was expecting to receive a liquor licence, as did all of those who applied for this concession when they made their bids. Nobody, Mr. Tardif, will agree to pay anything like \$350,000 for the privilege of losing his shirt; it is a very high price. That is what they were asked to do. If they were not allowed to sell liquor, they would obviously make a loss and the \$350,000 which they put up would obviously go down the drain. No sensible person is going to do that.

Mr. TARDIF: I fully realize that, but I am surprised, if this condition was so important, that even in the short time after you took over it was not brought to your attention or that some officer of your department did not make some recommendation to the province. Do you know of any reason why the province did not allow this liquor licence?

Mr. HEES: I have no idea. I would say the only way you could obtain that information would be to ask the minister concerned with issuing liquor licences at the time, and that would be the provincial minister.

Mr. TARDIF: Are you saying that you made the decision to accept this tender?

Mr. HEES: That is correct.

Mr. TARDIF: And you say you had five reasons. I have marked down the reasons. You eliminated reason number three, and that may be the reason that proves that your action was correct.

Mr. HEES: How did I eliminate reason number three?

Mr. TARDIF: You said that the first reason for which you decided that this was the firm that should be recommended was that, in the first place, they had experience and they were going to have a liquor licence.

Mr. HEES: No. May I go over that? If you would care for me to do so I will go over my five reasons.

Mr. TARDIF: Well, it is not that important.

Mr. HEES: But, you said I eliminated one reason and I should be interested in knowing what the reason was which I eliminated.

Mr. TARDIF: I will come to that. However, the second reason you gave was that it was a well established firm, highly regarded, and had a very high bank rating. I agree with both you and Mr. Wahn that if you are involved in a business deal the bank rating does not actually count; rather, it is the bank guarantee in respect of the carrying out of these responsibilities in which these people are involved which counts.

Number 3 was the one for which I did not get any reason, although I may have numbered the reasons improperly.

In respect of reason Number 4 you said it was a local enterprise. This worried me because I understood the Hilton operation was invited to take over the Queen Elizabeth hotel. You said some of this happened before your time and some after your time.

Mr. HEES: All of it was before my time.

Mr. TARDIF: But do you not think that some of it was in your time? I am thinking of the time when the recommendation in respect of this particular concessionaire was made.

Mr. HEES: That is right.

Mr. TARDIF: Do you not think the gamble existed before you came up with these four or five reasons for making the decision? And do you not think the gamble that these operators took was very small in respect of the amount of investment necessary to make this a successful operation? You must have looked into that aspect of it before you made the decision.

Mr. HEES: As I say, there were five reasons why I decided these people should have the concession. The first reason was that they made the best offer, and that is important. The second reason was that they had the necessary technical experience. The third reason was that they had the necessary financial backing and a first class reputation in the business world for ability and honesty. These matters were stated by members of the department, as I mentioned earlier, in the evidence given here on July 16 of this year. The fourth reason was that they were a local enterprise, and the fifth was that they were a Canadian enterprise. Those are the five reasons I believed this company was justified in being awarded the contract, and that is still my feeling today.

Mr. TARDIF: I am speaking of the period of time in which you were the minister. When people have the type of reputation which these people no doubt have, is it the practice, if the department enters into a contract with this type of firm, not to insist on a guarantee, or was this an exception?

Mr. HEES: Well, Mr. Scott answered that question earlier and perhaps he would comment upon the technical details with regard to how the department usually requires or does not require a guarantee. As I said, he made an answer earlier in this respect.

The CHAIRMAN: Mr. Tardif, are you dealing with this subject on the general principle? Are you asking, in respect of cases of this kind, what the general policy is, and if there is a guarantee?

Mr. TARDIF: No.

The CHAIRMAN: You are referring particularly to this case?

Mr. TARDIF: It is my understanding that this contract was given to this firm without any guarantee whatsoever, except the reputation which it held. I am asking if it is a customary practice for the Department of Transport, under anyone's administration, to operate in this way?

Mr. HEES: As I say, Mr. Scott answered that question in some detail on July 16, and I think perhaps he should answer it today.

Mr. TARDIF: I do not want a detailed answer.

The CHAIRMAN: You want to know what the general practice is?

Mr. HEES: Mr. Tardif, I know you want the exact answer because you are a very particular man, and I want you to get the best answer you can get in this respect.

Mr. TARDIF: And, you are a very charming fellow.

Mr. HEES: I always have been very fond of you, too.

Mr. TARDIF: You are so kind that, as a matter of fact, I am very tempted not to put any further questions.

The CHAIRMAN: May we now go on to Mr. Prittie's question.

Mr. TARDIF: I would like an answer first, Mr. Chairman.

The CHAIRMAN: Mr. Scott, would you like to get into this gallant performance?

Mr. SCOTT: Well, Mr. Chairman, in respect of many undertakings in the department, very binding contracts are entered into, but this is not the practice in respect of concessionaires. The real commitment here, was the undertaking by the concessionaire to expend this \$350,000 in respect of the installation of furnishings, equipment and decorating of the cocktail lounge and bar.

Mr. TARDIF: Then, this is an exception to the general rule.

Mr. SCOTT: No. In respect of contracts, there is not a binding contract in the case of concessionaires. But, certainly there are binding contracts in respect of construction or anything of this nature. But, as I say, this does not apply in the case of concessionaires.

Mr. TARDIF: Mr. Hees has said that when this recommendation was made he put his signature on the document, and that covers the recommendation. Then, he says it is sent to treasury board.

Mr. HEES: Yes.

Mr. TARDIF: And, very often treasury board makes a change.

Mr. HEES: Yes.

Mr. TARDIF: Does treasury board make changes without going again to the minister?

Mr. HEES: No. It is my recollection that they have the right to do so but I do not think they ever do without speaking to the minister again. I think if it was an important change they would call him back. But, if it is an unimportant change they probably would not. However, I do not think they are required to call him back.

Mr. TARDIF: Would you say that the signature of the minister on a document as important as this could have some influence on treasury board?

Mr. HEES: No, Mr. Chairman; it has no influence at all. If you ever have appeared before treasury board and experienced just how they treat a contract that comes forward, you will know that they treat it in a completely objective way; they look at it in exactly the same way your own banker looks at it when you put forward a business proposition. Then, you will know how tough the treasury board can be on any proposition put forward and how minutely they examine the details of all these contracts. That is why ministers have such great confidence in the recommendations they put forward. It examines all the details of financing as well as other details very minutely in order to make sure the government is 100 per cent covered, and that was so in this case.

Mr. TARDIF: In this particular case you said you did not have time to check the details, and I agree that you would not have the necessary time; but, would you say, from the partial evidence you listened to this morning, that a

policy should be established where these details are checked by someone who is responsible and who could be held responsible.

Mr. HEES: Yes. I always have insisted this is the final responsibility of the treasury board staff and the responsibility of treasury board itself to make sure that the treasury board staff has examined these details before it, as the board, puts its signature on a contract. And, I think that should be given very careful attention in the future, and I hope this will be done.

The CHAIRMAN: Would you proceed, Mr. Prittie.

Mr. PRITTIE: Mr. Chairman, Mr. Hees laid considerable stress on the fact he wanted a local Canadian firm to do this contract rather than the Hilton organization. I notice in the Auditor General's report that there were three bids, two of them very well established concerns in the catering field. Presumably, one was Hilton. Could I have the name of the other one?

Mr. HEES: The other one was Aero Caterers.

Mr. PRITTIE: Are they a Canadian firm?

Mr. HEES: I do not know whether or not they are. But, the contest finally came down to two firms, the one that finally was recommended and the Hilton organization.

As you will remember, having studied the evidence carefully, and I know you have, Mr. Prittie, that it was the Hilton firm that was recommended by the department, and it was the recommendation by my department in respect of the Hilton firm that I passed over in favour of this company.

Mr. PRITTIE: Could Mr. Scott tell me if Aero Caterers is a Canadian firm?

Mr. SCOTT: Yes, they are.

Mr. PRITTIE: Is it a Montreal firm?

Mr. HEES: I have no idea where they come from.

Mr. SCOTT: That firm is from Toronto.

Mr. HEES: I think they do come from Toronto. However, I think you will find, if you check back on the notes you took when the evidence was given, that Aero Caterers, put in the third best bid. Is that not true, Mr. Scott?

Mr. SCOTT: That is true.

Mr. HEES: After all, when you are asking for tenders and tenders come in and you consider all the parties concerned are responsible firms with ability, financial responsibility and technical knowledge then you must pay quite a bit of attention to which firm makes the best bid. The firm that was finally given the contract made the best bid. Aero Caterers made the third best bid.

Mr. PRITTIE: According to the Auditor General, the bids were much the same. He says this on page 54:

The third, which contained a slightly better offer than the other two—

It would seem from that that there really was not very much difference between them.

Mr. HEES: When a department such as the Department of Transport calls for tenders on big contracts such as for airport construction, for instance, you often receive maybe 15 or 20 tenders, and often there is very little difference between the top tender and the second top tender. However, if you pay any attention to the tender principle, you award the contract to the tenderer who puts in the best bid provided he and his competition are both able to do the job and are financially responsible people. The only time you put aside the best bid is if you become convinced that the person who did put in the best bid is not able to carry out the contract in a successful way because of lack of technical knowledge or lack of financial backing, or for some other reason. If you are

calling for bids, you must pay a lot of attention to who puts in the best bid, and you would award the contract, provided the people concerned are technically able and financially able to carry out the contract.

Mr. PRITTIE: Now, Mr. Hees has said that he expects the treasury board to check the details of the contract, that the minister would not have time to do this, which, of course, we can all understand. I would suggest that if the minister did not have time to do that sort of thing—and I agree with him—I suggest he perhaps did not have time to do the necessary checking before recommending the bid.

Mr. HEES: Yes, he did, he had plenty of time to make the necessary check which ministers make. You make it on broad principles. You study the technical ability of the firms concerned, which I did. You study the financial responsibility of the firms concerned, which I did. You study the bids to see who made the best bid, which I did. On that basis I made my decision that I thought that that company was the one most deserving of the contract. The financial details on who was going to get paid and what method the government was going to use to make sure that there was no slip up in payments and so on, that is the kind of work that the treasury board staff are paid to do, and they do it very well indeed. That is what the treasury board are supposed to ascertain, and that is what the treasury board staff do before they put their signatures down on a contract which makes it government policy.

Mr. PRITTIE: In reply to Mr. Tardif's question you said that the minister's signature would not carry that much influence with treasury board, that they were a very hard body to get by. It would seem that if this is the case, the minister recommends but it is they who eventually dispose.

Mr. HEES: The minister only recommends, but before the signature of treasury board appears on the contract it does not mean a thing.

Mr. PRITTIE: If that is the case, then it would seem to me that perhaps someone from the treasury board should be here before the committee, explaining this particular situation rather than the former minister.

The CHAIRMAN: We have officials of the treasury board before us quite often, and I am sure that before the termination of our proceedings we will have them again. Any report we make in respect of this incident will probably not be made until the final report is prepared, and if the committee feels disposed to call some of the treasury board officials before them, we will have ample opportunity to do so.

Mr. LEBLANC: As you are probably aware, Mr. Hees, I participated in the first discussion on this subject, as you will see in the evidence. Regarding the financial backing of the first group which you praised so much, as well as their technical experience, apparently a reply of Mr. Henderson to one of my questions is not in accordance with your own statement. It appears on page 693, where Mr. Henderson says:

Well, my own general impression of the performance of the first group is that they did not seek to organize themselves very effectively.

He then says:

I suggest to you that they did not take this very seriously.

If that group were so spectacular and so well backed financially how would you account for the fact that they could not even meet the first \$350,000 payment? The only thing they did was to deposit \$150,000 into the undertaking.

Mr. HEES: Mr. Leblanc, it is very easy to look back with hindsight on something that did not quite come off and say that you should have known this and you should have done that. Everybody will agree that certain things should have been done. In this instance we were deciding on who would be

a good company to operate this concession. As I say, the evidence before me given to me by the department at that time is the kind of evidence that Mr. Goodwin gave. On page 687 you will see what Mr. Goodwin, the director of air services said, and I quote:

Mr. Chairman, I recall the meetings on the various particulars and indeed the original four or five citizens did provide excellent bank references, for what they were worth; mind you, it was not a guarantee from the bank. However, the original group, which consisted of approximately four persons, one of whom—I believe the president—was, in fact, a very well established restaurant operator in the city of Montreal. The other gentlemen concerned also were very highly regarded citizens in business in Montreal. So, at the time the bids were reviewed, and subsequent to the original review, the original group did present what the department at that time considered to be satisfactory bank references, but not a bond or anything of that nature.

That is the kind of information a minister receives when he is trying to decide on a matter of this kind. Unfortunately, he cannot project himself two years ahead and see how the thing is going to work out. He only has what his department reports to him on the facts of the case at that time. The facts in the case that I received were that all these people had excellent bank references, that they were very highly thought of in the Montreal business community, and that the president was very well established in the restaurant business in Montreal. From that evidence I decided that these people were satisfactory people to operate a concession of this kind. Mr. Leblanc, if you were minister at the time I think you would have thought that, too.

Mr. LEBLANC: That I do not know.

Mr. HEES: Well, when you get to be a minister you will have a lot of interesting experiences of this kind, and you will find that hindsight is a great deal easier than foresight.

Mr. LEBLANC: I have another question regarding the liquor licence, which was one of the topics, of course. On page 695 of the evidence Mr. Smith said:

I have a note to the effect that the company received a liquor licence on February 24, 1961.

The lease was signed on January 31, 1961, so that not a month elapsed between the signing of the lease and the granting of the liquor licence.

Mr. HEES: If you read on in the evidence I am sure you will see that it was shown that this was not a correct statement, Mr. Leblanc. It was stated a lot earlier that this liquor licence was not given until the fall of that year. If you will check the facts, you will find that this is the case. You will find that this statement was corrected somewhere later on in the evidence. The fact of the case was that the liquor licence was not awarded until the fall of that year, and this concessionaire operated for practically nine months without a liquor licence and without anything on which he could make a profit or draw a crowd into that restaurant. You will agree that nobody can stay in business for long in those circumstances. To try to operate in such cases is like expecting a man to swim with his hands tied behind his back. He can float for just so long and then it is just a question of how soon he will go under. The same thing is true in business.

Mr. LEBLANC: Do you not think that such a group would not have been very wise if they did not assure themselves first that they would receive that licence before they signed a lease which involved \$350,000 for furnishings and \$100,000 a year for rent?

Mr. HEES: I am sure that none of those companies bidding for this concession ever had the slightest thought that a liquor licence would be refused for such an important dining lounge as this. It is inconceivable to me, Mr. Leblanc, that anyone would want our No. 1 international airport, the airport where people coming in from other countries land for the most part and get their first impression of Canada, not to have the same facilities as are provided in any other international airport in the world. It was inconceivable to me, and I am sure to any of those who were bidding, that there possibly could be such a thing as a refusal of a liquor licence for such an important concessionaire; after all, he was asked to put up \$350,000 to decorate and operate this lounge. This was going to be one of the show places of Canada. I do not think it ever entered the mind of anyone that there would be a refusal for any time of a liquor licence for this operation.

The CHAIRMAN: The first three I have on my list are Mr. Whelan, Mr. Rondeau and Mr. McLean. I do not wish to inhibit the full right of members of the committee to make a complete inquiry into this matter but, on the other hand, I hope we will not offend against the rule which prohibits repetition.

Mr. CAMERON (*High Park*): I understood you would recognize me after Mr. Tardif.

The CHAIRMAN: I have you down on the list.

Mr. ROCK: Do you have me on your list?

The CHAIRMAN: Yes.

Mr. WHELAN: Mr. Chairman, I have listened to Mr. Hees today and while I was a member of the opposition for a short time I was an admirer of his capability and his energy in all capacities. It is my belief that a minister of transport could not possibly keep on top of the monstrous department he has to administer and know everything that is going on. Would you recommend that this portfolio be divided?

Mr. HEES: Mr. Whelan, I think any minister of transport for a long time has realized that this department is just about twice too big. I was told by Mr. Chevrier that the government had decided this before, unexpectedly, they were defeated in 1957—and the opposition was more surprised than they were; they had decided that the department should be divided into two. It seemed to me it should be divided into two. I think it probably has been felt by every minister of transport that it should be, but when you are the minister you like handling something that big, because even though it is too big, it is a large powerful department and you get a kick out of handling something that big. Therefore, you do not recommend that your empire be cut in two. However, I think this department is too big; it has grown faster than any other department of government. If you are interested in my opinion, I would think the natural division would be one department comprising air and communications, including everything having to do with radio and television licensing, and so on, and the other would be railways, canals, shipping, harbours, and so on. That would make it two very big important departments which would take a very good part of the time of two ministers to operate.

The CHAIRMAN: Mr. Whelan, this is a very fascinating vista you have opened up, but I think it lies beyond the realm of the public accounts and the spending of money.

Mr. WHELAN: I disagree. This is, obviously, one of the reasons why the Minister of Transport cannot scrutinize contracts like this close enough. I think everyone at Montreal airport realizes it is important to have the restaurant facility there, because if you happen to get off a plane at the far end, even if you are not hungry then, you will be by the time you get to the restaurant.

Mr. HEES: You can say that again.

Mr. RONDEAU: I believe you said that the four members who formed this company had some experience, but the kind of experience they had, they had acquired by themselves and not as a company. This was a new company?

Mr. HEES: That is right.

Mr. RONDEAU: They decided to form a company in order to try to get the contract from the department.

Mr. HEES: Yes.

Mr. RONDEAU: Has the committee been given the names of those four principals?

Mr. HEES: Mr. Chairman, I have no idea of the names of these persons.

Mr. RONDEAU: You have no idea?

Mr. HEES: No; I am sure I did at the time, but this is four years ago now, and I have handled two jobs since that time.

The CHAIRMAN: At the request of somebody at the time, the department of transport sent me a letter giving a complete list of the members of this company. This letter was tabled, appended to our Minutes of Proceedings and Evidence, and you will find it in our proceedings.

Mr. RONDEAU: The fact is, you told us they did not have a licence for a few months and did not have any facilities for liquor. Is there any political reason why the province of Quebec did not issue the licence when they already had a contract from another government here in Ottawa?

Mr. HEES: I would say that this could be answered only by the minister of the provincial government at that time who had charge of issuing liquor licences; I would suggest you ask him.

The CHAIRMAN: I do not think it would be in order for this public accounts committee to get into such matters which concern the province of Quebec.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I think the meat of this thing is the liquor licence.

Mr. HEES: That is the statement of the week.

Mr. McLEAN (*Charlotte*): If these persons did not have the liquor licence, they would lose money; if the Hilton people had the contract and did not have a liquor licence, they would lose money. Mr. Hees says he knows they would lose money without the liquor licence. It seems to me that the treasury board and Mr. Hees must have had some assurance they would get the liquor licence, or that they had the liquor licence, or otherwise they would not have granted the concession. What about it; was the provincial government wholly responsible? We have been given to understand that the federal government had something to do with it; that is, that the federal government was against giving the licence?

Mr. HEES: I will be glad to tell you that story. This was four years ago and I do not remember the details, but I think that some time around March 1, the federal government changed its policy in respect of allowing the sale of liquor at airports. Until this time it had been the policy of the federal government that liquor would not be sold in our airports. However, about March 1 of this year the government very wisely changed this policy and decided in general its position was only that of landlord to those who held the restaurant concessions in our airports and that it was up to the person who held the restaurant concession to apply to the provincial government concerned to have a liquor licence in exactly the same way as operators of other restaurants throughout the province applied to the provincial government for the right to have a liquor licence and to sell liquor. That was the policy of the government from about March 1, 1960, on. When the policy was changed, the concessionaire who held the much less important and much smaller restaurant at the old Montreal

airport applied to the provincial government and was granted a liquor licence with, I believe, very little delay. I think it was quite correctly assumed by all of those who were applying, that in a province such as Quebec which is very broadminded on these matters, and whose citizens at large very wisely like to have a drink before their meal, during their meal, or after their meal, and sometimes all three, a liquor licence would be granted for a concession of this type, which was about the highest type of concession you can think of.

Why it was not done, I do not know. I have no idea. But it was not done. As far as thinking that it could not be done is concerned, to me it was inconceivable, and I am sure it was inconceivable to all who applied for a concession. It is easy to look back and say that a person applying for a concession should have had a guarantee that he is going to have a liquor licence issued to him. But these are plays you can work out on Monday morning, which are very difficult to work out on the playing field on a Saturday afternoon.

I am sure that when the liquor licence was not forthcoming, the concessionaire wondered why he had not made sure that he would get a liquor licence. It was just one of those things that happen. I do not think there would be one person in 100,000 who would have thought that the provincial government of Quebec would turn down an application for a liquor licence at dining facilities of this kind.

Mr. McLEAN (*Charlotte*): It seems to me that the liquor licence was of just as much significance to the minister and the treasury board, as it was to the concessionaire, because it was the government who would lose the money.

Mr. HEES: If you can devise some way to make all ministers to be all wise and to make sure that they have thought of everything that could possibly happen of any possible nature, you would be making a great contribution to government. Ministers are just ordinary human beings, and some are more ordinary than others.

The CHAIRMAN: Sometimes there is some doubt on that score.

Mr. HEES: I guess so. Some people do not believe that we are human.

The CHAIRMAN: I have Messrs. Rock, Hales, and Fisher. We still have a few more to go after that. Now, Mr. Rock.

Mr. ROCK: Did any of those gentlemen who created this new catering service and entered into a contract with the government, request or form other companies which requested other concessions?

Mr. HEES: Mr. Scott tells me no.

Mr. HALES: I think my question has been answered. I think we have had a pretty good discussion of this matter, and the witness has answered all the questions pretty well. I think it boils down first to the fact that a liquor licence was not available, and that this was of primary importance in the failure of this company. Second, the committee has made its recommendations to the treasury board that it should in this particular case have looked into it a little further, and maybe require a bond to back up the agreement. But I think we have discussed this very thoroughly, and I believe we should now get on to the next order of business.

The CHAIRMAN: I think so, too, but there are other members on my list, and they should be given their opportunity.

Mr. FISHER: I would like to ask one question which actually Mr. Winch put last time. But he is away today with the defence committee visiting the navy. I told him I would ask this question for him. Mr. Winch wanted to know whether the political affiliation of the people who got the contract had anything to do with the minister's decision, or whether this matter was considered. Were they Conservatives?

Mr. HEES: I am glad you asked that question because I have no idea of the political affiliations of these people. I have no idea what the political affiliations, if any, were of the gentlemen who formed this company. I have no idea whatever, and I mean that. Surely these things do not come into being now! No, I am shocked, Mr. Chairman. I am shocked and I cannot believe it. These gentlemen talk as if they were of some importance today. I am surprised and amazed.

The CHAIRMAN: Order, gentlemen.

Mr. FISHER: Do you recall, Mr. Hees, how elaborate or lengthy a discussion you had with Mr. Baldwin and other officials about this matter?

The CHAIRMAN: You mean Mr. Baldwin the deputy minister.

Mr. FISHER: Yes. I base this question on the evidence we have. I trust it does not create any embarrassment for you. It comes from the fact that Mr. Scott indicated that the general assessment of the department was in favour of the Hilton group, and I also assumed from Mr. Scott's evidence that this had been the assessment of your officials, and that it was also given to the treasury board. Therefore, I would like to know how much time was spent and how big the discussion was between you and these officials concerning this matter.

Mr. HEES: It is hard to remember an exact incident. This was one of several hundred contracts which would come before the minister each year. I remember discussing the thing with Mr. Baldwin, but exactly how long the discussion lasted, I cannot remember. But in all these cases we discussed matters thoroughly. I looked at the evidence presented to me by him, which had come forward from all those making a bid for this concession. The discussion might have taken any part of an hour, I suppose, or perhaps more. I would not really know.

Mr. FISHER: He never raised it from the point of view that we would rue the day when we awarded a contract to this concessionaire?

Mr. HEES: No. Mr. Baldwin felt that the Hilton group should be given the concession. But very often Mr. Baldwin and I had differences of opinion, and far more often we agreed. Very often he was able to persuade me in favour of his point of view, but sometimes I was able to persuade him in favour of mine. After all, a minister has to have his own opinion on these matters, otherwise he will become merely a rubber stamp for his department.

Mr. FISHER: I think most of us are quite prepared to see ministers overrule the advice of their civil servants more often.

Mr. HEES: I know what you mean.

Mr. FISHER: I think the suspicion may linger because of the fact that a licence was turned down by the Quebec government, and that there may have been a partisan reputation of this particular group. You have given an indication that you know nothing of this.

Mr. HEES: That is right.

Mr. FISHER: So it seems to me that we just have to leave it at that. It does seem unbelievable that this licence should have been held up. But I remember when Mr. Chevrier was minister of transport he told me about going to see the premier of Quebec. When he left the interview, an hour and one half later, he said that the subject he had in mind was never reached.

The CHAIRMAN: Now, Mr. Cameron.

Mr. CAMERON (*High Park*): When did you give up the office of minister of transport and become minister of trade and commerce?

Mr. HEES: October 11, 1960.

Mr. CAMERON (*High Park*): From then on you had no active participation in this matter.

Mr. HEES: That is right.

Mr. CAMERON (*High Park*): It was after that date that most of this trouble occurred.

Mr. HEES: That is right.

Mr. CAMERON (*High Park*): I mention this because this was a showpiece; it was not just a matter of 200 contracts a year. This was one of the big contracts of the year and you would be very interested in it.

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): I notice that executive approval was given in August of 1961 for the letting of this particular contract. You stated the change of government in Quebec occurred in June of 1960.

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): Some eight or nine months after that these people received a liquor licence; is that right?

Mr. HEES: No. I think they received the liquor licence about eleven months after, Mr. Cameron.

Mr. CAMERON (*High Park*): You are changing that statement now from eight or nine months to eleven months. Can you tell me exactly when they received the liquor licence?

Mr. HEES: I beg your pardon.

Mr. CAMERON (*High Park*): Can you or Mr. Scott tell us exactly when the liquor licence was obtained in respect of this concession?

The CHAIRMAN: I am handing Mr. Hees a letter from Mr. Scott, directed to me, containing this information.

Mr. CAMERON (*High Park*): What does the letter state, Mr. Chairman?

The CHAIRMAN: The letter indicates that the liquor licence was first issued on February 22, 1961. This is a copy of a letter I received from Mr. Scott containing information the committee requested. You may have to pursue your questioning in this regard because this statement refers merely to the issuing of the licence.

Mr. CAMERON (*High Park*): I should like to ask Mr. Hees or Mr. Scott whether that information is correct and the liquor licence was obtained on February 22, 1961?

Mr. HEES: It was my impression that the liquor licence was issued in the fall of that year, but I was not the minister at the time.

Mr. CAMERON (*High Park*): I asked the question in order to obtain that information and because I assumed your responsibilities ended on October 11, 1960.

Mr. HEES: That is right, yes.

Mr. CAMERON (*High Park*): I should like to find out through you or Mr. Scott whether this information is correct and the liquor licence was granted on February 22, 1961.

Mr. SCOTT: Yes, Mr. Chairman.

Mr. CAMERON (*High Park*): That information is correct, is it, Mr. Scott?

Mr. SCOTT: Yes, sir.

Mr. CAMERON (*High Park*): The formal contract was not negotiated finally until January 31, 1961; is that correct?

Mr. SCOTT: I should like to check that information.

The CHAIRMAN: Mr. Scott will check that information with his officials. Perhaps you could pursue your questions while he is doing so.

Mr. CAMERON (*High Park*): I do not want to continue because my further questions have a bearing on that information.

The CHAIRMAN: We will wait until Mr. Scott obtains that information.

Mr. LEBLANC: Mr. Henderson has the answer available. His report indicates the date is January 31, 1961, which means they received the licence within one month.

The CHAIRMAN: Mr. Scott has the answer now, I believe.

Mr. ROCK: Are you sure there were not two licences issued?

Mr. HEES: I remember being in the dining lounge on several occasions after it opened and I know there was no liquor being served.

Mr. CAMERON (*High Park*): Mr. Hees, I understand further that the effective date of the contract was the end of February, 1961, after the obtaining of the liquor licence, so that these people should have had a liquor licence right from the inception of operations.

Mr. HEES: As I say, I was in the dining facilities on several occasions and I know that liquor was not being served. I was informed that for a long time these people did not receive a liquor licence.

Mr. CAMERON (*High Park*): You approved of this syndicate or group of individuals getting the contract because of their business reputation, their bank references and the skill of at least one of them as an operator of restaurants; is that right?

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): Would you think they were particularly good businessmen if they went into this type of business without having definitely assured themselves of obtaining a licence or, having failed to do so, referring the matter to the department, indicating the difficulty involved in obtaining a licence?

Mr. HEES: Mr. Cameron, the report we received in respect of these people indicated, in Mr. Goodwin's words, that they were highly regarded citizens in the business community of Montreal and had excellent bank references. These people appeared to me to be the kind of people who would operate a successful business enterprise.

Mr. CAMERON (*High Park*): I agree with you that you exercised reasonable judgment, but I am pointing out that the executive order approving of the granting of the concession was dated August, 1960.

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): The election was held in June of 1960 and these people must have known sometime between August and the date of the signing of the contract whether or not they were going to receive a licence, or they were not very good businessmen, being aware of the situation, and failing to return to the officials of the department to point out the difficulties and request some adjustment until a licence was issued. This situation is important from the government's standpoint because the government was to receive a much higher commission on the sales in respect of the bar concession than in respect of the dining room concession. You were actually interested in this situation as evidenced by the fact it is spelled out in the implied conditions. The success of this operation depended on the issuing of a liquor licence.

Mr. HEES: Mr. Scott advises me that the decision was made by the government that this group receive a concession in August of 1960, and they were given the concession as of then.

Mr. CAMERON (*High Park*): That fact is spelled out in Mr. Henderson's report.

Mr. HEES: Yes, that is right.

Mr. PRITTIE: When did the airport open?

The CHAIRMAN: I am sure Mr. Hees has to inform himself through Mr. Scott in respect of many of these matters. Perhaps Mr. Scott should answer your questions directly, particularly when they deal with a period of time when Mr. Hees was not responsible. Perhaps you could direct your questions to Mr. Scott.

Mr. CAMERON (*High Park*): I have one further question I should like to ask Mr. Hees, and I am sure he will be willing to give me an answer.

Do you agree with Mr. Wahn that financial precaution should have been taken, and do you agree that when this contract was signed, there being an arrangement requiring these people to produce receipts for the \$350,000 spent on furnishings; someone must have slipped up in not seeing that that was done?

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): It would not be you because you were not the minister then?

Mr. HEES: That is right. It has always been my experience that these matters are checked carefully by the treasury board staff, whose job it is to do just that, making sure that these financial details are satisfactory before the government actually lets the contract. As I have said several times, I feel that it is obvious somebody should have checked these things. I feel the treasury board staff should have made these checks, and that the treasury board itself should have made sure that these checks were made.

Mr. CAMERON (*High Park*): The knowledge that the \$350,000 to be spent on furnishings was actually paid out would have made a big difference to the security of the government; is that right?

Mr. HEES: In looking back at the situation I think there is no doubt in that regard.

The CHAIRMAN: Do you intend to direct your questions to Mr. Scott, Mr. Cameron?

Mr. CAMERON (*High Park*): I should like to ask Mr. Scott or Mr. Henderson when the liquor lounge actually commenced operations. Perhaps Mr. Henderson can tell us when the financial statements first showed a profit from liquor operations?

Mr. SCOTT: Mr. Cameron and Mr. Chairman, the sequence was as follows. Tenders were called in May, 1960. An application was approved by the treasury board in August, 1960. The concessionaire opened in the terminal in December 1960. The lease arrangement we had with the concessionaire was dated January 31, 1961. The liquor licence was issued on February 22, 1961 and I assume that within a very short period of time thereafter liquor would be sold in the lounge.

Mr. CAMERON (*High Park*): So the period of time between the commencement of operations and the obtaining of a licence, if commencement was in December, was a matter of two or three months rather than eight, nine or eleven months?

Mr. SCOTT: The period of time would be three months.

Mr. CAMERON (*High Park*): At that time they were operating. They were not paying the government anything for the use of the concession. They were getting established.

Mr. SCOTT: Yes.

Mr. CAMERON (*High Park*): So it would not be fair to blame the entire financial embarrassment that ensued upon the failure to have a liquor licence.

Mr. HEES: Mr. Chairman, I think we might refer to page 691. Judging by the evidence given by Mr. Scott at page 691, I would think perhaps the department realizes now that too hard a bargain was driven with these original concessionaires because there, on page 690, Mr. Scott says:

When this was being discussed with Aero Caterers, that is when the change took place in the other company. The view was that the other company would be on a better financial basis, and that they were going to have a new deal to start with, and that they were not going to have the same obligation of expense.

Then on page 691:

Mr. Cameron (*High Park*): What was the department's appraisal of them? What advice did they give to the minister who in turn would have to take it to the treasury board, as opposed to Aero?

Mr. Scott: Whoever came in would have to have a better financial deal than the old company had.

So it would seem to me from that that perhaps the department at the time overestimated the potential business that could be done in this concession, and it would appear, perhaps, that the demands made by the department for the payment of \$350,000 were too high judging by the business that did develop actually or the potential that could develop. So I would say probably there were several factors contributing to the lack of profit made by the concessionaires.

Mr. CAMERON (*High Park*): It was not only the liquor licence that was the cause of this.

Mr. HEES: No; I said the liquor licence would certainly have a very big effect upon it.

Mr. CAMERON (*High Park*): But the liquor licence was granted on February 22.

Mr. HEES: Yes, but until a concessionaire knows he is going to have a liquor licence he cannot start preparing for the sale of liquor, he cannot make preparations for the bar and all the things that are necessary. Then, Mr. Cameron, in the three months of operation the public comes to his place of business and finds that it is not the place they thought it was going to be in their first enthusiasm, a place where they could pleasantly sit down and have a drink before, during the after dinner, or in all three cases, so then they decide they are not going to patronize that particular facility again. The first three months of operation could be disastrous. If people decide in that time that your place is not an attractive place to go to for various reasons, it is very hard to pick up that patronage later on.

The CHAIRMAN: Mr. Regan.

I hope we will restrict our discussion to things we have been unable to discover so far.

Mr. REGAN: I would like to follow Mr. Cameron's line of questioning.

I had in mind that not acquiring the liquor licence for this interim period could not have such a profound effect on the eventual success or failure of this particular business. Is it not a fact that any airport restaurants that have been opened in new airport terminals across the country during the past ten years have failed to show money in their early operation, in their first year or so?

Mr. HEES: I would not be able to answer that.

Mr. REGAN: You would not be in a position to know that?

Mr. HEES: No.

Mr. REGAN: In any large new restaurant, in an airport or not, is it not customary in cases of a large undertaking for a company to project its financing over a period of four or five years and to expect some losses in the early period? If that is the case—and I am sure you will agree that that is the case—if this company had been sound financially and if it had been able to look forward to such glowing prospects after it received its liquor licence—such prospects as you described earlier as being the case if the liquor licence existed—would it not have been able to plan its finances in such a way that it could go through this period of famine and still continue its operations, looking forward to the years ahead?

Mr. HEES: I do not know whether or not a restaurant operator plans a loss for a certain period. Most people going into business do not; they expect the business will be a well run and well planned business and that they will start making money right from the start. I would expect the restaurant operator would have every reason to believe that, if he ran a facility which the public enjoyed and if the food, the service and the liquor were good, he would have every chance of making a profit right from the start.

Mr. REGAN: I see. How much difference do you feel the absence of the liquor licence for this three month period would have made with regard to the clientele? I think you mentioned the different types of people who would go there to eat—those who were catching planes and those who were between planes. Certainly you would agree that those between planes would be a captive audience or a captive market, and would have to eat there whether there was liquor available or not.

Mr. HEES: They do not have to eat there; they can eat perfectly well at a much cheaper restaurant downstairs. If there is no particular reason to go upstairs, then most people stay downstairs.

Mr. REGAN: I see; that is a very satisfactory answer.

Mr. HEES, you were a member of the treasury board at the time?

Mr. HEES: No, I was not.

Mr. REGAN: Were you at any time during your years on the treasury benches a member of the treasury board?

Mr. HEES: Oh, yes; as I said earlier, I was a member of the treasury board—I served in the salt mines for about two years—the first two years I was a minister.

Mr. REGAN: During those years did you follow such a course with contracts that came before the treasury board as that which you earlier described?

Mr. HEES: Yes, I think we were very conscientious and looked into the contracts that came before us in a thorough manner.

Mr. REGAN: In the light of the information brought out by Mr. Cameron that it was for a relatively short period of time that these people were without a liquor licence, and aside from the possibility that the department drove too hard a bargain, the question of the experience and ability of these people in assessing how the restaurant should be operated as against what a more experienced group could have done might have led to their downfall?

Mr. HEES: The time when people would have come forward and made suggestions as to how the restaurant should operate would be, I think, at the time when they were bidding on the particular concession. There were lots of discussions at the time with the people who were thinking of bidding on this concession. After all, it is a big and important concession. They were certainly familiar with what was required; they were familiar with the layout and so on. I do not know of any representations by any of the potential concessionaires to the effect that this was too big a facility or that \$350,000 should not be paid by them to decorate the premises. Therefore, if you have

more experienced concessionaires, such as Aero Caterers and the Hilton hotels, agreeing that this seemed like a reasonable proposition—and they all put in their bids on that basis—then I would think it unfair to expect the other company to have some kind of clairvoyance and come forward and say, “Oh, well, I think this, that and the other thing should be different from what you propose.”—

No, I think it is very easy to look back on these things and come up with the right answers, but it is not so easy to do so beforehand.

Mr. REGAN: Fumbles do lose games, though.

Mr. HEES: Yes.

Mr. PIGEON: At that time it was possible for your department to give the authorization to the concessionaires to sell liquor without having the authorization of the province, because it is a federal district, is it not?

Mr. HEES: No, it is not a federal district.

The prime minister of the day was very specific that he would have nothing to do with the issuing of liquor licences or allowing liquor to be sold in our airports. This was a matter of quite some discussion between the prime minister of the day and myself for several years prior to this occasion because there was great pressure brought upon me by all of our members and by a lot of the public to the effect that it would be a sensible and desirable thing to allow the sale of liquor in our airports.

To me, an airport seems to be the most logical place in the world in which to sell liquor because most of the people who would use a facility like that would be people who were between planes. If you are between planes, you are not going to go into a bar when you land at an airport, have a few drinks, and then drive your car. If you are arriving at your destination you get into your car and go to the place where you are heading, and you have your drinks there. However, the people who drink in airports are people who are stranded between flights, who may have two or three hours to spare, and the logical thing for them to do is to pass the time of day in a nice, pleasant bar, because there is nothing else to do. Then, when they get on the plane, even though they perhaps have had too much to drink, there is no harm they can do except annoy their fellow passengers perhaps by a little snoring. There is no danger involved to the public by driving recklessly or anything of that kind. Therefore, to me, it seems a logical thing to have a liquor licence at a restaurant in an airport.

Mr. PIGEON: I ask this question because I heard that the federal government can give authorization for a permit to sell liquor without authorization by the provincial government.

Mr. HEES: I would like to answer that question. I can tell you in an unsure world one very sure thing, that with the prime minister of the day, in my case, it was absolutely impossible to get the authorization of the federal government to allow the sale of liquor in airports, and what was done was to pass it to the provincial government. They made the decision. That is how it was done. But, it was impossible for me, as minister of transport to give the authorization for the sale of liquor in any airport. I can assure you of that.

The CHAIRMAN: Have you a question, Mr. Ryan?

Mr. RYAN: How long was the lease signed on January 31, 1961 to run?

Mr. HEES: I do not know.

Mr. SCOTT: For five years.

Mr. HEES: I am informed five years.

Mr. RYAN: How was the figure of \$350,000 determined for inserting in the lease as a condition of it?

The CHAIRMAN: If the information is not available now we might secure it from Mr. Scott and his department later on.

Mr. RYAN: I have a further question before I leave that.

Were there any contracts between your department and the Quebec liquor licence authority which made it necessary to require furnishings to the extent of \$350,000?

Mr. SCOTT: Not that I am aware.

Mr. RYAN: And, I believe either Mr. Hees or Mr. Scott indicated—and I think it was Mr. Scott—that the department never obtains guarantees from concessionaires, even in a case of a concession of this size. Is this true?

Mr. SCOTT: Yes. Perhaps I could add a word to what I already have said. If it is a case of performance, like a contract for construction, certainly these are cases in which you guarantee yourself in every possible way. But, you must remember that in a concession of this type the real basis is a percentage of the gross revenues. Therefore, actually the department is endeavouring to help the concessionaire to build up his business because the greater the business the concessionaire does the better it is for the department and the more revenue the government gets to maintain its facilities. So, as I said the real basis is a percentage of the gross revenue, and the real protection here is for the department to go in and audit the books of the concessionaire.

Mr. RYAN: But in respect of this case, you have a company of four men, and I take it it is a limited company?

Mr. SCOTT: Yes.

Mr. RYAN: So, they are able to hide behind a charter if they do go in the hole. There is no personal liability on the part of any one of these men. Is that so?

Mr. SCOTT: Yes.

Mr. RYAN: Do you not think it would be wise in future for the department, in cases of this kind, to require private covenants in addition to a lease so we will not have failures of this kind, particularly when you have relied upon the financial strength of these men in the first place? We all know that a bank, in the case of private limited companies, will not in any case accept the covenant of the limited company but it will require the covenants of the private entrepreneurs behind the charter. Why could the government not make a requirement of this kind in the future?

Mr. SCOTT: Well, the government certainly could make such a requirement, yes.

The CHAIRMAN: Mr. Ryan, this individual case will form the subject of some discussion when we, as a committee, make our recommendations and file our report.

Mr. RYAN: Thank you, Mr. Chairman. I have just one thing to add. I am interested in how the figure of \$350,000 is arrived at as a condition of the lease.

The CHAIRMAN: We will secure that information and it will be available. I have one question from Mr. Loiselle and then a question from Mr. Rock.

As you know, we have a lot of distinguished gentlemen who have come from all parts of Canada to be here in connection with the Canada Council discussion, and I would hope we soon would be able to get on with that. I know we have had an excellent dry run and now that they have watched this experiment they will know what they will be up against.

Mr. LOISELLE: Mr. Chairman, I will not be long as most of my questions already have been answered. However, by the way the discussion went this morning I would gather that the whole problem centred around the liquor licence, which would have an effect upon the tenants. If the government did lose

\$167,400 in respect of that deal do you think it was because the government at the time thought it politic not to have any liquor in their airport restaurants?

Mr. HEES: No. It is easy to answer that question, because the federal government as, I think it was, of March 1, of that year, 1960, had by a stated policy said that liquor could be sold in any airport in Canada provided the concessionaire applied to the provincial government and the provincial government granted a licence exactly in the same way as they do to concessionaires or restaurant owners in other parts of the province. So, it was 100 per cent up to the provincial government in this case to grant the licence. The federal government said: "You can serve liquor if the provincial government gives you a liquor licence." And the provincial government did not for some time, and that hurt the concessionaire's operation.

Mr. LOISELLE: Are you sure that the date you gave, March 1, 1960, is the correct one?

Mr. HEES: No; I said I thought that was the time. It was about then. However, you can check that; it might be a month or so out. Have you any idea, Mr. Scott?

Mr. SCOTT: Yes, it was March.

Mr. HEES: I am told that was the right date. It was an important date to me.

Mr. LOISELLE: Could you tell us why the government changed its mind in that connection?

Mr. HEES: I think perhaps I was able to persuade the prime minister of the day that this was a sensible policy, and being a reasonable man he accepted my proposition.

The CHAIRMAN: Would you proceed, Mr. Rock.

Mr. ROCK: I think it was a sensible policy.

Mr. HEES: Thank you. A lot of people believe it to be.

Mr. ROCK: A lot of confusion has arisen over the issuing of the licence and the date. Many say it was a month after the contract was signed and others say it was six or seven months after. Is it not possible that two licences were involved, one for the lounge and one for the restaurant and they were unable to use the lounge licence for the restaurant and the restaurant licence for the lounge. Perhaps the confusion comes from this. Possibly the lounge licence was issued and the restaurant licence was not, and maybe they overlooked applying for it.

Mr. HEES: I do not know. All I know is that I went in several times and could not buy a drink.

Mr. ROCK: In the lounge and in the restaurant?

Mr. HEES: In both.

The CHAIRMAN: Thank you, gentlemen.

Mr. PIGEON: I have one last question.

Mr. Hees, do you know the reason the provincial government waited eight months to grant this liquor licence?

Mr. HEES: No, I do not know. I have no idea.

Mr. GRAY: On a point of order, Mr. Chairman,—

The CHAIRMAN: Mr. Gray on a point of order.

Mr. GRAY: Mr. Chairman, although I do not want to interrupt Mr. Pigeon's question I think the evidence has come out repeatedly that there was not a delay of eight months in issuing the licence. At most, it was issued within two or three months after the concession began to operate and one month after the contract was signed.

The CHAIRMAN: That is the evidence before us.

Mr. Rock has raised another question and we will try to find out if there was anything involved.

Mr. SCOTT: There was just the one.

The CHAIRMAN: I am informed there was just one licence granted, so the answer is it was two or three months after the licence was granted. This is the information which is now presented to the committee by the officials of the department.

Have you a question, Mr. Leblanc.

Mr. LEBLANC: I have one last question. On page 692 I made a statement, which reads as follows:

Then, the financial difficulties experienced by the first group, which subsequently formed itself into a corporation, are not attributable to the fact that the Department of Transport would have charged them an excessive amount for the lease? I believe they themselves set the amount of the lease they were willing to pay, and it was on that tender that they obtained it. Then the financial difficulties would arise from the fact that they did not supply enough capital to start the work and to foresee the possible losses, as is usually done in private enterprise.

Mr. HEES: I think it is interesting to see, and I would like Mr. Scott to check me on this, that after the first concessionaire ran into difficulties, from the evidence I read it would appear that the department spoke to the other two applicants who had not been successful, and that only Aero Caterers were interested in taking on the contract. I think that that is very significant. It would appear that there was perhaps on somebody's part an overestimation of the possibilities for making profit in this operation, and once Hilton had had a look at how the operation went, the potential number of diners and drinkers, or whatever you would like to call them, it had become apparent that Hilton were no longer interested. It would, therefore, appear that perhaps the department had overestimated the possibilities of making a profit on a large scale in a concession of this kind. After all, this was the first concession of this kind that we had let anywhere in Canada. Up until that time there were no really big airports in operation. This was the first time we were able to permit the sale of liquor, if the provincial government was agreeable, and so this was not only an experiment on behalf of those applying for the concession and on the part of the person who received the concession but also an experiment on the part of the government as well. This was a new venture, and we are all human, and people do make mistakes. It would appear that the department perhaps overestimated the potential and asked too high a financial requirement from the people operating the concession. It could be.

Mr. RYAN: Mr. Chairman, I would just like to ask Mr. Hees at present whether this leaseholder got a new lease or just another contract?

Mr. HEES: This happened after I had left.

Mr. RYAN: Mr. Scott, was there a new lease made out for the present holder?

Mr. SCOTT: A new, amended lease.

Mr. RYAN: Is there any option of renewal past the original term of five years?

Mr. SCOTT: It could be renewable.

Mr. RYAN: For how long a term?

Mr. SCOTT: It could be on five year terms.

(Translation)

Mr. CHOQUETTE: Mr. Hees, in order to save the principle of bilingualism I will put my question to you in French, as I know you can answer in French.

When the contract was granted the operator; did he let the authorities of your department know, directly or indirectly, that he was sure of getting his licence to sell liquor?

Mr. HEES: There was nothing we could do in my department to ensure that a licence would be granted for—

Mr. CHOQUETTE: I think you misunderstood my question. What I want to ask you is whether the person who was granted the contract let you know directly or indirectly that he was sure of getting a licence to sell liquor?

Mr. HEES: The answer is no.

Mr. CHOQUETTE: Thank you.

(Text)

Mr. GRAY: I have one question to ask, Mr. Hees. Could you tell me who the members of the treasury board were at the time this contract was approved?

Mr. HEES: No, I could not. The members of the treasury board change from time to time. This was where usually some of the new members of the cabinet served, and after a while older members of the cabinet who had done their penance were allowed to get off the treasury board and new members came on. The personnel of the treasury board changed quite often, so I would not know who the members were at the time.

The CHAIRMAN: We have had a very useful and fruitful—to use the two words most commonly used—discussion, and we are all obliged to Mr. Hees for shedding light not only on this issue but incidentally on the machinery of the treasury board. I am certain that what he said today will be of considerable value to us when we come to make our report on this, among other things. Thank you very much, Mr. Hees, for appearing here. We enjoyed having you, I am sure.

Mr. CHOQUETTE: I have a question which is out of order. Is it your intention to go out of politics?

Mr. HEES: This is a difficult question to answer.

Thank you very much, Mr. Chairman. I appreciate the privilege of coming here very much. It reminds me of the old days. It was a great pleasure and privilege to see you all again. I enjoyed this morning very much indeed. Thank you so much.

Mr. CHOQUETTE: Come again.

Mr. HEES: Any time at all, if you have any questions to ask me.

The CHAIRMAN: Gentlemen, it is now twenty-five minutes to 12 o'clock. We have a lot to do. I would hope that before we depart this morning we will have had an opportunity to introduce the chairman and members of the Canada Council and their officials and that we will give an opportunity to Mr. Henderson to at least initiate a discussion by starting into the beginning of the financial reports we will be considering. Before I call on Mr. Henderson I wonder whether I could introduce to you Mr. Jean Martineau. Mr. Martineau, would you come up here, please, sir?

We are very pleased to have you here, Mr. Martineau. I am going to ask you, before we call on Mr. Henderson to initiate the discussion, whether you would mind introducing to us the members of the council and the officials who have come with you so that during the course of our discussions, if questions need to be re-routed through you to any member of the council, we could have this as part of our proceedings, and we will have this introduction before I call on Mr. Henderson.

Mr. JEAN MARTINEAU, Q.C. (Chairman, Canada Council): Thank you, Mr. Chairman.

(Translation)

Speaking after you, Mr. Choquette, I think I should begin my comments in French. We greatly appreciate the opportunity you have given us to explain what the Canada Council are doing. It is by no means easy, in fact it is very difficult and very complicated. But I think that after the lesson we had for two hours as we listened to the questions asked of Mr. Hees and to the answers he gave, we shall be better able to satisfy you. But we hope you will not be as hard on us as you, or at least some of you, were on him.

(Text)

May I say, gentlemen, that you will have to be somewhat lenient with me if very often I cannot answer your questions. My nomination is so recent that I have been unable, in spite of my good will, to master everything that goes on in the council. In due time I will, and that is why this morning, I will call very often on, firstly, Mr. Faribault, a member of the council, and on the director of the council, Dr. Trueman, and on the assistant directors Messrs. Bussière and Dwyer. When it comes to finance I will call on Mr. Fullerton, and also of course on our only secretary-treasurer, Miss Lillian Breen.

The CHAIRMAN: Thank you very much indeed, Mr. Martineau, for this introduction.

Gentlemen, let me tell you that the course of our proceedings is as follows, subject to any variation on the part of the committee, we have had filed and tabled with the committee what I refer to as the long form reports which the Auditor General makes and which should be in the possession of the committee.

Mr. FISHER: Mr. Chairman, I want to get one thing cleared up right away. The Canada Council is appearing before us not only in connection with the Auditor General's report but, I would understand, in the continuity of previous appearances here. In other words, the opportunity for questions can be much more ranging. I would like this cleared up.

The CHAIRMAN: I think so. I examined the proceedings of the committee when the Canada Council was before the committee previously and I observed that without any objection this was the procedure followed. Not only is the financial statement before us but, by the terms of reference, the reports of the Canada Council which you gentlemen have. This being the case, the terms of reference in the House of Commons include these reports and matters relevant to and arising from these reports will also be subject to discussion and question. I think this probably answers your question.

I was about to explain to Mr. Martineau and the members of the council who are appearing before us that the usual routine is for Mr. Henderson, as Auditor General, to go through the references which are contained in his report as Auditor General to the House of Commons for the two years in question, and, also, the long form reports which he has filed in his position as auditor pursuant to the statute. Questions then may be directed and comments made arising out of the material in the two long form reports and, of course, on matters referred to in the report of the council.

In the hope of informing the committee with regard to the general area of discussion, between now and the time of our adjournment, Mr. Henderson might proceed to report to us. This will give us a basis for our discussion the afternoon.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Thank you, Mr. Chairman.

I believe I am correct in assuming it might be advantageous for me, as expeditiously as possible, to go through the text of the long form reports which you have, beginning with the 1962 one.

OTTAWA, July 31, 1962.

The Chairman and Members,
The Canada Council
Ottawa.

We have completed our examination of the accounts and financial transactions of the council for the financial year ended March 31, 1962 and have reported thereon under date of May 25, 1962 to the Canada Council and to the Prime Minister of Canada, in compliance with the requirements of section 22 of the Canada Council Act, c.3, 1957.

Our examination was made in accordance with generally accepted auditing standards and included a general review of the accounting procedures and of the system of internal control, together with such tests of the accounting and related records and financial transactions as we considered appropriate to the circumstances.

A copy of this report is being forwarded to the Prime Minister of Canada for his information.

For convenient reference we are attaching, as exhibits, copies of the financial statements for the year ended March 31, 1962.

Endowment Fund

Income and Expenditure

Income earned which remains unexpended at the end of a financial year is available for expenditure in the succeeding year or years. This amount is shown in the following summary of income and expenditure transactions for the year ended March 31, 1962:

Balance available for expenditure as at April 1, 1961 ..\$	417,810
Add: Income for the year	2,955,665
	<u>3,373,475</u>
Deduct: Expenditure for the year	3,100,092
Balance available for expenditure as at March 31, 1962	<u>273,383</u>

Investment income earned during the year under review is compared with the corresponding amounts earned in the preceding year in the following summary:

	Year ended March 31 1962	1961	Increase or Decrease (-)
Interest on bonds and debentures . \$	1,828,451	\$ 1,938,333	\$ -109,882
Dividends on common stocks	271,145	285,522	- 14,377
Interest on mortgages	845,053	683,472	161,581
Discount on Treasury Bills	11,016	11,891	- 875
	<u>2,955,665</u>	<u>2,919,218</u>	<u>36,447</u>

Average return for year on

original Fund	5.91%	5.84%
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Expenditure during the year under review compares with the corresponding amounts in the preceding year as follows:

	Year ended March 31 1962	1961	Increase or Decrease (-)
Grants and awards authorized \$	2,551,150	\$ 2,543,846	\$ 7,304
Canadian National Commission for UNESCO (other than indirect administrative expenses)	56,490	45,325	11,165
Canada Council Train	25,298	33,416	- 8,118
Administrative and other expenses	467,154	375,711	91,443
	<u>3,100,092</u>	<u>2,998,298</u>	<u>101,794</u>

The expenditures in the various administrative and other expense categories during the year under review are shown in comparative form in the Statement of Income and Expenditure and Surplus (Exhibit II). Salaries increased by \$14,628 to \$213,789 due in greater part to normal salary revisions and the payment of separation gratuities. The increase of \$8,354 to \$32,572 for Council meetings is due mainly to the fact that six meetings were held during the year to March 31, 1962 whereas only five meetings were held during the preceding year. The increase of \$17,514 to \$32,669 in charges for the safekeeping and registration of securities resulted from an adjustment for the accrual of safekeeping fees payable to the Toronto General Trust Corporation. Fees are payable, not in advance, in the amount of \$10,000 semi-annually in May and November. For the 1960-61 financial year no provision was made for that part of the fee payable in May 1961 which had accrued due to March 31st. Conversely, the full fee due for payment in May 1962 was taken on charge in the year under review. The end result was that the accounts for 1961-62 were charged with fees covering an eighteen month period. Advisory service fees, which increased by \$43,000 to \$49,250, were accounted for by payments of \$17,500 (including \$8,000 for 1960-61) each to the Humanities Research Council of Canada and the Social Science Research Council of Canada, \$10,500 (including \$3,000 for 1960-61) to The Canada Foundation and \$3,750 for the three months ended May 31, 1962 to Fullerton, McKenzie and Associates Ltd. for the management of the Council's investment portfolio and related services. Office furniture and equipment purchased during the years cost \$4,427 for which there was no comparable charge in the previous year.

Balance Sheet Items

Cash—\$262,086

Bank balances totalling \$261,661 were confirmed directly to us by the depositaries and reconciled with the records. The remaining \$425 of this item consisted of a deposit, which was confirmed, with Trans-Canada Air Lines in connection with air travel credit cards.

Investments—\$54,528,248

The council's treasurer, Mr. D. H. Fullerton, resigned effective March 1, 1962, to head a firm of consultants specializing in the management of security portfolios for clients. Through an agreement with the firm, Mr. Fullerton's services continued to be available for the purpose of managing the council's portfolio and providing reports and statements as required, on the same basis as during his tenure as treasurer. The agreement, which may be amended or cancelled by either party on three months' notice, requires payment to the firm

of an annual fee of \$15,000 by quarterly instalments in advance, and of telephone costs, not to exceed \$5,000 per annum, incurred in transacting the Councils' business.

The classes of securities that may be acquired as investments of the endowment fund, and the limits of holdings of any class and of any particular securities, have been approved by the council and are subject to change from time to time by resolution of the council. Within this general framework securities are acquired, managed and disposed of with the advice of the investment committee, as required by section 18 of the Canada Council Act.

Section 16 provides that any expenditure made for the purposes of the act (other than capital assistance grants to universities) may be paid out of the income earned by Endowment Fund investments. The investment portfolio is planned to provide the maximum return consistent with the necessity of maintaining the principal of the Fund intact. Net profits totalling \$3,155,233 which have been realized on the disposal of securities since the council was established are carried on the Balance Sheet (Exhibit I) as a general reserve against the possibility of future losses.

An analysis of the endowment fund investment portfolio at March 31, 1962 follows:

Treasury bills:

Canada	\$ 298,107
Provincial	149,751

447,858

Short-term corporate notes	483,042
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\$ 930,900

Bonds and debentures:

Canada and Canada guaranteed	13,599,950
Provincial and provincial guaranteed	6,009,625

Municipal	3,219,668
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Corporate	8,709,433
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31,538,676

Common stocks and convertible
debentures

7,063,294

Stock warrants	4,000
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7,067,294

Mortgages:

Insured under N.H.A.	14,248,436
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Other	742,942
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14,991,378

\$54,528,248

Treasury bills, bonds and debentures are valued at amortized cost, mortgages at amortized cost less principal repayments, and common stock and stock warrants at cost. The market value, \$42,258,855, of investments (excluding mortgages) at the year-end was \$2,721,985 in excess of the book value. The principal value of mortgages held amounted to \$15,163,574 which was \$172,196 in excess of the book value.

Included in the investment portfolio are 3,500 "bonus" shares in Chinook Shopping Centre Limited. These have not been valued as they were received by the council without cost. At the end of the preceding year 7,500 of these "bonus" shares were on hand. During the year under review 4,000 shares were sold and the proceeds of \$11,600 were credited to the reserve arising from net profit on disposal of securities.

The volume of transactions in endowment fund investments was again heavy, the objective, as in previous years, being to enhance yield and to realize attractive capital gains. The following summary gives details of the purchase and sale transactions entered into and completed during the 1961-62 financial year:

	Purchases	Sales
Treasury bills—Canada and Provincial	\$ 2,908,359	\$ 2,958,011
Bonds and debentures:		
Canada and Canada guaranteed	34,390,832	32,062,331
Provincial and provincial guaranteed	13,152,312	13,339,005
Municipal	3,620,321	8,193,467
Corporate (including short-term notes)	17,053,824	14,756,751
	<u>68,217,289</u>	<u>68,351,554</u>
Common stocks	783,590	981,778
Mortgages:		
Insured under N.H.A.	2,120,410	
Principal repayments		612,556
	<u>\$74,029,648</u>	<u>\$72,903,899</u>

The securities are held in safekeeping and were verified by certificates furnished directly to us by the depositaries.

Property, including furnishings and effects, donated to council, at nominal value—\$1

Section 20 of the Canada Council Act provides that:

The Council may acquire money, securities or other properties by gift, bequest or otherwise and may . . . expend, administer or dispose of any such money, securities or other such property . . . subject to the terms, if any, upon which such money, securities or other property was given . . . to the Council.

In November 1961 the council accepted as a gift Stanley House, New Richmond, province of Quebec, together with household furnishings and effects. It is the council's intent to use this property not only as a place where artists may work but also as the locale for discussions on policy with experts in various fields.

For accounting control purposes the property has been nominally valued at \$1. At the time of our audit the legal formalities necessary for the transfer of the property to the council had not been finalized.

Accounts payable—\$73,706

The accounts payable at the close of the year were verified by reference to appropriate supporting documents. An analysis follows:

Unexpended donations	\$19,023
Canadian National Commission for UNESCO	10,313
Securities registration fees and service charges	14,931
Social Science, and Humanities, Research Councils of Canada	19,000
Office expense	4,348
Council meetings expense	4,333
Miscellaneous	1,758
	<u>\$73,706</u>

Under section 20 of the Canada Council Act, the council may acquire money by way of gift and dispose of it, subject to the terms on which the gift is given. The accounting practice is to treat these conditional donations as liabilities, until disbursed for the purposes designated. Unconditional donations may be taken into income and thus be available for expenditure under section 16 of the act. The amount of \$19,023 shown above represents the unexpended balance of donations received for specific purposes, to be expended in accordance with the conditions attached to them. Donations totalling \$45,025 have been received to date by the council.

The following is a summary of the conditional donations received and disbursed during the year under review, together with the unspent balances:

Unspent balances April 1, 1961	\$15,187
Add: Donations received during the year	10,995
	<u>26,182</u>
Less: Disbursements during the year	7,159
	<u>\$ 19,023</u>

All disbursements from donations received have been made in accordance with whatever terms were specified by the donors.

In our last year's report we commented upon the advisability of reviewing the income tax status of acknowledgment receipts issued by the council for conditional donations transmitted to an organization outside Canada. During the year under review the situation was clarified by a reference to the Department of National Revenue. The council's customary acknowledgment receipts are acceptable for the donors' income tax purposes provided that the purposes for which the gifts are made are within the objects of the council and fit normally into its program. Otherwise, any receipts issued should clearly state the conditions on which the gifts were made.

Amounts payable in respect of securities purchased but not received—\$566,757

During the latter part of March 1962 orders were placed with brokers for the purchase of securities at a cost of \$566,757 for delivery during April 1962. The amount payable was verified by reference to the relevant purchase contracts. Details are:

	Date of		Amount
	Purchase	Delivery	
Government of Canada, \$300,000			
Treasury bills due June 15, 1962	March 30	April 2	\$298,107
Alberta Municipal Financing Corporation, \$270,000 5½ per cent bonds due April 16, 1984	March 27	April 18	268,650
			<u>566,757</u>

Provision for grants and awards approved—\$1,659,339

The amounts involved in project and scholarship awards are provided for in the accounting records following approval of such awards at a meeting of the Council. The balance of unpaid awards approved by the Council to March 31, 1962 includes provision of \$176,250 for estimated travel and university fees.

The transactions for the year may be summarized as follows:

Balance unpaid as at April 1, 1961	\$1,898,085
Add: Net authorizations during the year	2,576,448
	<u>4,474,533</u>
Less: Paid during the year	2,815,194
	<u>1,659,339</u>

The awards outstanding for more than 12 months were reviewed with your officers who informed us that as far as could presently be ascertained they would eventually be paid.

Reserve arising from net profit on disposal of securities—\$3,155,233

This reserve amounted to \$1,530,855 at March 31, 1961. During the year under review it was increased by profits totalling \$1,818,906 and decreased by losses of \$194,528, realized on the disposal of securities, thereby bringing the balance of the reserve to \$3,155,233 at March 31, 1962.

The reserve is available to provide against possible future losses realized from disposal of endowment fund investments and is therefore not available for expenditure purposes.

UNIVERSITY CAPITAL GRANTS FUND

Cash—\$52,149

The bank balance of \$52,149 at March 31, 1962 was confirmed directly to us by the depositary and reconciled with the records.

Investments—\$36,007,045

The investments comprising the university capital grants fund are restricted by section 17(3) of the act to bonds or other securities of or guaranteed by the government of Canada. The investment portfolio at the year end consists of:

Treasury bills of Canada	\$ 7,686,495
Government of Canada bonds	28,320,550
	36,007,045

All securities in the portfolio were valued at amortized cost. The market value of the government of Canada bonds held at the year end was \$28,444,275, which was \$123,725 in excess of the book value. The securities are held in safekeeping and were verified by a certificate furnished directly to us by the depository.

The investments in the university capital grants fund were reduced progressively during the year in order to provide funds for approved grants to the universities, with the result that the year end balance shows a reduction of \$3,487,515 from the principal amount of \$39,494,560 at March 31, 1961. A number of sales and purchases were made during the year for the purposes of enhancing the yield on the investments or realizing capital gains. The volume of these transactions may be summarized as follows:

	Purchases	Sales
Treasury Bills	\$14,486,036	\$ 7,349,247
Canada and Canada guaranteed bonds	93,300,168	103,859,240
	107,786,204	111,208,487

Amounts payable in respect of securities purchased but not received—
\$149,054

The amount of \$149,054 represents a commitment entered into on March 30, 1962 for delivery on April 2, 1962 of \$150,000 government of Canada treasury bills due June 15, 1962. The amount was verified by reference to the relevant purchase contract.

Provision for grants approved—\$5,941,472

This represents the year end balance of grants approved which have not yet been paid. Transactions in the account since the inception of the fund are summarized as follows:

March 28, 1957 to	Authorized	Paid	Unpaid balance
March 31, 1958 .	\$4,084,300	\$1,340,400	\$2,743,900
1958-59	8,732,264	3,542,925	7,933,239
1959-60	9,344,062	6,960,226	10,317,075
1960-61	3,367,651	8,038,391	5,646,335
1961-62	6,532,639	6,237,502	5,941,472
	32,060,916	26,119,444	

The unpaid balance at the end of the year consisted of grants approved during 1961-62 and previous years as follows:

1958-59	\$ 500,000
1959-60	642,250
1960-61	964,096
1961-62	3,835,126
	<hr/>
	5,941,472

The above balances were reviewed with your officers who confirmed that the outstanding grants will be paid upon satisfactory completion of the work for which the grants were made.

Principal of Fund—\$30,333,416

Section 17 of the Canada Council Act provided for the establishment of a university capital grants fund to be credited with an amount of \$50 million, from which grants may be made to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects to promote the study of the arts, humanities and social sciences. Authority to invest money standing to the credit of the fund, within prescribed limits, is given by the same section.

The changes in the fund during the year under review are shown in summary form on the balance sheet (exhibit I). The principal amount of \$30,333,416 remaining at March 31, 1962 includes \$12,394,333 of interest earned and profits realized since the inception of the fund, which latter amount has not as yet been allocated by the Council either to the provinces or to universities.

The question of the basis of allocation of the accumulated interest and profits has been under active consideration by the council. Opinions have been received from members of three legal firms. Two of them support the view that, by reason of the restrictive formula comprised in section 17(2)(b) of the act, calculations for the purpose of determining increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third is that in allocating interest and profits the act does not preclude taking into account sums already paid to institutions, which is known as hotchpot, so that unspent balances and population would both be factors in the allocation.

At its February 1962 meeting the council decided to accept the hotchpot or trust fund approach to the distribution of the interest and profits, which had been regarded favourably in the third opinion referred to above, and to accept the 1956 census as the "latest census" referred to in the governing act, as the basis for distribution of the fund. However, the matter was considered further at the council's May meeting when it was agreed that "since any kind of discussion with the government is almost impossible at the present time and it would be most difficult, for instance, to discuss the possibility of an amendment to the act which would clear up what seems to be a controversial matter", the February resolution should be held in abeyance until the autumn of 1962.

In this connection we were advised by the director on May 18, 1962 that the \$30,333,416 principal of the university capital grants fund at March 31, 1962 included \$12,394,333 in respect of interest earned and profits realized since the inception of the fund, and that (a) no part of this sum had been allocated to or paid to the provinces and universities under the hotchpot distribution formula up to March 31, 1962, and (b) no acts were taken by the Council prior to that date which, in his opinion, would have the effect of committing the

Council to allocate the accumulated interest on profits in accordance with the hotchpot distribution formula.

Full opportunity was given to examine all vouchers, records and accounts required for the purposes of the examination. The co-operation extended to the audit office staff by the director and other officers of the council is acknowledged with appreciation.

We shall be glad to provide you with any additional information you may wish in connection with our examination.

A. M. HENDERSON,
Auditor General.

EXHIBIT I

THE CANADA COUNCIL
(Established by the Canada Council Act)
BALANCE SHEET AS AT MARCH 31, 1962
(with comparative figures as at March 31, 1961)

ASSETS		Endowment Fund		LIABILITIES	
	1962	1961		1962	1961
Cash.....	\$ 262,086	\$ 124,658			
Amounts receivable in respect of securities sold but not delivered.....	—	439,400	Accounts payable (including unexpended donations of \$19,023).....	\$ 73,706	\$ 27,174
Interest accrued on bonds and debentures.....	938,083	639,930	Amounts payable in respect of securities purchased but not received.....	566,757	661,645
Investments:			Provision for grants and awards approved.....	1,659,339	1,898,085
At amortized cost:			Reserve arising from net profit on disposal of securities.....	3,155,233	1,530,855
Treasury bills, Canada and provincial, and short term corporate notes.....	\$ 930,900	498,220	Principal of Fund:		
Bonds and debentures (market value \$32,050,655).....	31,538,676	32,132,238	Grant under section 14 of the Act.....	50,000,000	50,000,000
Mortgages insured under National Housing Act (1954) \$14,061,268, other \$742,942, including accrued interest \$187,168 (principal value \$15,163,574).....	14,991,378	13,435,641	Surplus available for expenditures under section 16 of the Act, per Statement of Income and Expenditure and Surplus.....	273,383	417,810
	47,460,954	46,066,099			
At cost:			Note: The Council is committed to participate in financing the costs of construction of two buildings in Toronto. It is anticipated that the transactions will be completed late in 1962, whereupon the Council will purchase a \$500,000 interest in each of the two mortgages.		
Common stocks and warrants (market value \$9,277,300)....	7,067,294	7,265,482			
	54,528,248	53,331,581			
Property, including furnishings and effects, donated to Council—at nominal value.....	1	—			
	55,728,418	54,535,569		55,728,418	54,535,569

University Capital Grants Fund

Cash.....	\$	52,149	\$	18,083
Interest accrued on investments.....		364,748		475,683
Investments at amortized cost:				
Treasury bills of Canada.....	\$	7,686,495		543,273
Bonds of Canada (market value \$28,444,275).....		28,320,550		38,951,287
		<u>36,007,045</u>		<u>39,494,560</u>
		<u>36,423,942</u>		<u>39,988,326</u>

Certified correct:

A. W. TRUEMAN

Director

Approved:

D. B. WELDON

Chairman

Amounts payable in respect of securities purchased but not received.....	\$	149,054	\$	—
Provision for grants approved.....		5,941,472		5,646,335
Principal of Fund:				
Balance as at April 1, 1961.....	\$	34,341,991		34,597,911
Add:				
Interest earned on investments.....		1,620,476		1,871,002
Net profit on disposal of securities.....		903,588		1,240,729
		<u>36,866,055</u>		<u>37,709,642</u>
Less:				
Authorized grants under section 9 of the Act.....		6,532,639		3,367,651
		<u>30,333,416</u>		<u>34,341,991</u>
		<u>36,423,942</u>		<u>39,988,326</u>

The above Balance Sheet and the related Statement of Income and Expenditure and Surplus have been examined and reported upon under date of May 25, 1962 to the Canada Council and the Prime Minister of Canada, as required by section 22 of the Canada Council Act.

A. M. HENDERSON

Auditor General of Canada

STANDING COMMITTEE

THE CANADA COUNCIL

Endowment Fund

Statement of Income and Expenditure and Surplus
for the year ended March 31, 1962

(with comparative figures for the year ended March 31, 1961)

	1962	1961
Balance of Surplus as at April 1, 1961	\$ 417,810	\$ 496,890
Income—Interest and dividends earned	2,955,665	2,919,218
	<u>3,373,475</u>	<u>3,416,108</u>
Expenditure:		
Authorized grants and awards	\$ 2,551,150	2,543,846
Special project—The Canada Council train	25,298	33,416
Canadian National Commission for UNESCO (other than indirect administrative expenses)	56,490	45,325
Administrative and other expenses:		
Salaries	\$ 213,789	199,161
Employees' welfare benefits	14,736	13,303
Rent	24,630	25,432
Council meetings	32,572	24,218
Printing and duplicating	33,708	23,036
Office and sundry expenses	24,725	22,590
Consultants' fees and expenses . .	2,668	17,900
Security safekeeping and registra- tion charges	32,669	15,155
Travel	10,048	9,363
Members' honoraria	9,550	8,800
Telephone	9,051	6,624
Advisory service fees	49,250	6,250
Visiting lecturers' expenses	—	2,726
Entertainment	1,360	853
Legal and other fees	3,971	300
Office furniture and equipment . .	4,427	—
	<u>467,154</u>	<u>375,711</u>
	<u>3,100,092</u>	<u>2,998,298</u>
Surplus at March 31, 1962 available for expenditure under section 16 of the Canada Council Act	<u>273,383</u>	<u>417,810</u>

Note: The administrative expenses shown in the above statement include expenses relating to the administration of the university capital grants fund, and to the provision of the Secretariat for the Canadian National Commission for UNESCO.

You might open up the balance sheet for the Canada Council as at March 31, 1962. This is at the back of the 1962 long form report, and it is a double paged spread. You will see that the council's balance sheet is a twofold one; first of all, it deals with the endowment fund and then with the university capital grants fund. On the next page, which is exhibit II, there is the statement of income and expenditure and surplus for the year.

You will recognize this report as similar in appearance to the one we followed in the case of the Canadian Broadcasting Corporation. In dealing with 1962, before we move on to 1963, I will seek to move along fairly fast on the basis that any questions which might be raised can be raised when we are reading the later information for 1963, because the same pattern is followed.

The first page is self explanatory. As you know, the Canada Council is a separate creation of parliament and its line of communication is with the Prime Minister. As you will note on the first page, this report is addressed to the chairman and members of the Canada Council, and a copy of this report is being forwarded to the Prime Minister of Canada for his information.

We will now take up the endowment fund. First of all, in respect of the income and expenditure, you will see that the income earned which remains unexpended at the end of a financial year is available for expenditure in the succeeding year or years. The balance available for expenditure as at March 31, 1962, is \$273,383. The investment income earned during the year under review is compared with the corresponding amount earned in the preceding year, and the average return for the year on the original fund in 1962 was 5.91 per cent, a slight increase over the previous year. I might say that the average return for the year on the basis of cost—that is, the average yield was 5.42 per cent for 1962.

On page 3 you will see a brief summary of expenditures of the council which total \$3,100,000 in 1962 as compared to \$2,998,000 in 1961. There follows some explanation of the reasons for the increase and the decrease shown in the table. I do not think I need spend very much time on these. The explanation continues over onto page 4 where reference is made to changes in some of the fees—advisory service fees—and related matters. The council follows the policy of writing off its office furniture and equipment rather than carrying them as an asset, the way you saw it in the case of the Canadian Broadcasting Corporation.

We will now take the balance sheet item. First of all, I deal with the cash, which is routine. We then come to the most important figure, investments. You will see that the endowment fund portfolio, based on amortized costs, stood at \$54,500,000 at the close of March 31, 1962. This investment portfolio always has had the very close attention of Mr. Fullerton who was the council's treasurer until March 1, 1962, who is with us today and who still supervises the operations of this portfolio.

If you will turn to page 6, you will see a rough analysis of the endowment fund investment portfolio at the close of the year, showing how much is in treasury bills, how much is in bonds and debentures, and how much is in common stocks and in mortgages insured under N.H.A.

In the paragraph underneath, reference is made to the fact that the market value at the close of the year was in excess of the book value.

At the top of page 7, reference is made to some of the changes during the year. You will see that some bonus stock was issued, and that proceeds of some \$11,600 were earned.

The small table on page 7 shows the details of the purchases and sales transactions entered into during the fiscal year we are looking at. The securities are held in safekeeping and which is customary in the course of our auditing we accept certificates furnished directly to us by the depositaries. There is reference to a property item shown at a nominal value of \$1. I believe the principal property is represented by a gift which the council had received in New Richmond, Quebec, to which we will be making some further reference.

Now we come to accounts payable which are fairly standard; they simply represent unpaid bills of the council. On page 9 a reference is made to

donations, and I might say, Mr. Chairman, that this is something which interested the committee in its discussions both in 1961 and again last December when I think some questions were put to the management in respect of the progress they were making in the field of donations. When we come to the 1963 report, you will see that they have a very excellent record to show following on a large bequest which came in in that year, and I believe in the next fiscal year also.

The point at the bottom of page 9 with reference to income tax receipts is typical of the type of reference made as a result of our audit findings, and one which I think I am correct in saying has now been cleared up.

Page 10 refers to a balance sheet item of amounts payable in respect of securities purchased which had not been received at the end of the period.

The provision for grants and awards refers to amounts involved in projects and scholarship awards which are set up following their approval at a meeting of council. You will see some elaboration of the transaction which indicates that they have a carry forward figure at the beginning of each year.

We review these awards with the officials of the Council to satisfy ourselves that they represent amounts that eventually are going to be paid.

We now have at the top of page 11 an explanation of a balance sheet item. This is the realized profit made from the disposal of the investment portfolio over the years. In accordance with the provisions of the Canada Council Act this reserve is set up to provide against possible future losses realized from the disposal of endowment fund investments. It is not available for expenditure purposes.

I thought you would be quite interested to see that this figure was arising, as it does, from actual profits made as a result of council's stewardship of its investment portfolio ever since it started.

Now we turn to university capital grants fund, which is the second section of this balance sheet, and of course the first reference is to cash. Gentlemen, here we have investments, in their investment portfolio, in this case of \$36,000,000. As I think the members are aware, the investments present in the university capital grants fund are restricted by section 17, subsection (3) of the act, to bonds or other securities of or guaranteed by the government of Canada. The market value of government of Canada bonds shown here was slightly in excess of the book value; and again, these securities are held for safekeeping, and are verified by us in the course of our work.

At the top of page 12 there is again a tabulation showing the volume of sales and purchases made during the year. This shows that a number of sales and purchases were made during the year for the purposes of enhancing the yield on the investments, or realizing capital gains.

There is a small item of accounts payable mentioned in the next paragraph having to do with securities purchased but not received, and again we have provision for grants approved which were unpaid at the close of the year, and these amounted to \$5,941,472 at the close of this particular fiscal year.

We now come to page 13 where we deal with the principal of the fund. I think the basic wording of this paragraph is to point out that it is \$30,333,416, and that the basis on which it operates is under section 17 of the Canada Council Act which provides, or which originally provided, for this fund to be created with the amount of \$50,000,000, as its original stake from which grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects to promote the study of the arts, humanities and social sciences. The act, under the same section, gives authority for the manner in which the fund is to be invested. Changes in the fund are

shown right on the balance sheet in this case. You can appreciate that the number is not large in this case because there is not much movement.

On page 14 we deal with the question of the basis of allocation of accumulated interest and profits. There we have outlined the circumstances as they existed at the time these accounts were under examination, that is as of March 31, 1962. This is an important page for you to note, in order to provide yourselves with an understanding of this matter, because I assume you will be wishing to discuss it when we have the 1963 report before us.

You will also want to bear in mind the discussion we held last December when I spoke to the matter and when Mr. Faribault who is with us today also spoke to you. You will see here that on this particular question there were legal opinions received. Opinions were received from members of three legal firms, two of which supported the view that by using the restrictive formula comprised in section 17(2)(b) of the act, calculations for the determining of increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third opinion is that in allocating interest and profits the act does not preclude taking into account sums already paid to institutions, which is known as hotchpot, so that unspent balances and population would both be factors in the allocation.

I then go on to explain how in February 1962 the council decided to accept the trust fund or hotchpot approach that was recommended by the third legal opinion; however no action was taken as of March 31, 1962. And in view of that I do not have anything to say in my statutory report to the house.

You will notice the third paragraph beginning on page 14. The director was good enough to advise me in May which was about the time we finalized the March 31 accounts, that the principal, which you see, included \$12,394,333 in respect of interest earned and profits realized since the inception of the fund, and that no part of this sum had been allocated to or paid to the provinces and universities under the hotchpot distribution formula up to March 31, 1962, and consequently no acts were taken by the council prior to that date, which, in his opinion, would have the effect of committing the council to allocate the accumulated interest on profits in accordance with the hotchpot distribution formula. Accordingly, the matter was under discussion, but no action was taken. We shall be referring to the matter again when we move through the 1963 report. That concludes a rather quick run through of the 1962 report. Do you wish me to continue?

The CHAIRMAN: Might I suggest that if the committee agrees we might as well deal with the 1963 report with the same procedure, having in mind that it is a continuation, and that the committee has begun with your comments this morning. We might return after lunch and consider particular questions or comments which might arise. Members of the council would be free to comment as well. So if we could be given the 1963 report we then might adjourn to a suitable time this afternoon.

Mr. HENDERSON: If there are any questions on the 1962 report, do you wish me to deal with them now?

The CHAIRMAN: I think you should go through the 1963 report in the same way, after which I assume that questions will arise.

Mr. HENDERSON: The 1963 long form report reads as follows:

Ottawa, July 26, 1963.

The Chairman and Members,
The Canada Council,
Ottawa.

We have completed our examination of the accounts and financial transactions of the council for the financial year ended March 31, 1963 and have

reported thereon under date of May 28, 1963 to the Canada Council and to the Prime Minister of Canada in compliance with the requirements of section 22 of the Canada Council Act, 1957, c. 3. Copies of this report, which contained no qualification, were provided for distribution to the members of the Council.

Our examination was made in accordance with generally accepted auditing standards and included a general review of the accounting procedures and of the system of internal control, together with such tests of the accounting and related records as we considered appropriate in the circumstances.

A copy of this report is being sent to the Prime Minister of Canada for his information.

For convenient reference we are attaching, as exhibits, copies of the financial statements for the year ended March 31, 1963 and of the notes to the financial statements.

ENDOWMENT FUND

Income and Expenditure

The following is a summary of the income and expenditure and surplus for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Balance of surplus, April 1, 1962	\$ 273,383	\$ 417,810
Add: Income for the year	3,011,103	2,955,665
	3,284,486	3,373,475
Deduct: expenditure for the year	3,200,891	3,100,092
	83,595	273,383
Balance of surplus, March 31, 1963 ..	83,595	273,383

The balance of surplus which remains unexpended in the endowment fund at the end of a financial year is available for expenditure in the succeeding year or years.

Details of income for the year ended March 31, 1963, together with comparable figures for the preceding year, are as follows:

	Year ended March 31		Increase on
	1963	1962	Decrease
			(—)
Interest on bonds and debentures	\$1,849,632	\$1,828,451	\$ 21,181
Interest on mortgages	853,360	845,053	8,307
Dividends on common stocks	302,178	271,145	31,033
Discount on treasury bills	5,933	11,016	—5,083
	3,011,103	2,955,665	55,438
Yield on book value of portfolio at end of year	5.50%	5.42%	
Return for year, on original fund	6.02%	5.91%	

Section 16 of the Canada Council Act provides that any expenditure made for the purposes of the act (other than capital assistance grants to institutions of higher learning) may be paid out of the income earned by endowment fund

investments. Expenditures for the year under review compared with corresponding amounts in the preceding year as follows:

	Year ended March 31		Increase or
	1963	1962	Decrease (—)
Grants and awards authorized ..\$	2,721,489	\$ 2,551,150	\$ 170,339
Canadian National Commission for UNESCO (other than indi- rect administrative expenses) ..	77,808	56,490	21,318
Canada Council train		25,298	—25,298
Administrative and other ex- penses	401,594	467,154	—65,560
	<u>3,200,891</u>	<u>3,100,092</u>	<u>100,799</u>

A listing of the grants and awards authorized in the various categories is given in the annual report of the council.

Order in council P.C. 1957-831 of June 14, 1957, issued under authority of section 8(2) of the Canada Council Act, requires the council to provide the secretariat for the Canadian National Commission for UNESCO. The salary costs involved for this secretariat were included in prior years in the salaries forming part of "administrative and other expenses". For the year under review these costs, amounting to \$22,952, were included in the expenses incurred by the council on behalf of the commission, in order to show more accurately the direct costs of operating the commission.

The expenses in the various administrative and other expense categories during the year under review are shown in comparative form in the statement of income and expenditure and surplus (Exhibit III). As mentioned in note 3 to the financial statements, these include expenses relating to the administration of the university capital grants fund and indirect expenses relating to the operation of the Canadian National Commission for UNESCO. The following comments are made regarding increases or decreases in several of the expense categories during the year under review:

Salaries decreased by \$42,952 to \$170,837 for the year. A significant portion of this decrease was due to the transfer of the \$22,952 salary cost to the commission for UNESCO, referred to above; while there was no comparable charge during the year for the \$13,750 salary paid to the former Treasurer in the year ended March 31, 1962.

Rent increased by \$4,106 to \$28,736 for the year, the increase being accounted for as follows:

Additional rent paid for air conditioning offices, \$3,024, and extra office space, \$50		\$ 3,074
Adjustment to preceding year's figures for—		
Annual rental charge (11 months only charged in 1961-62 ac- counts)	\$ 1,917	
Increased rent	237	2,154
		<u>5,228</u>
Less reduction in charge for repairs, \$1,067, and taxes, \$55		1,122
		<u>4,106</u>

Council meetings were held on five occasions during the year compared with six in the previous year, a result being that the related expenses decreased by \$7,734, to \$24,838 for the year under review.

Printing and duplicating costs for the year ended March 31, 1963 amounted to \$40,346 compared with \$33,708 for the preceding year. The increase of \$6,638 was due to the increased cost of printing the council's annual report and to an expenditure of \$5,744 for the booklet "Private Benefactors and the Canada Council", partially offset by reductions in other printing costs during the year.

Advisory service fees decreased by \$7,450 to \$41,800 for the year under review. Expenditure for the year ended March 31, 1962 included payments of \$8,000 to the humanities research council of Canada, \$8,000 to the social science research council of Canada, and \$3,000 to The Canada foundation. These payments, which total \$19,000, related to the year 1960-61 and were additional to the payments made to these organizations for the year 1961-62. The additional payments, partially offset by a full year's charge of \$15,000 in 1962-63 for the services of Fullerton, Mackenzie and Associates Ltd., compared with \$3,750 in the preceding year, account for the greater part of the decrease.

Property expenses of \$3,912 were incurred for the first time during the year under review and consisted mainly of expenses (which will be of a recurring nature) for the maintenance and upkeep of Stanley House, New Richmond, P.Q., which was donated to the council in the previous year.

Balance Sheet items

Cash—\$234,837

This item is made up as follows:

Bank balances	\$ 234,087
Deposit with Trans-Canada Air Lines	425
Travel advances	325
	<hr/>
	234,837
	<hr/>

The bank balances were confirmed directly to us by the depositaries and reconciled with the council's records. The deposit with Trans-Canada Air Lines for air travel credit facilities was confirmed directly to us. The travel advances were verified by reference to the subsequent claims submitted by the holders of the advances and all were accounted for.

Amounts receivable for securities sold but not delivered—\$703,727

This represents the sales value of \$875,000 government of Canada 3½% bonds, due October 1, 1979 held by the council on March 31, 1963, which were the subject of sale agreements providing for delivery on April 1st. The amount was verified by reference to the relative sales contracts.

Investments—\$54,739,224

The Council's investment portfolio is managed by the firm of Fullerton, Mackenzie and Associates Ltd. for a fee of \$15,000 per annum plus telephone costs not to exceed \$5,000 per annum.

The classes of securities that may be acquired as investments of the endowment fund, and the limits of holdings of any class and of any particular securities, have been approved by the council and are subject to change from time to time by resolution of the council. Within this general framework, securities are acquired, managed and disposed of with the advice of the investment committee, as provided by section 18 of the Canada Council Act.

The investment portfolio is planned to provide the maximum return consistent with the necessity of maintaining the principal of the fund intact. In

furtherance of this objective, the council is active in the purchase and sale of endowment fund investments in order to enhance yield and or realize attractive capital gains. The extent of transactions entered into and completed during the 1962-63 financial year is shown in the following summary:

	Purchases	Sales
Treasury bills	\$ 2,864,391	\$ 3,312,248
Bonds and debentures:		
Canada and Canada guaranteed .	46,243,362	50,213,279
provincial and provincial		
guaranteed	15,633,304	13,854,856
municipal	5,438,786	3,337,965
corporate (including short-term		
notes)	10,668,673	10,060,418
	<u>77,984,125</u>	<u>77,466,518</u>
Common stocks and convertible		
debentures	865,211	142,389
Mortgages:		
Principal repayments		602,711
	<u>81,713,727</u>	<u>81,523,866</u>

The cumulative net profit realized on the disposal of securities since the council was established is carried as a reserve against possible future losses, as mentioned later in this report.

An analysis of the endowment fund investment portfolio as at March 31, 1963 follows:

Bonds and debentures:		
Canada and Canada guaranteed ..	\$ 9,680,090	
provincial and provincial		
guaranteed	7,145,539	
municipal	5,323,944	
corporate (including short-		
term notes)	10,426,751	\$32,576,324
Common stocks and convertible		
debentures	7,786,117	
Stock warrants	4,000	7,790,117
		<u>40,366,441</u>
Mortgages:		
Insured under N.H.A.	13,637,041	
Other	735,742	14,372,783
		<u>54,739,224</u>

Bonds and debentures are valued at amortized cost, mortgages at amortized cost less principal repayments, and common stock and stock warrants at cost. The year-end market value of the investments, excluding mortgages, was \$42,963,460, being \$2,597,019 in excess of the book value of \$40,366,441.

The investment portfolio also includes 3,500 "bonus" shares in Chinook Shopping Centre Limited, the same figure as reported in the preceding year; and 6,000 shares in Acton Limestone Quarries Ltd. which were acquired during the year under review through the purchase of \$150,000 6½% Series "A" bonds (maturing May 15, 1982) issued by this company. No book value has been placed on these shares as they were received by the council without cost.

The securities are held in safekeeping and were verified by certificates furnished directly to us by the depositaries.

Property, including furnishings and effects, donated to Council, at nominal value—\$1

This item, nominally valued at \$1 for accounting control purposes, represents Stanley House, New Richmond, P.Q., acquired by the Council by gift in November 1961 in accordance with the provisions of section 20 of the Canada Council Act, and was commented upon in last year's report. During the year under review the legal formalities necessary for the transfer of the property to the council were completed.

Accounts payable—\$62,957

This item, verified by reference to appropriate supporting documents, consists of the following:

Unexpended donations	\$18,159
Canadian National Commission for UNESCO	21,262
Securities registration fees and service charges	17,645
Miscellaneous	5,891
	\$62,957

Unexpended donations are commented upon in the section of this report relating to the balance sheet for special funds.

Accounts payable for securities purchased but not received—\$1,205,005

This relates to orders placed with brokers prior to March 31, 1963 for the purchase of securities which were not delivered and paid for until April, 1963. The amount was verified by reference to the relative purchase contracts.

Provision for grants and awards approved—\$1,664,160

This represents awards approved by the council to March 31, 1963 but not yet paid. An amount of \$170,000 for estimated travel and university fees is included in the balance.

The following is a summary of transactions for the year ended March 31, 1963 together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Balance unpaid as at April 1, 1962 ...	\$1,659,339	\$1,898,085
Add: Net authorizations during the year	2,721,489	2,576,448
	4,380,828	4,474,533
Less: Paid during the year	2,716,668	2,815,194
Balance unpaid as at March 31, 1963 ..	\$1,664,160	\$1,659,339

The awards outstanding for more than twelve months were reviewed with the council's officers who informed us that as far as could be presently ascertained they would eventually be paid.

Reserve arising from net profit on disposal of securities—\$3,270,840

During the year under review the reserve increased by \$115,607 to \$3,270,840 at March 31, 1963. The increase is the net result of profits of \$585,148 realized on the disposal of securities, offset in part by \$469,541 in losses incurred.

The reserve is carried to provide for possible future losses incurred on the disposal of endowment fund investments, and is not available for expenditure.

University Capital Grants Fund

Section 17 of the Canada Council Act provided for the establishment of a university capital grants fund to be credited with an amount of \$50 million, from which grants may be made to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects to promote the study of the arts, humanities and social sciences. Authority to invest money standing to the credit of the fund, within prescribed limits, is given by the same section.

The balance sheet items are commented upon as follows:

Cash—\$60,391

This consists of a bank balance of \$60,391 which was confirmed directly to us by the depositary and reconciled with the council's records.

Amounts receivable for securities sold but not delivered—\$2,100,175

This represents the sales value of securities held by the council at March 31, 1963 which were the subject of sales agreements providing for delivery in April. The amount was verified by reference to the supporting sales contracts.

Investments—\$33,883,354

Section 17(3) of the Canada Council Act requires that investments in connection with the university capital grants fund be restricted to bonds or other securities of or guaranteed by the government of Canada.

In order to make funds available for the payment of approved grants to universities during the year under review, it was necessary for the council to dispose of certain investments, with the result that the year-end balance shows a reduction of \$2,123,691 from the principal amount of \$36,007,045 at March 31, 1962.

In addition to the liquidation sales, numerous purchases and sales of securities were made for the purpose of enhancing the yield and/or realizing capital gains, and the following is a summary of the trading activities for the year:

	Purchases	Sales
Treasury bills	\$ 24,077,032	\$ 30,727,523
Canada and Canada guaran- teed bonds	111,757,511	107,347,860
	<hr/>	<hr/>
	135,834,543	138,075,383
	<hr/>	<hr/>

At the year-end the investment portfolio consisted of the following securities:

Treasury bills	\$ 1,066,679
Canada and Canada guaranteed bonds	32,816,675
	33,883,354

The securities were valued at amortized cost. The market value of the government of Canada, and Canada guaranteed bonds at the year-end was \$32,887,700, being \$71,025 in excess of the book value. The securities are held in safekeeping and were confirmed directly to us by the depository.

Amounts payable for securities purchased but not received—\$1,969,120

This represents commitments to purchase \$1,985,000 Government of Canada 3½% bonds, due February 1, 1964, entered into prior to March 31, 1963 and completed early in April, 1963. It was verified by reference to the relevant purchase contracts.

Provision for grants approved—\$8,367,516

This item represents the unpaid balances of grants approved in 1962-63 and prior years as follows:

1959-60	\$ 234,625
1960-61	569,990
1961-62	2,541,815
1962-63	5,021,086
	8,367,516

The above balances were reviewed with your officers who informed us that the outstanding grants will be paid upon satisfactory completion of the work for which the grants were made.

The following is a summary of the transactions in this account since the inception of the Fund:

March 28, 1957 to	Authorized	Paid	Unpaid Balance
March 31, 1958	\$ 4,084,300	\$ 1,340,400	\$ 2,743,900
1958-59	8,732,264	3,542,925	7,933,239
1959-60	9,344,062	6,960,226	10,317,075
1960-61	3,367,651	8,038,391	5,646,335
1961-62	6,532,639	6,237,502	5,941,472
1962-63	6,275,542	3,849,498	8,367,516
	38,336,458	29,968,942	

Principal of Fund—\$25,943,767

The balance sheet (Exhibit I) gives a summary of the transactions in the fund for the year under review. The principal amount of \$25,943,767 remaining at March 31, 1963 includes \$14,280,225 of interest earned on investments and net profits on disposal of securities since the inception of the fund. In our

last year's report reference was made to the fact that three legal opinions had been obtained by the council on the question of the basis of allocation of the accumulated interest and profits between the various provinces. Two of these opinions support the view that, by reason of the restrictive formula in section 17(2)(b) of the act, calculations for the purpose of determining increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third opinion is that in allocating interest and profits the act does not preclude taking into account sums already paid to institutions under the "hotchpot" formula, so that unspent balances would be a factor in the allocation, as well as population.

At the council's August, 1962 meeting a special committee was formed to prepare a report on the question of the allocation of interest and profits accumulated in the university capital grants fund. The resulting report, which was considered by the council at its February, 1963 meeting, took into consideration the four possible alternative allocations between the provinces, arising from:

- (a) the alternative use of the provincial population basis or the hotchpot formula; and
- (b) the alternative use of the 1956 census or the 1962 census;

and the council agreed as follows:

- (a) the interest and profits be distributed to institutions on the eligible list up to the minimum amount for each province as derived from the four alternative calculations; and
- (b) there be a \$5,000 floor on the granting of a share in the interest and profits to any institution.

"Consideration of the final disposition of interest and profits was deferred until a later meeting."

Resulting from this decision, eligible institutions were invited to apply for their share of interest and profits based on the lowest alternative amount available to them. There were, however, no allocations up to March 31, 1963.

Special Funds

Under section 20 of the Canada Council Act, the council may acquire money, securities or other property by way of gift, bequest or otherwise, and may expend, administer or dispose of such donations subject to the terms upon which they are made available to the council.

In February, 1963 the council accepted an offer of a gift of approximately \$4,250,000 from an anonymous donor. Of this amount \$1,078,737 was received by March 31, 1963 and payment of the balance was to be extended over several years.

Previous gifts to the council have been comparatively small in amount and unexpended balances were accounted for in the balance sheet for the endowment fund. Because of the size and terms of the present gift the council approved the presentation of a separate balance sheet, designated "Special Funds", accounting for moneys or property received pursuant to section 20 of the act.

The following comments are made in respect of this balance sheet (Exhibit II):

Sundry unexpended donations—\$18,159

This item represents undisbursed balances of donations held in the endowment fund, on the balance sheet of which there is a corresponding liability of \$18,159 included in the accounts payable item.

The sundry donations received by the council may be either conditional as to the manner in which they are disbursed, or unconditional. The accounting practice is to treat the conditional donations as liabilities, until disbursed for the specific purposes designated. Unconditional donations may be taken into income, whereupon they are available for expenditure under section 16 of the act.

A summary of the transactions in the sundry donations account is given on the liabilities side of the special funds balance sheet (Exhibit II). The total sundry donations received by the council to March 31, 1963 was \$83,045 of which \$38,020 was received during the year. All disbursements from these sundry donations have been made in accordance with whatever conditions were prescribed by the donors.

Special scholarship fund—\$1,081,376

This item reflects the amount of \$1,078,707 received from an anonymous donor, as mentioned above, together with interest of \$2,639 earned on funds invested to March 31, 1963. As mentioned in Note 1 to the financial statements, the gift is to be used to establish a special scholarship fund, the income from which is to provide fellowship and scholarship grants for Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions, or other equivalent or similar institutions in Canada.

When the cheque for the first instalment of the gift \$1,078,737, was received by the council it was deposited to the credit of the bank account through which the council ordinarily makes its endowment fund investments. Special fund investments were purchased at a cost of \$1,077,658 out of this bank account with the result that it included \$1,079 special fund moneys at March 31, 1963. This amount was included in the amount confirmed directly to us by the depositary concerned, and was transferred to a separate special fund bank account in April, 1963.

The investments for the Special Fund were confirmed directly to us by the depositary.

Full opportunity was given to examine all vouchers, records and accounts required for the purposes of the examination. The co-operation extended to the audit office staff by the director and other officers of the Council is acknowledged with appreciation.

We shall be glad to provide you with any additional information you may wish in connection with our examination.

Ian Stevenson
for Auditor General of Canada.

THE CANADA COUNCIL
(Established by the Canada Council Act)
BALANCE SHEET AS AT MARCH 31, 1963
(with comparative figures as at March 31, 1962)

Endowment Fund

ASSETS	1963	1962	LIABILITIES	1963	1962
Cash.....	\$ 234,837	\$ 262,086			
Amounts receivable for securities sold but not delivered.....	703,727	—	Accounts payable (including unexpended donations of \$18,159).....	\$ 62,957	\$ 73,706
Interest accrued on bonds and debentures.....	608,768	938,083			
Investments:					
At amortized cost:			Amounts payable for securities purchased but not received.....	1,205,005	566,757
Treasury Bills, Canada and Provincial, and short term corporate notes.....	\$ —	930,900	Provision for grants and awards approved.....	1,664,160	1,659,339
Bonds and debentures (market value, 1963, \$33,254,705; 1962, \$32,050,655).....	32,576,324	31,538,676	Reserve arising from net profit on disposal of securities.....	3,270,840	3,155,233
Mortgages insured under the National Housing Act (1954) \$13,484,249, other \$731,429, including accrued interest \$157,105 (principal value 1963, \$14,558,844; 1962, \$15,163,574)..	14,372,783	14,991,378	Principal of Fund—		
	46,949,107	47,460,954	Grant under section 14 of the Act.....	50,000,000	50,000,000
At cost:			Surplus available for expenditures under section 16 of the Act, per Statement of Income and Expenditure and Surplus.....	83,595	273,383
Common stocks and warrants (market value 1963, \$9,708,755; 1962, \$9,277,300).....	7,790,117	7,067,294			
	54,739,224	54,528,248			
Property, including furnishings and effects, donated to Council—at nominal value.....	1	1			
	56,286,557	55,728,418		56,286,557	55,728,418

University Capital Grants Fund

Cash.....	\$ 60,391	\$ 52,149
Amounts receivable for securities sold but not delivered.....	2,100,175	—
Interest accrued on investments.....	236,483	364,748
Investments at amortized cost:		
Treasury Bills of Canada.....	\$ 1,066,679	7,686,495
Bonds of Canada (market value 1963, \$32,887,700; 1962, \$28,444,275).....	32,816,675	28,320,550
	<u>33,883,354</u>	<u>36,007,045</u>
	<u>36,280,403</u>	<u>36,423,942</u>

Amounts payable for securities purchased but not received.....	\$ 1,969,120	\$ 149,054
Provision for grants approved.....	8,367,516	5,941,472
Principal of Fund:		
Balance as at April 1, 1962.....	\$30,333,416	34,341,991
Add:		
Interest earned on investments.....	1,520,469	1,620,476
Net profit on disposal of securities.....	365,424	903,588
	<u>32,219,309</u>	<u>36,866,055</u>
Less: Authorized grants under section 9 of the Act.....	6,275,542	6,532,639
	<u>25,943,767</u>	<u>30,333,416</u>
	<u>36,280,403</u>	<u>36,423,942</u>

The accompanying notes are an integral part of this statement and should be read in conjunction therewith.

Certified correct:

A. W. TRUEMAN,
Director

Approved:

D. B. WELDON,
Chairman

I have examined the above Balance Sheet and the related Statement of Income and Expenditure and Surplus and have reported thereon under date of May 28, 1963, to the Canada Council and the Prime Minister of Canada as required by section 22 of the Canada Council Act.

A. M. HENDERSON,
Auditor General of Canada

THE CANADA COUNCIL
(Established by the Canada Council Act)

BALANCE SHEET AS AT MARCH 31, 1963

Special Funds (Note 1)

ASSETS	1963	1962	LIABILITIES	1963	1962
Sundry unexpended donations (represented by undisbursed moneys in endowment fund).....	\$ 18,159	\$ 19,023	Sundry donations:		
Special scholarship fund			Balance as at April 1, 1962.....	\$ 19,023	\$ 15,187
Cash.....	\$ 1,079	—	Add:		
Interest accrued on investments.....	4,237	—	Cash donations received during year..	38,020	10,995
Investments at cost:			Gift of property at nominal value.....	—	1
Short term corporate notes.....	600,000	—		57,043	26,183
Bonds (market value \$476,280).....	476,060	—	Less:		
	<u>1,081,376</u>	<u>—</u>	Expended during year.....	38,884	7,159
			Property transferred to assets of endowment fund.....	—	1
			Balance as at March 31, 1963 to be disbursed by endowment fund.....	\$ 18,159	19,023
	<u>1,099,535</u>	<u>19,023</u>	Special scholarship fund		
			Cash received during year.....	1,078,737	—
			Interest earned from March 8, 1963 to March 31, 1963 available for expenditure in accordance with the terms of the gift.....	2,639	—
				<u>1,081,376</u>	<u>—</u>
				<u>1,099,535</u>	<u>19,023</u>

The accompanying notes are an integral part of this statement and should be read in conjunction therewith.

Certified correct;

A. W. TRUEMAN,
Director

Approved;

D. B. WELDON,
Chairman

I have examined the above balance sheet and have reported thereon under date of May 28, 1963, to the Canada Council and the Prime Minister of Canada, as required by section 22 of the Canada Council Act.

A. M. HENDERSON,
Auditor General of Canada

Exhibit III

The Canada Council

Endowment Fund

Statement of Income and Expenditure and Surplus
for the year ended March 31, 1963

(with comparative figures for the year ended March 31, 1962)

	1963	1962
Balance of Surplus as at April 1, 1962	\$ 273,383	\$ 417,810
Income—Interest and dividends earned	3,011,103	2,955,665
	<hr/>	<hr/>
	3,284,486	3,373,475
		<hr/>
Expenditure:		
Authorized grants and awards	\$ 2,721,489	2,551,150
Special project—The Canada Council train	—	25,298
Canadian National Commission for UNESCO (other than indirect expenses)—Note 3	77,808	56,490
Administrative and other expenses—Note 3		
Salaries	\$ 170,837	213,789
Employees' welfare benefits	12,763	14,736
Rent	28,736	24,630
Council meetings	24,838	32,572
Printing and duplicating	40,346	33,708
Office and sundry expenses	17,356	24,725
Consultants' fees and expenses	879	2,668
Security safekeeping and registration charges	28,671	32,669
Travel	9,262	10,048
Members' honoraria	8,500	9,550
Telephone	10,429	9,051
Advisory service fees	41,800	49,250
Property expenses	3,912	—
Entertainment	1,597	1,360
Legal and other fees	725	3,971
Office furniture and equipment	943	4,427
	<hr/>	<hr/>
	\$ 401,594	467,154
	<hr/>	<hr/>
	\$ 3,200,891	\$ 3,100,092
		<hr/>
Surplus at March 31, 1963 available for expenditure under section 16 of the Canada Council Act	\$ 83,595	\$ 273,383
	<hr/>	<hr/>

The accompanying notes are an integral part of this statement and should be read in conjunction therewith.

The Canada Council

Notes to the financial statements
March 31, 1963

Note 1. *Special fund*

Section 20 of the Canada Council Act reads as follows:

The council may acquire money, securities or other property by gift, bequest or otherwise and may, notwithstanding anything in this act, expend, administer or dispose of any such money, securities or other property not forming part of the endowment fund or the university capital grants fund, subject to the terms, if any, upon which such money, securities or other property was given, bequeathed or otherwise made available to the council.

In February 1963 and pursuant to this section, the council accepted a gift of approximately \$4,250,000 from an anonymous donor, receivable from time to time over the next several years, of which \$1,078,737 had been received by March 31, 1963. The gift is to be used to establish a special scholarship fund, the income from which is to provide fellowship and scholarship grants for Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research, or scientific institutions, or other equivalent or similar institutions in Canada.

The council has from time to time in previous years received sundry donations pursuant to section 20 of the act, which, because of the small amounts involved, have been included as part of, and accounted for, within the endowment fund established by section 14 of the act. The terms of the present anonymous gift preclude this method of treatment and by resolution of the council a separate balance sheet, designated as "special funds", has been prepared to account for all monies or property received by the council pursuant to section 20.

Note 2. *Endowment Fund*

The council was committed to purchase interests in various mortgage loans on construction projects in Toronto and Montreal at a total cost of \$1,350,000.

Note 3. *Administrative and Other Expenses*

The expenses shown in the statement of income and expense include expenses relating to the administration of the university capital grants fund and to the operation of the Canadian National Commission for UNESCO.

In previous years the salaries of staff engaged on UNESCO were included in salaries under "Administrative and other expenses". For the year under review these direct costs have been included in the expenses of the Canadian National Commission for UNESCO.

If you will now be good enough to turn to the balance sheet as of March 31, 1963, you will see that it includes two sections, one for the endowment fund, and another for the university capital grants fund. I would direct your attention to exhibit II which is behind this balance sheet because in that part we have now moved into a third balance sheet, items dealing with the special funds. It is essential in an operation of this type to keep the various parts separated. Council took the view, which we think is worth while that we should endeavour to set them out even at the risk of its being a bit confusing.

This represents donations. You will see that they are really in business and that this kind of thing is alive now.

We shall be dealing accordingly with a third balance sheet to this particular report.

The opening commentary in this report, which was written last July, is similar to the one I just covered, and again we are dealing first with the endowment fund income and expenditures. You may remember there was a \$273,000 carry-over in this income and expenditure the previous year. You will see how it wound up with only \$83,000 carried over at the end of 1963.

Again you will observe details of the income expenditure, together with comparable figures for the preceding year. You will notice the yield on book value of that portfolio at the end of the year continued to go up to 5½ per cent compared to 5.42 per cent which is the figure I gave you before. I think the figure was 5.47 in 1961. The performance is generally regarded here as being good. Of course, the return on the original fund is now in 1963 over 6 per cent.

The expenditures that were made out of income from the endowment fund are again shown on page 3, and you will see they went up by \$100,000 to a total of \$3,200,000 the largest increase by far being in grants and awards authorized.

In fact there had been a reduction in administrative expenses of \$65,000.

There is reference made here to a 1957 order in council explaining the situation surrounding the secretariat for the Canadian National Commission for UNESCO which operates within the establishment of the Canada Council and whose expenses are included in the expenses of the Canada Council. In order to show more accurately the direct operating costs of the commission for this year, salary costs have been included.

Expenses of operation, administrative and other expense categories are dealt with on page 4. The comments which are inserted here will be of interest to note. Salaries decreased but again the significant portion of this decrease was due to the transfer of the \$22,900 salary cost to the commission of UNESCO which I just mentioned. There has also been a change in the treasurer relationship accounting for another part of this change.

Rent on the other hand increased by \$4,000 to \$28,000 for the year for reasons which are then explained.

Council meetings were held on five occasions during this year, compared to six, which explains that item.

Printing and duplicating costs are referred to, and advisory fee services dropped. Reference is made to the type of advisory fees, in respect of which you may care to mark any questions you have.

There were additional payments during that year. The additional payments were partially offset here by a full years charge for the services of Fullerton, McKenzie and Associates Limited who, as I explained, managed the investment portfolio. There is reference to certain particular expenses covering the maintenance and upkeep of Stanley House, New Richmond, Quebec.

Turning to the balance sheet items, there is reference again to cash and the accounts receivable for securities sold but not delivered. That naturally as you appreciate, would have its place at the close of the accounting period on a balance sheet of this nature. The investments and amortized cost of these at March 31, 1963, as you see on page 6, stood at \$54,739,000, and as I mentioned earlier the portfolio was managed by Fullerton, McKenzie and Associates.

Again you might be reminded that the class of securities that may be acquired as investments of the endowment fund, and the limits of holdings of any class and of any particular securities, have been approved by the council and are subject to change from time to time by resolution of the council. The council has a very active investment committee which supervises all of the changes for the two large portfolios. I think perhaps Mr. Fullerton will have something to tell you about this afterwards. This investment committee is provided for under section 18 of the act.

At the top of page 7 you will see a reference to the purchases and sales. That is to say the extent to which transactions were entered into and completed during the fiscal year under review, again for the purposes of enhancing the yield or picking up capital gains.

At the bottom of page 7 there is an analysis of the endowment fund investment portfolio, similar to the one you saw before. Again you will observe that the large bulk of this is in bonds and debentures, common stocks and mortgages in much the same ratio to that you noted in 1962. The year end market value for these investments is \$42,900,000, and I am excluding mortgages from this figure, of course, about \$2,600,000 in excess of the book value, which is a healthy position.

Again we have the little dollar item which represents the new Stanley House, New Richmond, Quebec.

On page 9 we list the accounts payable and these are the normal kind of outstanding bills one would expect to find in an operation of this nature.

There is a figure of \$1,200,000 covering what was taken for securities purchased but which had not been received. This is a cut off at the close of the fiscal year.

Again we come back to the provision for grants and awards approved, which, as I mentioned earlier, was \$1,664,000. In other words, this is their liability for grants approved but not paid at the close of the year.

On page 11 there is reference to the reserve arising from net profit on disposal of securities. This is a reserve that is guaranteed under the Canada Council Act to provide for possible future losses incurred on the disposal of endowment fund investment and is not available for spending in respect of current expenditures. This was the item I mentioned to you in 1962 which had arisen from straight profits since the inception of the council's management of this fund.

We now turn to the university capital grants fund at the bottom of page 11, and again we return to the basic \$50 million from which grants were to be made to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects to permit the study of the arts, humanities and social sciences.

I then go on at page 11 to comment on balance sheet items, most of which you will recognize from the previous one. I think the most important one on page 11, and at the top of page 12, is the position of the investment portfolio which again you will recall is maintained in this instance solely in treasury bills, Canada and Canada guaranteed bonds under the direction of the Canada Council Act. This portfolio was \$71,000 in excess of book value at March 31, 1963.

There is provision for grants approved, which is shown at the bottom of page 12, representing the unpaid balances for grants approved for 1962-63 and prior years, which of course had to be carried as a liability on the university capital grants fund balance sheet and which appears separately. Again, there is a summary of the transactions in this account since the inception of the fund.

We now come down to the principal of the fund which, as you will see, had decreased in the year—as it must because of the manner in which it has to be expended under the act—from \$30,300,000 to \$25,900,000. The changes in it are shown right on the balance sheet on exhibit one, and you will see that whereas it started the year at \$30,300,000 it earned interest of \$1,500,000, made a profit of \$903,000 on disposal of securities and made authorized grants under section 9 of the act to expend \$6,200,000, leaving a figure of \$25,900,000 on hand.

At the bottom of page 13 I refer again to the previous matter about the three legal opinions having to do with investments and profits which, as you will see, at March 31, 1963, had increased from the earlier figure to the figure of \$14,280,225. It has become quite a formidable figure. That is the interest

earned on investments and net profits made on disposal of securities since the inception of the fund.

I make reference to the previous year's report and the fact that three legal opinions were obtained by the council on the question of the basis of allocation of the accumulated interest and profits between the various provinces. I repeat that two of these opinions supported the view that, by reason of the restricted formula comprised in section 17(2) (b) of the act, calculations for the purpose of determining increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third opinion was that in allocating interest and profits, the act does not preclude taking into account funds already paid to institutions, so that unspent balances would be a factor in the allocation as well as population.

Once again, at the council's August, 1962, meeting, a special committee was formed to prepare a report on the question of allocation of the accumulated interest and profits in this fund, and the council considered the resulting report in February, 1963, when it took into account the four possible alternative allocations between the provinces, and these are listed on page 14. We will probably be returning to them, Mr. Chairman, when we discuss this particular matter.

You will note at the bottom of page 14 that again no allocations were made up to March 31, 1963, and accordingly the matter still remained, from my point of view as auditor, in the discussion stage with no commitments made or obligations undertaken.

I would remind you at this point that the position I have taken has been that I could not agree that the interest and profits which had accumulated here should be distributed under this hotchpot formula, and I will go into that with you later when we discuss it. However, the council had made no commitments and, accordingly, the money continued to be at interest and is reflected right here on the statements under the principal of the fund.

On page 15 we come to special funds, and this outlines how, under section 20 of the act, the council can acquire moneys, securities and other property by way of gift or otherwise and may expend, administer or dispose of such donations subject to the terms on which they are made available to the council. It is as a result of the introduction of these donations during this fiscal year that as I mentioned earlier, the council prepared a separate balance sheet, which is exhibit II. In the note which is exhibit IV there is explained the whole of the circumstances surrounding the working of this special fund. I do not know that it is necessary for me to describe it in detail to you, but suffice it to say that in February, 1963, it accepted an offer of a gift of approximately \$4½ million from an anonymous donor, which is I believe being paid over a period of time. During the fiscal year at which we are looking, over \$1 million was received and the balance will be coming in, in future years. There were sundry unexpended donations of \$18,159 which were transferred from the main section of its accounts over to the special fund balance sheet at the time it was set up, and quite properly so.

On page 16 you will notice under "Special scholarship fund" the manner in which this donation is to be administered. The gift carried with it certain requirements to which the council agreed, and accordingly they are now set to carry out the terms of the gift.

I believe that—perhaps rather hurriedly, Mr. Chairman—outlines the whole story here. I am sure members will have marked their copies with any questions they wish to ask.

The CHAIRMAN: Thank you, Mr. Henderson.

Gentlemen, I think this is a good time to adjourn. Before we do so, may I express the hope that I will have your, may I say, unspoken undertaking to

be back at 3.30. I know Mr. Martineau, Miss Breen and the members of the council have found it difficult to integrate their presence here today, and merely because the House of Commons has rather unusual holiday habits I hope will not prevent our coming back here to meet them so we can complete the business of the day and have the benefit of the comments from them and from the members of the committee.

Mr. MARTINEAU: Mr. Chairman, this morning when I was presenting our witnesses, Dr. Mackenzie was humbly hiding behind Mr. Wahn so I missed him. I want you to know he is here.

The CHAIRMAN: Thank you, Mr. Martineau. We will adjourn until 3.30 this afternoon.

AFTERNOON SITTING

TUESDAY, July 28, 1964.

(Text)

The CHAIRMAN: Gentlemen, I see a quorum. May I thank you for your prompt attendance. I know how difficult it was to tear yourselves away from the proceedings in the house this afternoon.

Now, there are two or three formalities which we have to deal with first.

The long form reports in connection with the Canada Council, which were tabled before, I hope, with your consent, will be printed as part of today's proceedings. It is being arranged with the reporting staff that they be printed in a place where they are in immediate relationship to the statements made by Mr. Henderson. Do I have your approval for that?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, in reverting to another matter I would ask your approval to have printed as an appendix to today's proceedings a letter which I have received from the Department of National Defence containing information requested by Mr. Winch on July 14. May this be tabled and printed as an appendix to the proceedings?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: At this time I will call upon Mr. Tardif and then later Mr. Ryan has some corrections to make.

Mr. Tardif, I believe you have some report to make in connection with the subcommittee of which you are the chairman, which is outside the matters we have for discussion this afternoon.

Mr. TARDIF: Yes. Actually, I do not know whether it is a motion I want to make or permission I want to seek to have a section of the report, that was accepted in the house and passed yesterday without any visible opposition implemented. I have reference at this time to getting in touch with Mr. Balls in connection with getting an auditor to do certain work in respect of the reference given by the committee concerning the examination we are going to make of the War Assets Corporation. This was agreed to by Mr. Balls and, in a conversation which took place between Mr. Balls, Mr. Henderson and myself, it was decided that the broadcasting corporation had a very efficient man who could be doing this work, but the only condition they put—and I do not know whether to take this seriously at this time—is that his salary be paid by the committee that is going to employ him for that period of time. However, I suppose that could be covered by a bookkeeping entry.

The CHAIRMAN: That is an indication of the salutary effect this committee had on the C.B.C.

Mr. TARDIF: I did not know that the word sanitary was the one that applied to it.

The CHAIRMAN: I said "salutary", not "sanitary".

Mr. TARDIF: It is the intention of the subcommittee to call them within a day or two and then make a report to the general committee.

The CHAIRMAN: I believe Mr. Ryan had a correction to make in connection with the proceedings.

Mr. RYAN: Yes, Mr. Chairman. I have a correction to make in respect of Minutes of Proceedings and Evidence, number 14, at page 603. I am referring to my second question on page 603. The word "unification" in the first line should read "uniformity". And, in the last two lines the words in quotation, "our man is not at fault" should read, "our man is at fault".

The CHAIRMAN: Now, turning back to the business at hand, I hope the matter of the report of the Canada Council and the financial statement will be thrown wide open. However, before we do this, the chairman, Mr. Martineau, has pointed out to me there is one particular aspect which has been the subject of discussion by the committee before which will be dealt with in particular by Mr. Faribault, who was here last year. Mr. Faribault has to be back in Montreal this evening and I hope, with your permission, we could direct our attention to that particular issue first before we carry on with a general examination. Of course, that has to do with the question of the distribution of the profits from the investments, which was the subject of a comment by Mr. Henderson. I hope it will be in order for Mr. Faribault to deal with that first. Then, having done that the meeting will be thrown wide open.

Before calling on Mr. Faribault I would like to again introduce you to Mr. Martineau, a very distinguished Canadian, who is the chairman of the council.

I will ask Mr. Martineau to direct this particular matter either through his own statement or call upon Mr. Faribault when he requires him.

Mr. MARTINEAU: Before I do that, Mr. Chairman, may I introduce another member of the council who just arrived this afternoon, Mr. Trevor Moore, of Toronto.

This matter has been discussed before, particularly last December, when this committee met.

I do not know whether or not any members want to put questions in respect of this matter. However, if they wish to do so they can be directed to Mr. Faribault who, I think, can discuss it better than anyone else on our side.

The CHAIRMAN: On that basis, are there any questions to be directed to Mr. Faribault in respect of the distribution of profits?

Mr. MARTINEAU: This is in respect of the allocation of interest and profits accumulated in the university capital grants fund, at page 14.

The CHAIRMAN: Yes, at page 14 of the 1963 report.

Mr. PIGEON: And this is a subject upon which Mr. Henderson commented.

The CHAIRMAN: Yes.

Mr. PIGEON: I would like to put the next question to Mr. Faribault.

(Translation)

Mr. Chairman, I am going to question M. Faribault in French. Mr. Faribault, could I ask you a few questions about the differences of opinion that exist between the Canada Council and Mr. Henderson? Have the Council consulted the former government and the present government about this situation?

Mr. FARIBAULT: Yes, we have asked the Right Honourable Mr. Diefenbaker and the Right Honourable Mr. Pearson what they thought about it. I do not know whether you want me to go into all the details.

Mr. PIGEON: I would like to know what the results of the interviews were in both cases?

Mr. FARIBAULT: In both cases we were told that the Canada Council was an independent agency, that it is not a Crown Corporation, and that it was therefore not appropriate for the government or any government official or legal advisers to provide the Council with an interpretation as the Council Members are perfectly able to assess the situation by themselves and to take whatever measures they consider appropriate. That is what we did.

(Text)

Mr. PIGEON: I would like to put this question to Mr. Henderson. What reasons can you give this committee for objecting when the two prime ministers of this country support Canada Council. I am confused in connection with this subject.

Mr. HENDERSON: I am not clear as to the manner in which the prime ministers have supported the council, Mr. Pigeon.

(Translation)

Mr. PIGEON: You are not sure whether the present prime minister and the former prime minister support the Canada Council in this matter?

(Text)

Mr. HENDERSON: I do not believe so, sir. I believe they sought to discuss the matter with the present Prime Minister and the previous prime minister, but I am not aware that either of them took a positive stand on the council's intended action in this matter.

(Translation)

Mr. PIGEON: Yes, but Mr. Faribault has just mentioned the consultations that took place with the former prime minister and the present prime minister. If both prime ministers agree with the Council's decision in this regard I cannot understand how you, the Auditor General of Canada, can be opposed to the Canada Council when they have the support, in other words, of the former prime minister and the present prime minister. That is what I would like you to explain to me.

(Text)

The CHAIRMAN: Would you like to make a comment, Mr. Faribault, at this stage on what Mr. Pigeon said?

Mr. FARIBAULT: Yes. As a matter of fact, both prime ministers said very pointedly that it was not proper for them to interfere with the activities of the council and to give it their interpretation or direction. They intimated that it was quite proper for the council to decide by itself. They did not say that they approved or disapproved of the stand taken by the council because actually the advice sought was sought before the final decision was taken by the council.

I might elaborate on that by saying that in the view of this council this fund, which was a \$50 million fund, from our reading of the act, was a one-shot proposition. We were in doubt whether the government of the day would be interested in increasing the amount or not by giving additional amounts, but we were quite sure, before we put the question, that if the government was not, then there was just one avenue open to us, which was to take the decision which we have taken. Of course we would not presume to put it in that way to the Prime Minister. We just said we had a difficulty and we asked whether the Prime Minister would consider giving us an interpretation. He said, in effect, "I don't think it is proper for the Prime Minister: I don't think it is proper for any officer of the crown, including the deputy attorney general". This was the limit of the formal answer. We had to take our decision, and we did.

Mr. PIGEON: Mr. Chairman, I think that the council has in its own hand a very strong argument because both the prime ministers refused to change the

law. That is why I address the following question to Mr. Henderson: What are the important reasons that you can give to the committee against the way the Canada Council is now proceeding?

Mr. HENDERSON: Mr. Pigeon, it is my duty to see that the operations of all of the agencies conform to the appropriate legislation and to the statutes which create them. I think you would agree with that. You would find that a reasonable proposition. Consequently, if I find them taking any actions which, in my view, are not in conformity or not in accordance with the statutes, then it is my responsibility, in fact, my statutory duty, to so report to the House of Commons. As I explained this morning, when we were going over the 1962 and 1963 reports, this very important matter was under consideration at that time by the council, but no action had been taken in terms of making commitments or disbursing any of the funds up to the date with which this committee is immediately concerned, namely, March 31, 1963. Subsequent to this date they have in fact moved ahead, although the 1963-64 accounts respecting this are not before the committee. Having taken that move, I have given it as my opinion that the method of allocation to which Mr. Faribault has referred is not in accordance with section 17(2) of the Canada Council Act.

Mr. FISHER: In other words, it is illegal.

Mr. MARTINEAU: What is that, what is "illegal"? I wish you to tell a lawyer what the word "illegal" is. It depends on the opinion of the man.

Mr. FISHER: You acted contrary to the law as established, according to Mr. Henderson.

Mr. MARTINEAU: According to us we have not, and it is up to us to decide what we understand from this article. To us it is a pure question of law, not a question of accounting. It is up to us to look at it, interpret it as best we can, and apply it. If we apply it incorrectly, let the government change it or tell us so.

The CHAIRMAN: Mr. Pigeon was still pursuing his questioning. I have you down as next on the list, Mr. Fisher.

Mr. PIGEON: Mr. Chairman, the Canada Council was supported by a former prime minister and by the present Prime Minister. You have distinguished lawyers with great reputations on the board of the Canada Council. I am an agronomist myself and you are a public accountant. We are in a very bad position to judge the law underlying this situation. I suppose, Mr. Henderson, you asked for advice from lawyers in your department?

Mr. HENDERSON: That is correct, Mr. Pigeon. Whenever I have any questions of this type I seek independent legal opinion. As you know, the council itself sought three opinions, two of which took the position that I have taken and one which took the other position. I myself secured my own opinion, which is the practice I customarily follow if there is any question whatsoever in my mind as to matters of this kind, because I am not a lawyer.

Mr. PIGEON: Mr. Chairman, I do not know whether we should place a motion to support the Canada Council so as to settle the matter now while parliament takes steps to change the law. Will that settle the problem for the moment?

The CHAIRMAN: That is something which we would decide after we have heard all the evidence. It is duty of this committee, after having heard all of the facts, to make its recommendations, and at that time it is something we will consider, having heard all the facts.

Mr. PIGEON: I have one last question. What opinions did you get from your own lawyers?

Mr. HENDERSON: The opinion I received supported my view, namely that the method of allocation used was not in accordance with section 17(2) of the act.

Mr. FISHER: Could Mr. Faribault put it a little bit more clearly for lay minds on why it was so important to go ahead with this particular formula?

Mr. FARIBAULT: I think that we are already late. This goes into the whole purpose of the fund, and perhaps I might reconstruct section 17 for the benefit of the committee in the way the council has construed it, and I might explain to you why we took that stand.

This section says:

The council shall establish a fund to be called the University Capital Grants Fund, to which shall be credited the sum of \$50 million, which shall be paid to the council by the Minister of Finance out of the consolidated revenue fund.

It was paid. Now, in the act there are two quite separate funds, the endowment fund and the university capital grants fund. From reading the act, and specifically sections 9 and 17 there is no doubt at all in the mind of the council that this was a one-shot proposition, that the \$50 million was given to us to distribute to the universities according to a formula. That was done because the universities had represented to the Massey commission that they were in dire need of funds for building purposes. This is set down very clearly. It is mentioned in section 9:

The council may, in furtherance of its objects, make grants to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects.

It is very clear to us that this was to meet an emergency. I do not think there is any possible doubt after reading the debates which accompanied the adoption of this act.

Then section 17 says that grants made under section 9—this is the one I referred to—may be paid out of the university capital grants fund but shall not exceed in the case of any particular project, one-half of the total expenditures made in respect of the project; and among the provinces an amount that is in the same proportion as the population of a province is to the aggregate population. Therefore, if Newfoundland has 3 per cent of the population, it will not receive more than 3 per cent of \$50 million—that is, the institutions within the province, and so on, all across the land. There is not a word in the balance of the act to the effect that moneys outside the \$50 million can be transferred to that fund. The only references are to the effect that if an investment is made, then the proceeds will stay within the fund.

The third explanation with regard to why we considered it was a one shot proposition is that there is a special provision which states—and I quote section 17 (3):

Investments out of money standing to the credit of the university capital grants fund may be made only in bonds or other securities of or guaranteed by the government of Canada.

If you compare these provisions with the provisions regarding the endowment fund, you can see very plainly these two are ruled by entirely different regulations because the purpose is different. You do not invest, especially in Dominion of Canada bonds, if you are going to make a profit. This is a short term thing. Therefore, the important thing was that no loss, and at the same time no profit, could be made, because it was a very restricted proposition. Similarly, there is no question of interest, because it was a simple one-shot proposi-

tion. This fund had to be distributed. Section 16 has reference to the endowment fund and says:

Any expenditure made for any of the purposes of this act, except section 9, may be paid out of (a) the return on investments made out of the endowment fund; (b) the amount advanced to the council under section 15; or (c) money, securities or other property received by the council by gift, bequest or otherwise—

Then you can see that if all the funds present in the endowment fund are to be used for one specific purpose, which is not section 9, then you are limited to sections 9 and 17 for the university capital grants fund, and therefore are limited to that \$50 million, and cannot increase it.

If you look at section 20, it says:

The council may acquire money, securities, or other property by gift, bequest or otherwise, and may, notwithstanding anything in this act, expend, administer or dispose of any such money, securities or other property not forming part of the endowment fund or the university grants fund, subject to the terms, if any, upon which such money, securities or other property was given, bequeathed or otherwise made available to the council.

That means you just cannot increase the \$50 million. This is a one-shot proposition. It is money given by the government for that purpose. This is very, very clear to us. But, we had to inquire from the prime ministers, because if they had said it is the policy of the government to increase that, then we could have construed the act differently. However, with a one-shot proposition we are back with section 17 (2), the one in respect of which the Auditor General has difficulty. This section says we cannot make grants which exceed the ratio of the provincial to the national population. We have \$50 million; how much of it represents the ratio going to universities? We made a list and said this is it; the province of Newfoundland is \$1,293,000 and other provinces so many millions of dollars. This was the basis.

All the universities were clamouring for funds. They said they were in dire need. We started telling them that we would give them up to one half the building cost. This is what the act says. They were not ready to build. Some were ready, but the plans were not there and they did not know whether they would have any money; they had to have the other half of the money from the public and from their own provincial government. It took a lot of time. They were interested.

In the meantime we earned the interest and actually made profits, even on dominion government bonds. We made a substantial profit on those. I think we made \$3,500,000 profit by astute management of the funds. The Auditor General says, what is the ratio of the population? Well, in Newfoundland it is \$1,293,000 out of \$50 million. It would be very simple if nobody had received any amount and the distribution had been made after five years, including the capital plus the interest, and profit; you would have \$65 million, and you would have this simple arithmetical calculation. This is not what happened. What happened is that in 1958 one university said they were ready to get the money and asked us to hand it over. We turned the money over to them. In the province of Alberta we said that the university is entitled to so much. We said, "Here is your amount in capital." What about the interest? This is the crux of the problem. There was not a word about interest in the act. The law states that interest follows principal; this is as sound a principle as I know in law and in economics, too. The owner of the property is entitled to the income; the owner of the principle is entitled to the benefit. Actually, we said all right. We think the Auditor General means this interest must follow population. But, this does not solve anything, because when you get \$1,293,000

in 1958, are you entitled to the interest prior to the moment you receive the money? I would say, yes; but are you entitled to the interest after you receive the money? I think anybody will say no, because you have had this money and therefore cannot get it twice. How are you going to do it? The way I have just put it, in order to try to make it as clear as possible: if you start making a distribution and say the province of Quebec is entitled to \$15 million, then if it does not receive the \$15 million, and assuming that the institutions in the province of Quebec had not received one cent, the normal thing would be to say they are entitled to \$15 million plus all the interest earned by that \$15 million since the fund was set up; but there is no provision in the act which says you are going to divide the total fund in as many parts as there are provinces. Therefore, we asked this question and said this is the only equitable way.

Is it contrary to the act? Some lawyers said "Yes, it is contrary to the act because it is not mentioned in the act." They say that if it were mentioned in the act it would be all right; but they say according to common law unless it is mentioned in the act you cannot apply it. We were not convinced by that for a good many reasons; one is that according to common law, in my own view as a lawyer, and quoting Blackstone, all the common law of England would apply on this point. On this point, some lawyers disagree. Opinions were received which I respect, but which do not convince me as a lawyer.

The second point is that some other lawyers have said, "We have read the act and we have taken that into consideration; we think this is what a man would think at first blush, but the consequence is ridiculous and therefore it cannot be what parliament intended; parliament intended something reasonable, and therefore it cannot be the direct conclusion". So, on the one hand, you have the man who takes a literal interpretation and the other who says, no, because according to the statute of interpretation every statute must receive a broad interpretation. This is what I am doing, and I consider this is what parliament intended. If it is a one-shot proposition, I think clearly this must be what parliament intended.

The third reason is that we read the act in the English language and in the French language and find there are discrepancies. We have to weigh the opinions which we receive. Finally, who is going to say it will be according to what criteria? There was not a shadow of a doubt in our minds. The only criterion was that it was not contrary to the law and that it had to be equitable. We were supported in our view by the fact that in section 21 it states that the council shall be deemed to be a charitable organization in Canada.

Therefore, according to both the common law as well as the civil law and equity, a charitable organization must rely upon equity. When you say you must use a ratio which will not change the proportion as between the provinces, this must be something equitable, and this is the only possible thing in a federal country in a case like this. There are at least five arguments there which convinced us. But who else did they convince? They did not convince the one board; but they convinced all the members of council who were sitting each time when this matter came up for consideration.

You must realize that I am the only one left of the members of the board who first examined this thing. All the other members have been changed. That means that five or six times when this matter came up before council the decision taken was unanimous in all cases.

At least 42 persons, after receiving legal advice, after looking at the matter, after receiving independent advice and viewpoints, after considering the practice followed in the United States, and after looking at the facts, came to the conclusion there was nothing else to do but to take what they felt was the equitable view. But this is not sufficient to convince the Auditor General.

I am not blaming him, because the Auditor General has a duty to perform, and he is empowered and even required by section 22 to review and to audit

the accounts and financial transactions of the council. We were very glad that he raised the question and we were very glad that he raised the question before we actually took the last decision.

Therefore, we appeared before you on November 18, 1963, and gave, in other words, what I have just given to you as an explanation. We were questioned very plainly: "What are you going to do?" We were given many questions. Some said: "Can you get an opinion from the supreme court?" And we said: "No, we are not competent to get an opinion from the supreme court."

Somebody said: "Do you wish to have the act amended?" I have answered Mr. Pigeon that we have looked into it and we have been told that it was not the opinion of the government of the day to do so.

We were asked other questions such as: "Would you be liable if you did this?" We have taken advice and we have been told that we would not be personally liable.

Somebody said: "Would you have wished the act to be amended?" We said, "Perhaps". But to all of us this has become something about which we are convinced, therefore, we do not need an amendment. We are going to proceed according to our judgment, according to what we believe is equitable, and according to what we believe is the only construction to be put on the act. This is what we have been doing.

Whether this can be called illegal or legal is a matter which is extremely difficult because, if you ask me as a civil law man, I have no shadow of a doubt that it is perfectly legal, and not only that, it is the only way you can do it.

I think anyone trained in the civil law would say the same thing. There is no shadow of a doubt that the formula we have adopted, the hotchpot formula, is the true standard of procedure. It is written in black and white in the civil code of the province of Quebec; it is mentioned by Justinian, and it is also mentioned by Blackstone as being the common law of England. Therefore, when some lawyer says it is not a proper construction and that it should be construed according to the statute law, I beg to differ. It so happens that the whole council begs to differ. Therefore, the council has decided to proceed according to this interpretation. This is the first point.

We concede that we cannot in all equity deprive the institutions of a province of the earnings made by the fund on money which they have not yet received. Therefore, we will use the formula for that.

The next case on which the Auditor General is not satisfied is the question of the reference to the census. The act says this: "according to the latest census." It is governed by the same simple rule. If you say it is a one-shot proposition, then the census is the last one before the proposition.

But if you say it is a continuing proposition, it may be that it is the census at any time you read the act. Therefore, you cannot change from one to the other because it would be acting in a continuous way, or because the fund would be replenished. But it has not been replenished at any given moment. Nobody has given us information that it will be replenished.

We asked the government and the two prime ministers. No, it is not to be replenished. There is nothing said by the prime ministers. How can we presume that it is going to be replenished, or how can we presume we must follow the wording, "the latest census"? Suppose we change the census after we have distributed one half of the fund according to the census of 1956? Where in thunder is our principal going to be? The population of several provinces has changed between the 1956 and the 1961 census.

You cannot say we will distribute one half the fund according to one formula and the other half according to another formula. All you can say is that you must distribute the fund to all the beneficiaries. But how can you say that, for example, Saskatchewan is entitled to it under the 1956 census,

but that Prince Edward Island is not. Nobody I know of, or any mathematician I know of, can reconcile it. It is just impossible. If you include the question of interest and profits, it becomes just unworkable.

The only issue I think before the Auditor General and us is to take steps, if necessary, to change the act, because according to our view it is legal, but according to his view it is illegal. We put the question to you in November last, and you put the question back to us. You said: "Do you wish to have the act amended?" So far as we are concerned, since we consider that we have no problem, we are quite satisfied, and we are going to distribute the money. We feel it is a proper construction and an equitable one.

I believe that the lawyers, when there are different viewpoints, will never be satisfied. One may say that he is right, and that this is illegal, but to us it is a matter of law. We have acquired advice in law, because it is one of the propositions where we think we are right. But it is also a matter of discretion, because we have asked the two governments, and they said: "You take your own responsibility; we do not want to give you instructions." It is up to you to decide. So six times unanimously we decided to do it this way. I am quite willing to give any further explanation, but that is as clear as I can put it.

Mr. FISHER: It is clear. I have no complaints to make at all. The only question I raise is that perhaps this part of the act will in fact lapse anyway.

I should also like to ask either Mr. Henderson or one of the officials whether the legal opinion he received covered the possible eventuality of determining the legality of that which the council went ahead and did.

Mr. HENDERSON: Mr. Chairman, perhaps I might, before answering Mr. Fisher's question, be permitted to remind Mr. Faribault that a prominent national firm of chartered accountants was employed, and requested by the council to study this entire problem of allocation of interest and profits. If I recall, sir, you suggested they endorsed the hotchpot method, and I think you suggested they quoted or gave a legal opinion. I have the report here of that chartered accountant firm in which they state, and I quote:

We are not competent to comment on the legal question as to which basis of allocation of interest and profits is in conformity with Section 17(2) (b) of the Canada Council Act.

Their report deals with the mechanics of distributing trust fund money under the hotchpot method, which Mr. Faribault has described to you. This approach, proposed as it was by the council for action, provided, as Mr. Faribault has said, that grants already paid to institutions were to be treated as advances subject to interest. Their resolution also provided that the latest census, as Mr. Faribault has said, to be employed for the purpose was to be the census taken by the dominion bureau of statistics in 1956. I have already told you that, in my opinion, this method of allocation is not in accordance with section 17(2) of the Canada Council Act. No provision is made in this act for interest to be charged on grants already paid to institutions. In respect of the remarks about grants paid subsequent to 1961, the words "latest census" used in the statute would in my opinion mean the census taken by the dominion bureau of statistics in that year.

Does that deal with your question, Mr. Fisher?

Mr. FISHER: Yes.

Mr. FARIBAULT: I think the situation is quite clear, Mr. Chairman. I might say while we are quoting from the report of the chartered accountants that they also say:

This is the method suggested by Mr. Faribault. It is also the method commonly followed by trust companies in allocating income from a trust or estate held for a number of beneficiaries where some of the beneficiaries withdraw capital before others.

That involves the whole issue. We are not quarrelling with the stand taken by Mr. Henderson. We are happy he raised the question because since he raised the question here this committee and everyone else has been apprised of the situation. Therefore, we feel at ease in doing what we are doing because we indicated last year what we were going to do.

Mr. HENDERSON: Mr. Chairman, I think I should like to add that as far as the practical application of this method is concerned, I have no quarrel with the action taken by the council in adopting this hotchpot or trust fund approach. It is a standard approach that you will recognize as being generally used by trust companies and others similarly situated. Nevertheless, in my work, as you can appreciate, I am bound by the statutes and if I have any doubt about those statutes it is my duty to seek legal advice.

Mr. PIGEON: Mr. Chairman, what would be your attitude toward this committee supporting the action of the Canada Council by motion?

Mr. FISHER: That is the point about which I should like to inquire, Mr. Chairman. It seems to me that a recommendation of this committee taken in the form of a motion would mean absolutely nothing in a situation such as this, particularly as far as the Auditor General is concerned. I suggest that we should go to the trouble of recommending a change in the statute. Action as has been suggested may be worthwhile but it seems to me to be just mere nonsense. I feel what we have to do is state very strongly we feel the matter should be left in abeyance, complimenting the Auditor General for bringing this to our attention and the Canada Council for working out a practical solution.

The CHAIRMAN: I think this subject should be discussed at a later date. I do not think this is the time to deal with that matter. Before we complete our deliberations we must form some recommendations, and in doing so all views expressed here today will be taken into consideration.

Mr. FISHER: I have one further question I should like to ask Mr. Faribault.

Which province or provinces were gored by this particular interpretation at which you have arrived? I assume that the provinces who were first in for the money are those which would gain by the other interpretation. I am just wondering which provinces were involved?

Mr. FARIBAUT: That question is practically unanswerable, for a good reason, with the exception of its application to one province. In Newfoundland there is only one institution entitled to receive these moneys. Different situations exist in each province. Some institutions in different provinces may have received these moneys early while others may not have received any as yet. This situation may have a cancelling effect, according to the change in the census. Perhaps I could check that information and present it to you at a later date.

In one province the change in census may not make a difference in the proportion, whereas in other provinces such as British Columbia, Alberta and Ontario there might be an increase. Whether or not there is any advantage in pursuing a discussion of this type I do not know. This is something we have always felt would be an extrapolation. If reasons are sufficient to adhere to the first census of 1956, this might create some difficulty, ambitions or claims in respect of other provinces. If one goes to the trouble of deciding on X hypothesis, following a specific formula, then a province might receive more or less than otherwise. We do make a calculation in advance.

Mr. FISHER: I am intrigued by the fact that the Canada Council is a unique organization in its relationship to government and parliament. I am not aware of any other agency of this type. The response of prime ministers to approaches made by the Canada Council is consistent with this idea. There

is almost a unique approach involved here as a consequence of which the only link parliament has, it seems to me, with any kind of scrutiny in respect of the Canada Council lies in the Auditor General and whatever tradition there may exist in this committee. As I remember it, after the first time the Auditor General made his comments in respect of the Canada Council, and that was Watson Sellar, Brooke Claxton, then chairman of the Canada Council, was prepared to make the case that the council was not required to be examined and was presenting itself almost as a courtesy. In view of what has transpired in respect of the council going to prime ministers, this relationship should be considered. It seems to me this organization has been put in the unique position of being left entirely alone when it does run into problems. The only connection, it seems to me, the government really has with Canada Council, in any control sense, is the appointment of officials to the board.

The CHAIRMAN: Mr. Wahn; then Mr. Pigeon and Mr. Ryan.

Mr. WAHN: My questions were on another subject, Mr. Chairman. My only comment on this would be that I do not think we should suggest this action was illegal. Legal opinions on a complex matter may vary greatly; and it seems to me that in order to decide what the true legal answer is in this case it would be necessary to have the matter referred to the Supreme Court of Canada, which might be done by the government if the cabinet were to think it of sufficient importance. This is something for the government.

Mr. PIGEON: Mr. Faribault has presented very strong arguments before the committee, and I think he said it is not necessary in his view to change the Canada Council.

Mr. FARIBAULT: This is our feeling.

Mr. PIGEON: And, with regard to the board of the Canada Council, many distinguished lawyers from universities and so on support your views. I do not know if it would be a good thing to present a motion. If the majority of the members of this committee were to support the Canada Council, I think there is an obligation upon a distinguished civil servant, as Mr. Henderson is, to say, "If that is the voice of the people, so be it."

Mr. CHOQUETTE: What is the question?

Mr. RYAN: Mr. Faribault, would you be of the opinion that members of the Canada Council are statutory trustees for the amount of money that has been put in their hands, plus the interest that has accumulated?

Mr. FARIBAULT: This is certainly the way in which I would look at it.

Mr. RYAN: Who would be the *cestui que trust* in the case of this statutory trust? Would it be the universities generally or the province, or some area between the two?

Mr. FARIBAULT: I think, as Mr. Fisher has said, this is a unique case for which there is no precedent. In the case of the *cestui que trust* here it is clearly the public, but not the same public. In the case of university capital grants, they are the universities. This is a typically new institution of a special kind, a public trust to be administered within a federal country with all the provisos that could be imagined to preserve equality as between several institutions which come under provincial jurisdiction.

This is a very complicated matter, but that is the way I feel about it.

Mr. RYAN: What concerns me is that if the *cestui que trust* can be determined in any province, particularly in a province other than Quebec, then they could at any time in future sue Canada Council if they are of the opinion that Canada Council has misconceived its distribution power or the formula.

Mr. FARIBAULT: I would not think, as a matter of law, that this was the case because the *cestui que trust* are not named; they are just to be determined,

and they are to be determined according to the discretion of the council. This is strictly in accordance with the decision of the Supreme Court of Canada in the case of *Valois vs. Boucherville*. It was heard in the province of Quebec. It was stated that it was competent—and this was a decision rendered by the full court which was specially called in—for a trustee to be called in with the right to select the institutions to be benefited from the charitable trust. That means that there was no *cestui que trust* there. At the same time, the attorney general asked that the Supreme Court of Canada be called in to hear the case in order to ascertain whether he had the power to intervene to protect the *cestui que trust*. The answer was that he was not competent.

This is a very unusual type of decision. It is quite consonant with Quebec law, but I am not so sure that it would be consonant with ordinary common law or equity; but, such as it is, I think in this case this was the only position that could be taken because universities and other institutions of higher learning are those who can benefit, but they are not otherwise defined, named or entitled to anything.

At the time the council was set up, we came to the conclusion that in law there probably was no single beneficiary which could ask for any given amount or proportion of the capital fund.

Mr. RYAN: Were your legal opinions written opinions?

Mr. FARIBAULT: On that, no.

Mr. RYAN: Did you obtain written opinions on this particular point of the *cestui que trust*?

Mr. FARIBAULT: No, I do not think so. However, in order to be very sure of our ground, council made a list of all the institutions of higher learning which could conceivably be considered as eligible at the time to receive such amounts—and it went to the trouble of asking the National Council of Canadian Universities to give a list of all such institutions with proper statistics as to their enrolment. Council decided that all these institutions would be entitled to something.

These two matters are very closely tied in together because, by taking the action which I have just explained to get away from the difficulty of the unnamed beneficiary. The *cestui que trust* which the council thought would be the beneficiaries were all those mentioned in the list as eligible. We have not gone outside that list.

Mr. RYAN: What about the case where you have already made a grant to a university? Is it possible that they might claim that they have a vested interest in some of these moneys?

Mr. FARIBAULT: I do not think so.

Mr. RYAN: They might come along later and say that time limitations do not run against statutory trustees, and maybe in 20 or 25 years from now you will find yourself in difficulty.

Mr. FARIBAULT: The only restriction is not as between universities; it is as between the total amount in the province. We feel we are not restricted outside of that, and we feel we are not bound to any university or special institution otherwise than by the following provision:

Grants...shall not exceed...in any province, an amount that is in the same proportion to the aggregate of the amounts credited to the University Capital Grants Fund as the population of the province, according to the latest census, is to the aggregate population, according to such census, of those provinces in which there is a university or other similar institution of higher learning.

The moment there is a university in a province, we cannot vote that university any specific amount unless we so decide. We cannot give the amount which normally would be spent in that province to an institution in any other province. Therefore, we think we are not caught within that dilemma.

Mr. RYAN: Is there not some procedure whereby this could be brought to court in Canada, not necessarily to the Supreme Court of Canada. Could a university not bring a case in their own province?

Mr. MARTINEAU: They would not have a right to sue. The council may make grants. No university has a right to sue. A grant may be given or it may be refused.

Mr. RYAN: The only remedy, then, to be absolutely certain is to have parliament ask for a reference to the Supreme Court of Canada; is that correct?

Mr. MARTINEAU: Or change the law, but by that time we will have spent the money and the question will be settled!

The CHAIRMAN: Are there any further questions on this particular issue?

Mr. FISHER: I notice in the presentation you made to the cabinet in March for more funds there was no mention made of an increment for this capital grants fund. Is this another indication that the council knows completely and thoroughly and absolutely that they are working, in a sense, on a dying issue?

Mr. FARIBAULT: That would be my belief, yes.

The CHAIRMAN: Are there any more questions on this problem?

If there are no further questions, the Chairman would like to say, Mr. Faribault, that he is sure members of the committee would look with sympathy upon any interpretation of the act upon which parliament expects reasonable consequences to flow from its statute.

Thank you very much for your attendance on this particular issue. We welcome what has been a very clear and lucid explanation.

Mr. FISHER: Mr. Faribault, I would point out, representing continuity, is an argument for continuity on the Canada Council.

The CHAIRMAN: And Mr. Fisher is one for continuity on committees!

Gentlemen, the meeting is now open for any other matter in which members may be interested with regard to financial statements and, of course, the contents of the reports.

I would hope for the sake of pursuing a reasonable and intelligent discussion that when one member has initiated a discussion we will restrict ourselves to that particular aspect before moving on to another.

Mr. FISHER: Mr. Chairman, I just wanted to pay a compliment to Dr. Trueman. I suppose you are the literary author, in effect, of the council's main report?

Dr. A. W. TRUEMAN (*Director, Canada Council*): This is a somewhat composite effort. The arts section is done in toto by Mr. Dwyer, Mr. Bussière looks after the UNESCO part of it. We take in each other's washing and co-operate in bringing forward this report.

Mr. FISHER: I would like to compliment you not only because of the literary quality of the report but because you are prepared to argue in the report against some of the criticisms which flow into the public print and media during the year. I think this is the kind of aggressive approach that is very worth while, and I wanted to put this on the record. This is always an entertaining report. It reminds me of the reports the U.B.C. used to put out each year. I do not know what the administration is like out there but the president always made it sound great.

Mr. MARTINEAU: Thank you, Mr. Fisher.

The VICE-CHAIRMAN: I have Mr. Pigeon followed by Mr. Hales.

Mr. PIGEON: Mr. Chairman, I do not know if you have a procedure in respect of putting questions.

The VICE-CHAIRMAN: The field is open, Mr. Pigeon.

Mr. PIGEON: I would like to address my first question to Dr. Trueman.

On October 5, 1963, you made a speech to the Rotary club in Toronto, which was reported by the Canadian Press. I will quote in French.

(Translation)

This is what Dr. Trueman said:

I believe that if the present government plan is implemented a considerable amount of money will be awarded in the form of scholarships to those who are studying for the purpose of getting a B.A. or a B.Sc.

That is what you apparently said in a speech you gave at Toronto.

(Text)

Mr. TRUEMAN: I do not recall this. I wish I had the text in front of me.

Mr. PIGEON: I have not the text, but if we have another meeting I will see if I can bring forward more information.

Mr. TRUEMAN: Could I look it up?

The VICE-CHAIRMAN: Well, we will continue and if the meeting carries on this evening this information may be available then.

Mr. RONDEAU: What is the question?

Mr. PIGEON: Is it a fact that you said in Toronto that you heard the government was going to bring in legislation to give scholarships for students in respect of classic courses leading to—

Mr. TRUEMAN: I think that must be a misquotation. I recall simply referring to the widely advertised fact that the government had spoken publicly about the possibility of creating a large scholarship and fellowship scheme. I do not know whether or not this has been pursued. But, it may be that has been replaced by the present legislation in respect of student loans. I know it was a reference to something the government had talked about.

Mr. PIGEON: Did this refer to students in universities only?

Mr. TRUEMAN: I think that was what the reference was to in this thing to which I was referring.

Mr. PIGEON: If we have another meeting perhaps I could go into this in more detail. I appreciate very much the fact that you have not a copy of your speech.

Mr. TRUEMAN: We will look it up. However, I do not recall the details of it.

Mr. FRANCIS: On a point of order, Mr. Chairman, how far are we justified in going afield? This is a public accounts meeting and I do not feel that members of the Canada Council should be put under examination on their personal views in respect of matters unrelated to the activities of the council.

Mr. PIGEON: But I think if you read carefully the part of the speech I have you would infer that Mr. Trueman was speaking for the government, and that is why I asked my question.

The VICE-CHAIRMAN: This is not the time to question articles which appear in the press. We are here to put questions on the report as submitted by Canada Council and not in respect of articles which appear in the press. This is not fair to the man who made the speech because more than likely he has not his original text here.

Mr. TRUEMAN: If I had the original speech here I would be able to be more helpful.

Mr. PIGEON: Perhaps we could pursue it at our next meeting.

Mr. CHOQUETTE: Bring all the speeches you have made to our next meeting.

The VICE-CHAIRMAN: Would you proceed, Mr. Hales.

Mr. PIGEON: I have not concluded my questions, Mr. Chairman.

The VICE-CHAIRMAN: Excuse me. Would you proceed, Mr. Pigeon.

Mr. PIGEON: Could you tell me the total amount of money which you gave to the universities across Canada last year?

Mr. TRUEMAN: In respect of university capital grants?

Mr. PIGEON: Yes.

Mr. TRUEMAN: For buildings?

Mr. PIGEON: Yes.

Mr. TRUEMAN: Do you mean for 1962-63?

Mr. PIGEON: Yes.

Mr. TRUEMAN: The sum of \$6,892,290.

Mr. PIGEON: I would now like to put this question. Did the Canada Council receive a resignation from Mr. Gerard Filion as vice chairman of the Canada Council?

Mr. TRUEMAN: He does not resign to the Canada Council.

(Translation)

Mr. CHOQUETTE: He resigned from the Royal Commission on Education for the province of Quebec.

(Text)

Mr. PIGEON: I put this question because I have an article before me which appeared in *Le Devoir* under date of May 15, 1962, which reads:

I resign if the Canada Council will give grants to Canadian universities.

That is why I addressed the question to you.

(Translation)

Mr. MARTINEAU: When Mr. Filion resigned he did not send his resignation to the President of the Canada Council but to the minister who had appointed him. So it was never submitted to us.

(Text)

The VICE-CHAIRMAN: Would you proceed, Mr. Hales?

Mr. HALES: Mr. Chairman, my questions will deal with the expenditures and cost of operation. I do not wish to detract from Mr. Fisher's complimentary remarks about the production of the annual report. However, on page 4 we are told that the increased cost was \$6,638 for the production of the 1962-63 annual report, and I notice there are 43 fewer pages in it.

Mr. TRUEMAN: Which report?

Mr. HALES: The 1962-63 report. I am reading from the bottom of page 4 of the 1963 statement, which deals with printing and duplicating costs.

Mr. TRUEMAN: Yes.

Mr. HALES: We are told that the 1963 annual report cost \$6,638 more than the 1962 report.

Mr. FISHER: Read it through. It goes on to say:

...and to an expenditure of \$5,744 for the booklet "Private Benefactors and the Canada Council".

I would assume the actual increase in cost of the annual report was the difference between \$5,744 and \$6,638.

Mr. HALES: Is that true?

Mr. TRUEMAN: Yes.

Mr. HALES: Therefore, there was a \$900 increase?

Mr. TRUEMAN: Something of that order.

Mr. HALES: Well, then I read that wrong. That is not out of the way although there are 43 fewer pages and it cost \$900 odd more.

In respect of advisory service fees—and this is on exhibit III—they were \$49,000 odd in 1962 and in 1963 they were \$41,800. This seems quite a large amount. Could you explain to the committee what is involved here?

Mr. TRUEMAN: Well, this covers fees that we pay to the social science research council, the humanities research council and the Canada Foundation, in the main. This relates to the costs which they meet, or did at this time, to carry out certain services for us. For instance, the total expenditure in respect of the scholarship and fellowship scheme is in the vicinity of \$1,100,000, and sometimes it is above that. The whole of the recommendations for most of that, with the exception of \$200,000 or \$300,000 devoted to the arts, is handled and processed for us by an arrangement with these two organizations, H.R.C. and S.R.R.C. That is to say they set up committees to review some 1,200 or 1,300 scholarships. They call the committees together. They undertake the posting of material, and so on and so forth. They have arranged with us a charge which we think does no more than cover their out of pocket expenses. These are the things referred to here.

Mr. HALES: I have one other question on this expenditure. I notice you had five council meetings. Would you mind telling us where these council meetings were held? They cost approximately \$5,000 each.

Mr. TRUEMAN: It has been our practice to hold five council meetings a year, one of which is usually held outside of Ottawa, so four of those would be held in Ottawa and the fifth one—we are talking about 1962-63—was held in St. John's, Newfoundland.

Mr. HALES: Who attends these meetings?

Mr. TRUEMAN: The members of the council. The council consists of 21 members, including the chairman, the vice-chairman and 19 other members. I think we have an average attendance of something like 19 members from all over Canada, plus the officers who have to be at the council meeting.

Mr. HALES: Do the councillors have their transportation paid to all these meetings?

Mr. TRUEMAN: They do. There is an order in council which covers the investment committee expenses also.

Mr. WAHN: Mr. Chairman, I would like to say it is certainly pleasant to see that the figures indicate that not only the fund earned a very good return, but there also has been a very substantial capital gain. I think Mr. Fullerton, and those members of the committee who are responsible for it, certainly deserve commendation.

Mr. TRUEMAN: Yes.

Having said that perhaps I could revert to my more usual character as a member of this committee and ask this question of Mr. Fullerton, if he is here. I gather that in the future the investment advice will be given by the firm of Fullerton, Mackenzie and Associates Ltd. I would like to ask Mr. Fullerton what is the nature of business of that firm.

Mr. FULLERTON: It is bond investment counselling principally, but certain other counselling as well. However, it is principally the management of pension funds and similar large aggregations of capital, as well as management and advisory services.

Mr. WAHN: My next question is whether the firm provides its services purely on a professional basis for a fee, or does it, either itself or through associated companies, derive any commissions on securities which may be bought or sold by the fund, or does it buy and sell as principal to the fund?

Mr. FULLERTON: No, the council carries out transactions simply on the advice we give. My firm does no trading of any kind on its own account either in stocks or in bonds. It is truly a management service on a professional basis, for a fee.

Mr. WAHN: The administration costs of the endowment fund, according to exhibit 2—I am looking at the 1962 report—amounts to about \$467,000 out of a total expenditure of about \$3 million, which is about 16 per cent of the total. Is it possible to make any comparison with other organizations, preferably of a similar nature, to determine whether or not your operations are reasonably efficient and whether or not this administration charge is unreasonably high?

Mr. TRUEMAN: It is very difficult to make a comparison because in more ways than perhaps Mr. Fisher has suggested we find ourselves unique. The closest comparison that I have been able to make is with the arts council of Great Britain, but immediately you run into difficulties in making that comparison because its concern is solely with arts, whereas ours is with humanities and social sciences as well. It does not, under any act that it operates under, maintain a scholarship and fellowship program. It gives its grants entirely to organizations. Now, we have, of course, a scholarship and fellowship program. We have a program for supporting organizations representing the arts, for organizations representing the humanities and social sciences. We have to operate out of the income of the endowment fund, the university capital grants fund, and we have to maintain also the secretariat of the national commission for UNESCO. By the act all the administrative expenses of all these activities must be borne out of the income of the endowment fund. So that when you put down the total cost of all these things as a percentage of the endowment fund income, it looks a little bit on the high side, but when you break it down, I think it is very reasonable.

We think that after making some such attempt at a breakdown, which is a pretty artificial thing, if we take our costs of operation in 1962—the first year—as a percentage of the total income of the council, that is to say the income which we get from the endowment fund and the income we get from the university capital grants fund, we find that in 1962, it was 10.2 per cent; in 1963 it was 8.8 per cent. If you take the total administrative costs as a proportion of the endowment fund income alone, it was 15.7 per cent in 1962, 13.3 per cent in 1963 and about the same during the year that we have just finished. If you take the endowment fund cost, that is to say the cost of operating the program of the endowment fund as a proportion of the endowment fund income, it was 12.7 per cent in 1962 and 10.3 per cent in 1963. The last time I made a calculation—you asked if there was any way of making a comparison—of the costs of the council of Great Britain, with their restricted program which deals only with the arts and only with organizations, the best that I could figure was that their cost was somewhere between 11 and 12 per cent of their income. So the only conclusion that I can draw is that we are keeping within the bounds that regulate organizations of this kind. However, I repeat, the comparison is most difficult to make, because, as we have said in our annual report, we have as our responsibility in the Canada Council duties which in Great Britain are divided amongst four different organizations: the arts council, the British council, the university grants committee, and whatever department of government handles UNESCO.

Mr. WAHN: Could Mr. Henderson suggest any yardstick, or does he feel it would be possible to find any measure at all, by which we could compare the

efficiency of the Canada Council with the efficiency of other organizations, particularly in relation to administrative costs?

Mr. HENDERSON: Mr. Wahn, I find myself substantially in agreement with what Dr. Trueman has said. This is a subject which he and I have discussed, and by and large I think the level of the administrative costs is eminently reasonable. That would be my observation.

Mr. WAHN: Mr. Chairman, I have just two more questions. The first question is this: the statement indicates that the moneys of the university capital grants fund must be invested in government bonds, but that the money for the endowment fund can be invested in any securities which the investment committee considers desirable. It would appear in my calculations that about one seventh of the total endowment fund is invested in common stocks and convertible debentures and the rest in bonds and mortgages. Has any consideration been given by the council to the proper proportion which should be maintained? I hasten to say that if the council put all its money in common stocks or convertible debentures and the market went down, undoubtedly it would be asked questions on why they were so rash? Has any consideration been given with regard to whether one seventh of the fund in common stock and convertible debentures is a reasonable proportion, particularly in view of the emphasis which in recent years has been placed upon getting more money into Canadian common stock.

Mr. TRUEMAN: I can give a general remark, but I think Mr. Moore or Mr. Faribault might answer in more detail.

Mr. MARTINEAU: Mr. Moore will answer.

Mr. TREVOR MOORE (*Member, Canada Council*): I think the answer is the importance of income currently which we cannot get from common stocks. If we were to increase the proportion of common stocks, our income would be adversely affected.

Mr. WAHN: I gather that the university grants are divided up reasonably into the population of the various provinces. Is a similar principle followed with regard to the amounts of money paid out of the endowment fund?

Mr. TRUEMAN: No. The council never has adopted a principle that X per cent of its revenue should be spent in this province and X per cent spent in another province.

Mr. WAHN: I do not know whether it would be possible to obtain this information, but I would be interested in finding out the disposition of the endowment fund over the period of the life of the council in relation to the populations of the various provinces. I would think that should be possible.

Mr. MARTINEAU: We do not operate in that way at all. We do not think of provinces and we do not think of population; we go only by talent. There may be a lot of talent one year in one quarter, and maybe the next year it would be elsewhere. We do not know; we just give them as they come along. We do not give as many as we would like to give because of the little money we have.

Mr. WAHN: Perhaps I have been misunderstood. I am not suggesting that the population basis is the correct basis, but personally, I would be interested in knowing where the talent is which has justified the grants. In other words, I think it would be extremely interesting to find out, and I would ask that if possible the witnesses provide this information.

Mr. MARTINEAU: It would be misleading information unless you knew why the judges decided in this way in a particular year. The figures always can be obtained, but they would not give you very much.

Mr. TRUEMAN: I agree; but there are two problems which make it difficult to make such figures meaningful. If you take the matter of scholarships and fellowships and give one to a man in British Columbia who is going to do his work towards a doctorate at the University of Toronto, is this to be credited to British Columbia or to Ontario? He is spending our money and his time and effort in Ontario. Another thing is that we give grants to arts organizations. We give a grant, we will say, to the Canadian Players Company; part of the grant will be for a tour in western Canada through the three prairie provinces and British Columbia, part of the grant will be for a program they are putting on in Toronto, and perhaps there may be a second company which will be making a tour in eastern Canada. The company has its headquarters and perhaps its rehearsals in Toronto. You might say, "All right, this \$35,000 went to Ontario, but \$15,000 of it was for this company to tour the four western provinces". To my mind, this is a grant to the other provinces.

We can provide those figures, but what I am suggesting is that it is very difficult to draw any kind of proper conclusion from it with regard to where the money of the Canada Council is being spent.

Mr. WAHN: Perhaps it is up to the steering committee to decide whether or not this information would be useful. I can see the difficulty. However, when the information is furnished, the basis upon which it is prepared could be stated, and members of the committee can make their own interpretation.

The VICE-CHAIRMAN: This matter will be brought up before the steering committee.

Mr. PIGEON: I read in the French report—

(Translation)

I would like to ask Mr. Henderson a question.

The VICE-CHAIRMAN: In 1963?

Mr. PIGEON: In 1963.

The VICE-CHAIRMAN: In 1963.

Mr. PIGEON: On page 5 of the report in French.

(Text)

The VICE-CHAIRMAN: It is page 5 of the 1963 report.

(Translation)

Mr. PIGEON: I would like to ask Mr. Henderson whether the firm of Fullerton, Mackenzie and Associates Limited. I do not have the English version. I asked for a copy in English.

The VICE-CHAIRMAN: Very well.

Mr. PIGEON: Yes, in the report in French.

The VICE-CHAIRMAN: In 1963, page 5.

(Text)

Mr. TRUEMAN: In the 1963 report.

Mr. PIGEON: Page 5 in the French copy at the top, investment, \$54 million.

(Translation)

Mr. MARTINEAU: Where it says that Fullerton and Mackenzie manage the investments?

Mr. PIGEON: Yes. As regards that firm, it cost the Canada Council \$15,000 to have the firm look after their investments, plus their telephone expenses which must not exceed \$5,000. I would like to ask Mr. Henderson whether the Council's investments could not be handled by a government agency, by the Treasury Board or by the Auditor General of Canada so as to economize

on these expenses which amount to nearly \$20,000? The Canada Council would thus have an additional amount to use on scholarships or grants.

(Text)

Mr. HENDERSON: I have no doubt that the investment portfolio could be managed by other agencies in the government. I think you mentioned the treasury board and also my office, but I think you will appreciate that we would not undertake anything of an administrative character like this. A possibility, for example, might be the Bank of Canada. I believe there was a time when the Bank of Canada managed it; that might be the sort of thing you envisage. However, it is my experience that the responsibility for handling a diversified portfolio like this requires highly specialized experience and attention. It generally is standard practice, where large portfolios have to be managed, to employ consulting firms such as Mr. Fullerton's firm, which can devote a very considerable portion of their time, as indeed they do, to handling it. Telephone calls are expensive, and the great many switches which would have to be made to pick up capital gains or to improve yield require very quick action. I believe the council is well satisfied with this arrangement. I would not have any further comments to make.

(Translation)

Mr. PIGEON: Now, Mr. Henderson, there are certainly a number of investments these Crown Companies could make. I do not know whether a government agency could look after the investments of all the Crown Companies in order to economize as much money as possible. A central agency, a main body could look after investments for the Canada Council and any other Crown Company. I do not know whether that is a constructive suggestion and it might be easier for the Auditor General to look after the investments of these funds, and a substantial saving in money and staff could certainly be realized.

The VICE-CHAIRMAN: I think it is Mr. Martineau's turn to answer.

Mr. MARTINEAU: Mr. Pigeon, we could indeed do it and it would not cost as much but we would not make the same amount of profit. In 1963-64, for example, there was a profit of \$1,250,000 because of these multiple transactions, precisely because Mr. Fullerton follows the market and each day, when he sees he can make a profit he sells securities and buys other securities at a lower price. Over a period of years we have made a profit of nearly \$4,000,000, as you see, and it is because of these transactions we maintain that Mr. Fullerton earns his money several times over by enabling us to make such profits, as we could make no profit on securities by buying and keeping them.

Mr. PIGEON: Did you say you made a profit last year?

Mr. MARTINEAU: During the year.

Mr. PIGEON: During the year you made \$12,000.

Mr. MARTINEAU: No, \$1,250,000.

Mr. PIGEON: Oh, \$1,250,000.

The VICE-CHAIRMAN: He said \$1,250,000.

Mr. PIGEON: Good, that is fine.

(Translation)

Mr. LEBLANC: Mr. Chairman, I have a supplementary question also on the subject of Mr. Fullerton. I understand from the 1962 report that Mr. Fullerton used to be the treasurer of the Canada Council?

Mr. MARTINEAU: Yes.

Mr. LEBLANC: So he was the Canada Council's advisor, the Canada Council's treasurer and he managed their investments?

Mr. MARTINEAU: I shall have to make sure of that because I was not there at that time.

Mr. TRUEMAN: (Yes . . .)

Mr. LEBLANC: Yes, he managed their investments and was paid a salary by the Council, and remuneration such as there is at the present time in 1963.

(Text)

Mr. TRUEMAN: It is all right, we can give it—up to \$15,000.

Mr. LEBLANC: He was appointed treasurer at \$15,000 in 1962?

Mr. TRUEMAN: No. That was what he was getting when he resigned.

(Translation)

Mr. LEBLANC: Now, from what I understand you have a new treasurer?

Mr. MARTINEAU: Yes but she does not do that work, she would not be capable of doing it either.

Mr. LEBLANC: In that case how did you previously happen to have a treasurer who could do that work? You now have a treasurer you pay and you also have to pay a specialized firm to do that work?

Mr. MARTINEAU: I think the work is different Mr. Leblanc. What Miss Breen does now used to be done by others. When Mr. Fullerton was treasurer he only looked after the investments. He still looks after them, but Miss Breen not only attends to the books but to everything which is essential for the staff, as you know. And she is really the type of employee I wish you would have for the rest of your life, Mr. Leblanc.

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Mr. Chairman, it is perhaps a little late, but better late than never. I would like to congratulate the new chairman of the Canada Council, the honourable Mr. Martineau. This is the first time he has appeared before the Public Accounts Committee and everyone knows that Mr. Martineau is one of the most distinguished jurists in Canada. In fact he has had an outstanding career. He was on the Court of Appeal and then returned to private practice which is quite outstanding in a person's career. We are very glad he has assumed the responsibility of the Canada Council presidency because he is fully competent to guide this agency towards its objectives.

Mr. Chairman, I would like to put my question to anyone it may concern because in the preface to 1962-63 report I noticed, in the second paragraph—

Mr. MARTINEAU: On what page?

Mr. CHOQUETTE: On the first page, at the very beginning. I did not have time to get much further. A donation received by the Council is mentioned, and in the following paragraph it is stated that the object of that donation was to promote what I would call the effective sciences as opposed to the humanities, the arts and social sciences. So this is what I would like to ask, Mr. Chairman. Are the Canada Council looking for a new direction? As they have placed considerable emphasis on the generous gift they received, do they intend to direct their efforts towards another field of learning in order to promote it as efficiently as possible, because I noticed in the appendices that all the scholarships awarded are for the arts, the humanities and social sciences.

Mr. MARTINEAU: No Mr. Choquette. First of all let me thank you for the kind words you said about me a few moments ago. No, the donor comes to see us and says: "I am giving you so much for such and such a purpose". So, of course, we accept and we abide by the terms accompanying the donation, but it was not the Council's choice.

The VICE-CHAIRMAN: As you said some very nice things about the Chairman I allowed you to say something that was out of order as it is not the time

to discuss what is going to happen, the Council's policy for the coming year, but the report for 1962-63.

Mr. CHOQUETTE: But I thought Mr. Fisher had established this morning that the questions were "at large".

(Text)

The VICE-CHAIRMAN: Yes, at large, but not for any year.

(Translation)

Mr. CHOQUETTE: I was referring to the report.

Mr. MARTINEAU: Very well, to get back to the matter we will ask—

Mr. CHOQUETTE: So you are not anticipating a new policy for the distribution of—

Mr. MARTINEAU: We have never discussed the matter.

Mr. CHOQUETTE: It was never considered.

The VICE-CHAIRMAN: Mr. Grégoire.

Mr. GRÉGOIRE: Mr. Martineau or Mr. Trueman I have a few questions concerning applications you receive for grants for the arts, either for music, opera, acting, ballet, festivals etc. I suppose that out of all the applications you receive for grants some meet with your approval and others are not even worth taking into consideration or are for things you do not give grants for. Could you tell us what percentage of the applications you receive during any one year are reasonable requests and how many are not?

Mr. MARTINEAU: Well, in 1963-64, for example, I think there were 365 applications in an arts category.

Mr. GRÉGOIRE: They were applications for grants for the arts and public events?

Mr. MARTINEAU: Yes. The arts and artists. For the time being the percentage is the same but if you will wait a minute you will see. 365 applications were made. We only had so much money to spend, so we had to divide the amount among the various categories. So that year we decided there would be 60 grants. There was not enough money for more. So 60 awards were made but there were 365 applicants. They had to be made to people who had 86% or over, which shows that some were deserving and should have received one because when you have 80, 82, 83 or 84, those are worthwhile marks, you are really entitled to a scholarship. But it was not possible to give them. So there were only 60 given.

Mr. GRÉGOIRE: In other words you lacked the funds to—

Mr. MARTINEAU: We were positively short of funds—

Mr. GRÉGOIRE: Even to meet reasonable requests.

Mr. MARTINEAU: Certainly, very deserving requests.

Mr. GRÉGOIRE: In the arts?

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE: But where organizations are concerned?

Mr. MARTINEAU: The same thing happened.

Mr. GRÉGOIRE: The same percentage.

Mr. MARTINEAU: The same.

Mr. GRÉGOIRE: For instance, I see that you make grants to several symphony orchestras throughout the country. What is the percentage of symphony orchestras you can give grants to, symphony orchestras already in existence who have applied to you.

Mr. MARTINEAU: Mr. Dwyer.

Mr. DWYER: At the present time there are approximately 20 symphony orchestras in Canada.

Mr. GRÉGOIRE: Twenty-five?

Mr. DWYER: About twenty. That is the number of grants we can give.

Mr. MARTINEAU: You see, Mr. Grégoire, that is the problem, what are we to do with so little money? Should we spread it out so thinly that it will be of no advantage to anyone, or should we try to select wisely in order to develop something really exceptional in certain ways?

Mr. GRÉGOIRE: So you prefer to give grants to a fewer number of symphony orchestras, but to give them more so that they can develop more.

Mr. MARTINEAU: Not purposely. We have not adopted that principle purposely. We have tried to give as much as possible to all those who were deserving but we were not able to help all those—

Mr. GRÉGOIRE: But in principle, nevertheless, the results of your grants to the symphony organizations is to give them more, so that they can improve and be better than they are.

Mr. MARTINEAU: If possible.

Mr. GRÉGOIRE: Did you make a survey, would your terms of reference allow you to make a survey to find out how many symphony orchestras there are, and how many symphony orchestras there should be in Canada and what amount of money it would take to set up a network, if I may call it that, of symphony orchestras that would really correspond to the artistic value of our musicians and to public demand.

Mr. MARTINEAU: We studied the matter to see how much we would really need to do justice to all these organizations and to our artists. If we really wanted to make an all-out effort that would cover the entire country, we would need over two million a year during the next three years, about \$2,200,000 a year.

Mr. GRÉGOIRE: Now, with \$2,200,000, which is a very small amount in my opinion, would that meet the needs of both the artists and the organizations, I mean strictly as far as the arts are concerned?

Mr. MARTINEAU: I think so. Of course that does not mean that all those who applied for grants would get them.

Mr. GRÉGOIRE: No. But there are reasonable requests and unreasonable requests.

Mr. MARTINEAU: Any reasonable request, any work that deserves encouragement, any artist who is talented and has proved it, could obtain a grant.

Mr. GRÉGOIRE: Now, with an amount like that, would that be satisfactory? For example, I am taking the symphony orchestras, I could also take the opera, the theatrical and ballet companies, would that amount be satisfactory to set up in Canada, in proportion to the population, the areas and the cities in need of it, would that be sufficient to set up an adequate network?

Mr. MARTINEAU: I would point out that we have been more than reasonable with our figures, because when you do not have it and when you do not have much hope of getting it, you live in hope but you are not sure, and you do not want to put forward figures that will scare people. I myself am quite sure, but it takes more than that.

Mr. GRÉGOIRE: As far as I am concerned, Mr. Martineau, I can tell you that I am not in the least bit scared when you tell me that with only \$2,200,000 you could meet the requests you receive from artists—

Mr. MARTINEAU: The average request, yes, during the next three years.

Mr. CHOQUETTE: Are you including bands in this request?

Mr. MARTINEAU: Not yet, Mr. Choquette, not yet.

Mr. GRÉGOIRE: I asked whether at the present time, in the field of the arts—

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE:—in the field of our theatre, opera, ballet and symphony orchestra groups—

Mr. MARTINEAU: That is right.

Mr. GRÉGOIRE: And you include the artists in that amount?

Mr. MARTINEAU: Yes, certainly. What is more we are including scholarships for students in that amount—

Mr. GRÉGOIRE: For students or people who have shown that—

Mr. MARTINEAU: —to get their doctor's degree and also for post-doctoral studies.

Mr. GRÉGOIRE: When you speak of post-doctoral studies you mean those who are going in for teaching careers?

Mr. MARTINEAU: Yes, for those who are going in for teaching or who want to study, who want to continue their studies after that.

Mr. GRÉGOIRE: Now, how much are you giving at the present time in that field alone? In the field you mentioned and for which you would need \$2,200,000, that is, simply from the artistic, theatrical, musical, operatic and symphonic standpoint.

Mr. MARTINEAU: For that, it is \$675,000.

Mr. GRÉGOIRE: That is the amount you are allocating at the present time?

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE: And you need \$2,200,000?

Mr. MARTINEAU: No, you merely mentioned symphony orchestras, theatres, ballet and opera.

Mr. GRÉGOIRE: Yes.

Mr. MARTINEAU: \$675,000, for that alone.

Mr. GRÉGOIRE: \$675,000.

Mr. MARTINEAU: We think we shall need \$1,675,000 within the next three years. We need a million dollars more.

Mr. GRÉGOIRE: In that field alone.

Mr. MARTINEAU: Because that is the expensive one, of course.

Mr. CHOQUETTE: It is one of the most expensive—

Mr. GRÉGOIRE: So with \$1,000,000 more a year?

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE: Now, could you submit a brief on what you would be able to do with an additional million dollars?

Mr. MARTINEAU: We submitted a brief to the minister setting out our requirements and explaining what we could do if we had more money but we understand the country has a deficit and—

Mr. CHOQUETTE: But it is a deficit for agriculture, Mr. Martineau.

Mr. GRÉGOIRE: There is no comparison between a financial deficit and one in the artistic field.

Mr. MARTINEAU: No, of course not.

Mr. GRÉGOIRE: Now, where opera is concerned, for example, those you give grants to, you only give grants to one opera company, the Canadian Opera Company, and you give them \$71,000 a year.

Mr. MARTINEAU: Are there any other companies?

Mr. GRÉGOIRE: With \$71,000 and their own income, which they may get from a provincial grant, the sale of tickets, can they give several, how many—

Mr. DWYER: The Canadian Opera Company has opera seasons in Toronto that last three weeks, they send two companies on the road. It is a national organization.

Mr. GRÉGOIRE: Have other opera companies applied?

Mr. MARTINEAU: I do not think so, no.

Mr. DWYER: Yes we have made grants to the opera—

The VICE-CHAIRMAN: Could you speak up Mr. Dwyer as you are far from the microphone and we cannot hear you properly. We cannot hear you.

Mr. DWYER: There is an opera company in Vancouver to whom we have made grants, up to \$10,000 I think; a company is being formed in Edmonton, there is the Théâtre Lyrique de Nouvelle-France in Quebec, and we understand there is to be a company in Montreal.

Mr. GRÉGOIRE: Now, in Quebec, the Théâtre Lyrique de Nouvelle-France, did you give them a grant last year?

Mr. DWYER: No. We did not give that company a grant.

Mr. GRÉGOIRE: A shortage of funds.

Mr. DWYER: A shortage of funds and for other—

Mr. GRÉGOIRE: That is a shame, they are one of the finest companies you can hear.

Mr. CHOQUETTE: I have a supplementary question.

The VICE-CHAIRMAN: Well, for the sake of good order—a supplementary question, very well.

Mr. CHOQUETTE: I have a very high regard for Mr. Grégoire's knowledge because he has been an impresario.

Mr. GRÉGOIRE: I would like to say, Mr. Chairman, just to get things straight, I was not necessarily an impresario but when I was student at Laval University I was chairman of the Concert Association of the University for six years.

Mr. CHOQUETTE: Mr. Chairman, regarding scholarships or grants made to opera companies, on what basis do you distribute them?

Mr. MARTINEAU: Those who are versed in these matters, the judges hear, see and decide. Perhaps if I heard them I would have my own opinion, maybe if you heard them you would have a different opinion. Anyway, the judges decide as best they can.

Mr. CHOQUETTE: They decide as best they can and we follow what they say.

Mr. GRÉGOIRE: The judges are specially appointed for the job. They are people who are familiar with these matters and are chosen because of the knowledge they have.

The VICE-CHAIRMAN: Mr. Rondeau, please.

Mr. GRÉGOIRE: Have I finished my questions?

The VICE-CHAIRMAN: I thought you had finished. Very well.

Mr. GRÉGOIRE: This is a supplementary question. I am pleased to let my friend Mr. Choquette ask some questions as he is also interested in these matters. I have a question that is complementary to Mr. Choquette's. When you establish a basis for an opera company, is it according to the number of performances and the vocal, musical and—

Mr. MARTINEAU: Mr. Dwyer.

Mr. DWYER: It is certainly based on those two facts and also on the need.

Mr. GRÉGOIRE: Also on the need?

Mr. DWYER: On the financial need.

Mr. GRÉGOIRE: Now, in the case of the Théâtre Lyrique de Nouvelle-France, for example, did some of the judges go and hear the company?

Mr. DWYER: Yes. We consulted our experts, and at a meeting in Quebec the Council went to see *Les Pêcheurs de Perles*. So we are well informed on developments there.

Mr. GRÉGOIRE: It was very good.

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. GRÉGOIRE: Mr. Chairman I trust you will allow me to ask a few questions?

The VICE-CHAIRMAN: Certainly. As you will have noticed, we have already allowed you to ask several questions.

Mr. GRÉGOIRE: Yes, but I noticed that you were trying to get us onto another subject.

The VICE-CHAIRMAN: Well I was wondering whether the committee wishes to sit to-night.

Mr. GRÉGOIRE: It would be better to get it all done in one day so as not to detain them.

The VICE-CHAIRMAN: It would be preferable if we could finish to-night at 6. These gentlemen waited a whole morning.

Mr. GRÉGOIRE: Then we shall try to finish by 6; I would like to help them in that respect. I would like to have a copy of the brief you submitted to the Secretary of State. That is the brief in which you mention—

Mr. MARTINEAU: It is the one you have there.

The VICE-CHAIRMAN: 1963.

Mr. GRÉGOIRE: That is the brief in which you mention all the amounts you would need to meet, let us say adequately, the needs, to establish in Canada—

Mr. MARTINEAU: Just a minute. I have not looked at it for some time.

Mr. GRÉGOIRE: As you know, Mr. Chairman, I apologize but we receive briefs like that about twice a month.

Mr. MARTINEAU: Yes. I understand.

Mr. GRÉGOIRE: But I look at those first, of course.

Mr. MARTINEAU: Here we are, it is on the first page, after "Brief to the Government of Canada" it is at the beginning of the page. Have you got it?

Mr. GRÉGOIRE: Yes.

Mr. MARTINEAU: At the beginning of the page. You see the set-up of the Council, scholarships and fellowships etc., research, local studies and programmes. We were asking for \$10,000,000.

Mr. GRÉGOIRE: Ten million dollars.

Mr. MARTINEAU: Ten million dollars. Then \$10,000,000 a year for two further years. We believe—

Mr. GRÉGOIRE: Ten million dollars, that was not for the fund—

Mr. MARTINEAU: No, not the university fund.

Mr. GRÉGOIRE: No, not at all.

Mr. MARTINEAU: It is in the endowment fund, \$30,000,000. Ten million dollars a year for three years.

Mr. GRÉGOIRE: So that you are sure of getting the interest you need?

Mr. MARTINEAU: Yes. If the \$10,000,000 were invested it would bring in about \$2,220,000 and that would enable us to take care of these needs.

We thought that \$10,000,000 a year for three years was not excessive. As you know, Mr. Grégoire, when that amount of \$50,000,000 was allocated to the Council in 1957 it was worth a lot more than it is now. The income was worth more than it is to-day, because there was less demand. Since that time, as you know, there has been a tremendous amount of activity in the arts in Canada. So applications of all kinds have multiplied, and particularly applications for scholarships. The number of students has increased all over Canada, and so has the number of applications for scholarships. That is why as the years pass we are less and less able to meet demands.

Mr. GRÉGOIRE: Now, Mr. Martineau, even though the Canada Council is involved, do you think it would be a good thing to ask not only the federal government but all the provinces to try and contribute to that fund if the Council had a plan to set up a vast cultural and artistic network? I mean in the field of the arts only, throughout the country.

Mr. MARTINEAU: Well . . .

Mr. GRÉGOIRE: Because, of course, in that field Prince Edward Island for example, would not be able to subsidize a large auditorium for operas or symphony orchestras when they can receive visiting companies from other provinces.

Mr. MARTINEAU: That is what we want. For instance, if Halifax had a very good symphony orchestra it could go to St. John's, Newfoundland, and to New Brunswick. It could cover all the eastern area of the country. All that is needed is to have a good orchestra and to give them the money so that they can travel. It would be better than having two or three that are no good.

Mr. GRÉGOIRE: Do you intend to ask the provinces to contribute too?

Mr. MARTINEAU: Well, several of them, Quebec among others, have their own arts councils. Even the city of Montreal has an arts council. But as a matter of fact I must say that we are getting information, we are working with them to some extent, we want to know what they are doing, and we tell them what we are doing.

Mr. GRÉGOIRE: You have an understanding?

Mr. MARTINEAU: We do not want to increase the number of grants and if an organization has received a sufficient amount from the province, we do not add to it unless the need is felt. But if the need is felt then we add to the amount.

The VICE-CHAIRMAN: Mr. Grégoire, the questions you are asking really relate to the Canada Council's future policy.

Mr. GRÉGOIRE: Or their present policy, Mr. Chairman.

The VICE-CHAIRMAN: What we are discussing just now . . .

Mr. GRÉGOIRE: I say we do not have enough.

The VICE-CHAIRMAN: At the present time we are discussing the 1961-62 and 1962-63 reports. If we are going to sit tonight we should be told now, and if we are not going to sit tonight the other members of the committee should be given a chance to ask a few questions.

Mr. GRÉGOIRE: I have finished, Mr. Chairman. I only have one question left, because I must tell you that where the Canada Council is concerned I am far more concerned about results than about figures. As far as their figures are concerned I trust them, but as regards results if we can help them to develop it would be better still.

Now, here is my final question. Have the Canada Council made a survey, let us say in other countries, to learn about the situation there and to find out whether the situation is adequate in Canada where the arts are concerned as compared with other, perhaps more advanced countries?

Mr. DWYER: I might mention, Mr. Grégoire, that I was sent over to England and to France last year to see what the Arts Council of Great Britain was doing, and also to see the minister of cultural affairs in France, Mr. Malraux. At the present time, if I may express my opinion, Canada certainly does not have sufficient funds to meet the needs of artists or to make the most of opportunities that exist at the present time.

When you think that, according to what Mr. Biasini of the French Department of Cultural Affairs told me, the French government grants the Opéra and the Opéra Comique \$5,500,000 a year which is more than five times the amount available to us for all the arts throughout the country.

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. GRÉGOIRE: So it is not surprising that our Canadian artists should be hired by foreign companies.

Mr. DWYER: As you say, it is not surprising.

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: Mr. Chairman, to continue along the same lines, if I understood rightly, you granted 60 scholarships as against 365 applications. Am I right?

Mr. MARTINEAU: Yes, that is correct.

Mr. RONDEAU: Which means that approximately 17% of the scholarships were granted to those who applied?

Mr. MARTINEAU: That is correct.

Mr. RONDEAU: I have not read all these reports, but I did not see these figures in those I did read.

Mr. MARTINEAU: No. They are not there. They are in a report we received recently from the President of the Canada Foundation who studies and judges applications for us. The Canada Foundation prepared a report stating: "We have studied the applications and recommend as follows". Unfortunately it was not possible to choose a larger number because there were only 60 scholarships.

Mr. RONDEAU: For the committee's information, Mr. Chairman, that is precisely the point. It is all very well to tell us, we have done such and such a thing but there are so many things we could have been doing but were not able to because we had no money. So they are figures and statistics that would certainly be of interest to the committee, and it would be useful to have the report. The number of scholarships awarded by province should also be indicated in the report for future reference, if possible. And, for our own information, the scholarships granted by university should be given in the reports, to the university of Montreal, for example, saying they will get so much in scholarships, and then divide it by province.

The VICE-CHAIRMAN: The question of getting the scholarships by province has already been submitted, and will be submitted to the sub-committee.

Mr. RONDEAU: If the members of the committee are agreed, I would also like the report to contain an explanation of the procedure candidates for scholarships have to follow, and of your policy for such grants, which you have explained to some extent this afternoon.

Mr. MARTINEAU: The way we proceed in general. Just the general principle. I think that is all we have—

Mr. DWYER: The general principle is to grant scholarships for the quality of the artists, and also, and this is very important, so that they correspond to their projects. Because now and again very talented artists have something irrational in mind which wise people consider is not good for them. Now, applications are submitted to the Council on six forms which are sent to the five judges of the Canada Foundation who study the application, the quality,

and the artist. The forms are sent back with the marks of each applicant, and then it is possible to form a committee to arrive at a final decision.

(Text)

The VICE-CHAIRMAN: Would you proceed now, Mr. Francis?

Mr. FRANCIS: Mr. Chairman, I wanted to ask some questions which are supplementary to those put by Mr. Pigeon awhile ago.

I gather that Mr. Fullerton is now in private consultation. I know he was with Canada Council before that, and before that he was with the Department of Finance. But, looking at one section of the reserves it seems to me there is a reserve, as I understand it, of \$3,270,000, which arises out of transactions on common stock and so on, and bonds as well. It seems to me this is a very good record. Is there any way, Mr. Fullerton, in which you can indicate to the committee any comparable institution or use any other yardstick you have in mind which would compare the returns you have realized through the management of these accounts with other institutions?

Mr. DOUGLAS H. FULLERTON (*Investment Consultant*): You have asked me to make comparisons. We want to carry on as active a policy as possible, and I expect our return is as good as you will find around except in terms of those people who specialize entirely in common stock and who make substantial capital gains in common stock. The Canada Council fund is a balanced fund. Emphasis is on income as required, and they do not plunge as much in common stocks as they would like to. But, in terms of a balanced fund, I would say our record is as good as any.

Mr. FRANCIS: Do you have any views about this kind of a reserve? Should it be accumulated indefinitely as a result of capital gains essentially or at some point should part of the reserve be taken into income? What kind of policy is it intended to follow?

Mr. FULLERTON: There is a technical problem, first of all, whether or not we spend capital gains. I believe the Auditor General believes that capital gains must be plowed back into the corpus of the fund.

Mr. MARTINEAU: That is the way they have been treated.

Mr. FRANCIS: But the interest on the capital gain is available for expenditure in the current year, is it?

Mr. FULLERTON: Yes, and it has given us a steady rise in income each year as a result of plowing the profits back.

Mr. MARTINEAU: As a matter of fact, because of those gains the income has grown about \$65,000 a year.

Mr. FRANCIS: I am full of admiration for that. I am not being critical. It is an excellent record.

I have another set of questions which I want to put on the record in amplification of Mr. Wahn's questions.

Mr. Fullerton, you are not a principal yourself or an underwriter and you are not deriving benefits in any other way than in your professional field in respect of this fund and, I understand, you are providing the same service to other funds. Would you want to indicate to the committee the nature of the other types of funds you serve or clarify this relationship so that there is no question about it.

Mr. FULLERTON: There are some pension funds and insurance funds, and the employers are in the same capacity in relation to us as the council is, and on some a different advisory basis.

Mr. FRANCIS: It was indicated by Mr. Pigeon there are other crown corporations—I think that was his expression—which had similar amounts of funds at their disposal and he recommended perhaps a central agent within

the framework of some government department. Are there any other crown or government agencies which has a problem like this? I was not aware there was.

Mr. FULLERTON: Well, there is the pension fund, Central Mortgage and Housing, the Bank of Canada pension fund, and the Canadian National.

Mr. HENDERSON: And, the Canadian Broadcasting Corporation.

Mr. FRANCIS: These are the other funds which do have investments?

Mr. FULLERTON: Yes.

Mr. FRANCIS: I would like to go on record as saying I think this arrangement is a good one, and I think the record of the management of the fund is one that compares favourably with any other within my own knowledge and experience.

(Translation)

Mr. PIGEON: I have three short questions, Mr. Chairman, but first of all I wonder if Mr. Martineau could tell me what amounts the Grands Ballets Canadiens of Montreal and the National Ballet of Toronto received in 1962?

Mr. MARTINEAU: In what year, 1962 or 1963?

Mr. PIGEON: At the beginning of May 1962.

Mr. GRÉGOIRE: \$40,000 and \$85,000 according to the report.

Mr. MARTINEAU: The Grands Ballets—

Mr. PIGEON: Never mind, Mr. Chairman do not trouble to look. The reason I asked that question was that at the legislative assembly held at the beginning of May 1962 Mr. Lapalme, minister of Cultural Affairs in Quebec attacked the Canada Council quite violently and even stated that the Grands Ballet Canadiens of Montreal had not been favoured to the same extent as the Toronto Ballet Company by the Canada Council.

The VICE-CHAIRMAN: What Mr. Lapalme may have said has nothing to do with this committee. The member wants to give himself a lot of importance in Quebec. If your questions and answers could be shorter we might discuss.

Mr. PIGEON: I will proceed. Under the investments here, I refer to the financial report of July 26, 1963, the Canada Council invested money in bonds and debentures guaranteed by the government of Canada, invested money in the provinces guaranteed by the provinces and municipalities, in companies and in private enterprise. In the report for 1962-63, at the end of the report, for instance I see details of the investments they made. I see that the Canada Council—through the said firm who receive a fee of \$15,000 a year—invested in the Bell Telephone, in Imperial Oil, in the Texaco Company (Canada) Limited,—

(Text)

Mr. FISHER: Quebec hydro.

(Translation)

Mr. PIGEON: —in Aluminum Limited, in International Nickel Limited. The companies I have just mentioned are controlled by foreign capital. On the other hand there are other companies which are essentially Canadian-owned. And I wonder whether it would not be a good thing, whether it would not be in Canada's interest, that the Canada Council investments—I do not know whether this would amount to discrimination—be made mainly in companies controlled by Canadians. It would encourage Canadian companies it seems to me.

Mr. FARIBAULT: Mr. Chairman, the first company you mentioned, the Bell Telephone, is 96% Canadian-controlled.

Mr. PIGEON: They are not controlled by American Telephone?

Mr. FARIBAULT: Not at all, American Telephone do not even have 5% of the shares, they only have about 2%.

Mr. CHOQUETTE: Did you not know that Mr. Pigeon wants to nationalize the Bell Telephone.

Mr. FARIBAULT: I was not aware of that, but it makes no difference.

Mr. PIGEON: But the Aluminum Company and International Nickel.

Mr. GRÉGOIRE: Aluminum and Nickel are in my riding, do not touch them.

Mr. PIGEON: I am just asking a question.

Mr. FARIBAULT: It is difficult for administrators who are, of course, supposed to realize what gilt-edged stock they have in their investment portfolio, to answer a question like that.

Mr. PIGEON: Thank you Mr. Faribault. I have one last question for Mr. Bussière. The Canada Council awarded, I think it was \$2,000, to help finance work directed by Mr. Leopold Lamontagne, a professor of the faculty of letters of Laval University.

Mr. BUSSIÈRE: Could you tell me a little more about that?

Mr. PIGEON: The Canada Council decided to support an ambitious project, namely, a general history of French Canadian literature from its beginnings to the present time. The work will comprise three volumes of approximately 300 pages each, and Mr. Leopold Lamontagne, a professor at the faculty of letters of Laval University will be in charge of editing the work. I just wanted to ask you a fairly direct question. Did any minister of the Crown intervene by 'phone or by any other means, to help get that \$2,000 grant?

The VICE-CHAIRMAN: That question is out of order. It is out of order, and you do not have to answer it.

Mr. GRÉGOIRE: Mr. Chairman, I think you should allow Mr. Bussière to answer it because he could then establish the facts, that is, the facts that need establishing.

Mr. BUSSIÈRE: The answer is no. Also, the Council never intervened to put Mr. Lamontagne at the head of the project. It was the committee who put Mr. Lamontagne in charge of the project, and all we did was to make a grant so that the project itself could be carried out.

Mr. PIGEON: Thank you. That clears up an ambiguous situation.

Mr. CHOQUETTE: Do you know Mr. Lamontagne? Do you consider him sufficiently competent to carry out the task he has been given.

Mr. BUSSIÈRE: Certainly.

Mr. CHOQUETTE: Thank you.

(Text)

Mr. FISHER: I have now seen very little indication that the council, with this very large donation in the field of engineering and medical sciences, and so on, is conscious of the fact that it was not really the intent of the legislation nor of the speeches that were given at the time the council was created. I think in your brief to the government you are arguing that the ration that you have to devote to the arts, and in particular to the social sciences, is inadequate as compared to what the National Research Council administers in the other field. I think it is rather bizarre that the first large and substantial donation you get should be in a field in which your main competence and your main jurisdiction were not considered to run.

Again, when you begin to consider what it is leading you into in terms of an administrative overlap with some of the things that the N.R.C. has done,

I wonder if the council has given any general consideration to the problem that is involved here. As a matter of fact, it may be a matter of pride that the council received the donation and that it has been set up in this way, but it is really an immensely disappointing reflection of what is resulting in the field of arts and natural sciences when the first great donor that comes along specifically allocates a large sum to a field in which the council is not supposed to be involved. I would just like your comments on this.

Mr. TRUEMAN: Are you criticizing the council or are you criticizing the anonymous donor?

Mr. FISHER: Neither, but what is it getting you into?

Mr. TRUEMAN: It is not getting us into anything. I do not imagine for one minute there is going to be a flood of donations for engineering, medicine and science in such a proportion that it could possibly embarrass us in this connection. I agree with you that the main intent and purpose of the Canada Council are certainly the arts, the humanities and social sciences, though obviously there has been a reservation in the minds of the framers of the act because, as you know, there is a section which says that we may accept gifts as long as they are not part of the permanent endowment fund or the university capital grants fund for the purposes named by donor, if any. So the way is open. In a sense it is disappointing.

On the other hand, the council felt it was, in one sense, the first significant breakthrough we have had. This was the first time that real money had got interested in the Canada Council. We have had a succession of small gifts for specific purposes. Now, no one could prove any connection with it, but the next year we got \$600,000 in another donation, and one is hoping that this happy demonstration of the possibility of giving money in large proportions to the council will catch on. To that extent I think the first big gift has some virtue.

Mr. FISHER: Is the anonymity of the donor permanent?

Mr. TRUEMAN: There has been no indication to us that we should let the name get out.

Mr. FISHER: This is not what I wanted to know. I think the Molson award being out in the open and named is a challenge to other companies and to other persons, and it is too bad that the anonymous donor would not stand forth.

Mr. TRUEMAN: Yes, that is true.

Mr. FISHER: The next question I want to ask is whether you worked out any appreciation of the provincial efforts in the field in which you are working, and the role that you may be able to play in advising and co-ordinating some of these efforts?

Mr. TRUEMAN: We have given whatever co-operation we could, and made whatever study we could, of the existing organizations. For instance, we laid on, with the Montreal city arts council and with the department of cultural affairs in Quebec, a meeting in which we discussed our common problems, and we set up a loose arrangement whereby we try to keep each other informed about applications that we know we all were having and are all considering and to try not to step on each other's toes and to work out a *modus vivendi* that would be comfortable and fair. Since that time, of course, the province of Ontario has set up the provincial arts council of Ontario. They did not start this with huge sums of money, it was something like \$350,000. Their first step was to ask us for advice about practical matters and about policies. Mr. Dwyer went up and spoke to them.

Then again we have had a meeting with them and tried to work out an understanding whereby it would be agreed that some things were probably definitely provincial, and some things were probably definitely national, and

would be our concern, while other things were the concern of both. Recently I discussed this matter in Vancouver with people there who would like to persuade the province and the city to take greater part.

Mr. FISHER: Have you any proposal for a definition on paper?

Mr. TRUEMAN: No.

Mr. FISHER: We have indications that this government is not so much considering a cultural ministry but in effect they have put the cultural agencies under one minister. Is it your opinion we are at a stage where some kind of a federal-provincial conference on the whole question of the arts and the relationship to what the provincial and the federal agencies can do in this field is upon us?

The VICE-CHAIRMAN: This is a question on the future policies of the council. I do not think it is in order at this time.

Mr. FISHER: I would like to point out to you there is a tradition that this is a committee in which we can ask questions ranging over a wide field upon the activities of the Canada Council. This is somewhat different from any other agency that comes before this public accounts committee.

The VICE-CHAIRMAN: Is it not that widely ranging questions can be asked provided the subject matter appears in the 1962-63 report which we are in the process of studying now?

Mr. FISHER: It has been our experience in the past. For example, I remember Mr. Pigeon, I think it was the first time we had the Canada Council before us, brought up some of the questions which he brought up today about the future policies.

The VICE-CHAIRMAN: Quoting Mr. Pigeon does not establish a rule.

Mr. PIGEON: On a point of order, Mr. Chairman, on what article do you base your judgment or your rule? I want to know if you are competent or not.

The VICE-CHAIRMAN: I do not have to have a rule on that.

Mr. PIGEON: Please withdraw your remark. It is my right to address a question. If it is out of order, you can decide, but I do not like the kind of remark you placed before the committee.

The VICE-CHAIRMAN: If you will sit down, we will let Mr. Fisher finish.

Mr. PIGEON: You are too proud to be Chairman of this committee and the best thing is to resign.

Some hon. MEMBERS: No, no.

Mr. PIGEON: Yes. I have the same rights as others.

(Translation)

Mr. GRÉGOIRE: Mr. Chairman, I think you should nevertheless withdraw your remark. You made it jokingly no doubt, but I think you should withdraw your remark.

(Text)

The VICE-CHAIRMAN: I said that what Mr. Pigeon said does not establish a thing as being right, or a rule.

(Translation)

Mr. PIGEON: Then withdraw what you said.

(Text)

The VICE-CHAIRMAN: Go ahead, Mr. Fisher.

(Translation)

Mr. PIGEON: I have a motion on a question of privilege, Mr. Chairman. I am making my motion immediately and I would ask the honourable member

in the chair to be more polite. I am a member of the house and I am entitled to ask a question. If my question is out of order you are entitled to declare it out of order on the basis of the rules of procedure of the house.

The VICE-CHAIRMAN: I was not polite enough, henceforth I will endeavour to be.

Mr. PIGEON: That is fine.

The VICE-CHAIRMAN: Are you satisfied?

Mr. PIGEON: I am satisfied.

(Text)

Mr. Fisher?

Mr. TRUEMAN: I think I can answer in a general way. I cannot answer as giving you the standard considered opinion of the Canada Council as emerging from a debate. However, I think what you suggest is perfectly rational. You have the Quebec thing which has been going for some time and the Ontario council which is being formed, and there are some rudimentary—if I may use that word—organizations in Saskatchewan. People are asking questions in Vancouver. Clearly, I think it would be to the advantage of the whole situation if someone—and I do not say who—would say that perhaps we ought to make a study of the roles which the federal, provincial, and perhaps municipal governments ought to play in this. Whether there should be a conference which somebody should sponsor, I would not like to say.

Mr. FISHER: I notice you assisted a number of other conferences, and I would think this one might be worth while.

Mr. TRUEMAN: This is not just a matter of the arts and social sciences; this is a matter which gets into the field of government and municipalities; it is not our field.

Mr. FISHER: Then, perhaps again the minister should take the initiative. I am very much bothered by your decision to drop the scholarships for teachers.

Mr. TRUEMAN: We have not dropped them.

Mr. FISHER: The indication is that you have.

Mr. TRUEMAN: Would you like an explanation of that?

Mr. FISHER: Yes.

Mr. TRUEMAN: In the first place, this category was established by the council in the hope that it would provide an opportunity for a high school teacher to have a refreshment year. We were not thinking of people getting their Ph.D.'s, but rather people who had been teaching for years and who would benefit by a year at college in subjects they had been teaching. It would be an excellent thing to brush the hayseed out of their hair; but it did not work out in that way. It was never a very satisfactory category. The number of applications was low, and quite frankly the quality of the applicants did not seem to compare to the quality of other applicants. Then, we found it was being used by people who wanted to get an M.A. degree, or a Ph.D. degree. So, we reduced this to people who had at least three years' experience and who were proceeding to an M.A. degree. This did not improve it. As you know, we are running one category for people who want the M.A. and one for the Ph.D. degree; so, we said, let us drop this and steer the people into the other category.

Mr. FISHER: One of the things which seems to be noticeable is the ratio of applications to the number of awards; this is worsening from the point of view of the applicant.

Mr. TRUEMAN: In category 2 we have tried to bring that up. I guess perhaps the ratio has gone down a little in category 2. We had to cut down on the pre-M.A. one because we had to put our money in category 2.

Mr. FISHER: I think if there was any criticism I would make about the awards, it is really in the field of publications, because the amount of money you give to publications which you assist is given to publications which are in the typical Canadian predicament of being semicommercial. I wonder whether you have written down anywhere, or whether you could provide any kind of general memorandum on your policy in this regard?

Mr. TRUEMAN: You mean in respect of periodicals?

Mr. FISHER: Periodicals and some of these one-shot publications. I am very much bothered by the grant which you gave to the Canadian Annual Review, because as it came out I looked on it mainly as being little party propaganda. That happens to be my particular bias; but I would like to know sort of the framework in which you operate in making these awards to publications.

Mr. TRUEMAN: For periodicals—which I gather is not your principal concern—we have a stated policy within which we try to operate. The council will consider assistance only to non-profit periodicals which give evidence of viability and have subsisted on their own for two years with a minimum of eight issues. In other words, we are not starting these magazines. The forms of assistance from the council could be: a grant to assist a publication; a grant to assist in publication of extra copies; and, purchase by the council of copies for distribution, if that were the case.

These regulations will include assistance in approved cases to non-profit learned journals published by associations of scholars in which membership is either national or widely representative of one or other of the two languages, French and English; periodicals in the area of the humanities and social sciences including literature, not published by the types of associations indicated in the preceding paragraph, but performing services which ought to be recognized. This will include literary periodicals of high quality and permanent interest providing a valuable outlet for Canadian writers; journals dealing with the arts.

We cannot support university quarterlies, journals published by a faculty or department of a university, bulletins of societies which are receiving assistance from the Canada Council, house organs, periodicals established for hobbyists, or periodicals published by governments. That covers this.

So far as other publications are concerned, such as learned books, this is a case of reading them as we see them, and considering the individual application. We send French manuscripts out to a French jury and English manuscripts to an English jury; these are accomplished people who know our act and know our purpose. They give their opinion with regard to whether or not the work merits the support of the Canada Council. We have not tried to enter the field of very learned works on economics as opposed to sociology, or anything like that. We have tried to take the individual case and consider it on its merits.

We have made block grants, which is a thing the council very seldom does, to both the humanities research council and the social science research council for the publication of learned works. At the end of the year, we require those two organizations to give us a full accounting of the manuscripts which they have published, the name of the author and the jury which guaranteed them, and if this is not proven satisfactorily to us, then we can cease the grant or cut it.

Mr. FISHER: My last point is that I notice there has been criticism in the press in two different places of the benevolent press for distinguished Canadian writers. As I remember this, the money for this was in some part given by the vote in the estimates of the government, and is now taken up by you. I have no objection or criticism of it, but I would like to know whether this is going to develop into a long term proposition, or sort of a continuing

proposition which may grow, or whether this is really a situation which seems to be present at this time because of the age and previous unprofitability of writing in this country?

Mr. TRUEMAN: It is a little hard to answer that with complete clarity. I will say, by way of introduction, that when the council was formed, if my memory serves me correctly, this is the only grant that the government of this country suggested we might take off its hands.

I believe the grant had been going through the Department of Citizenship and Immigration to this organization, The Canadian Writers' Foundation, and while there was no contractual agreement, of course, there was a sort of tacit understanding that the government grant would match the amount of money which the foundation itself would be able to raise by subscription and campaigns, which was in the vicinity of \$6,000. We were criticized for taking part in what looked to the writer of this letter to be a purely humanitarian exercise.

I took the trouble to check with the secretary of the Canadian Writers' Foundation, and I made a suggestion to her. I said: "If this is purely an humanitarian exercise maybe this man has a point. We do not engage in purely humanitarian things. But it was my understanding that at least most of the writers supported were still active writers, and that this money was helping them not only to live, but also to have the time and freedom in their more advanced years in which to continue writing."

The secretary sent me back a list of 13 or 14 people who were supported, and with one exception, that of a man who was ill, every single one was pretty actively engaged in writing. How far this will continue, I do not know. It is the only thing which we have that approaches the civil list that they have in Britain but which we do not have. Whether it will fasten itself on to us with tentacles, I cannot say.

Mr. FISHER: So long as it remains under \$8,000, it will not matter.

Mr. TRUEMAN: It will not hurt us.

Mr. RYAN: What strings, if any, were attached to Miss Terrell's gift of Stanley House that she made to the council?

Mr. TRUEMAN: There were no strings whatsoever. It was an outright gift to the council to be used for whatever purposes we saw fit. There were no strings attached.

Mr. RYAN: You intend to keep it, because I see at page 5 of the Auditor General's 1963 report, in the second paragraph you say: "Property expenses of \$3,912 were incurred for the first time during the year under review and consisted mainly of expenses (which will be of a recurring nature) for the maintenance and upkeep of Stanley House, New Richmond, Province of Quebec, which was donated to the council in the previous year."

Why is it that you would have expenses of this order in maintaining the house?

Mr. MARTINEAU: Perhaps Mr. Bussière will answer you.

Mr. BUSSIÈRE: This was the first year, and we found that we had quite a lot of repairs to make, such as to the roof, with the painting of the whole house, and with furnishings to be added; plumbing, adding an electric stove, a refrigerator, and so on. This added to the normal current operating expenditure, to this extent. We have budgeted approximately \$17,000 for the annual operation of Stanley House which should provide for travelling expenses of various groups meeting there during the summer months.

Mr. RYAN: Is it to be open only in summer?

Mr. BUSSIÈRE: Yes, it is a summer residence.

Mr. RYAN: I see that the Auditor General in exhibit I has put in an item of \$1.00 as the value of this property, under the assets column in exhibit I, and in the last item in respect of the endowment fund, there is a list of property including furnishings and effects donated to council at nominal value of \$1.00.

Mr. MARTINEAU: It is a very nice house.

Mr. BUSSIÈRE: I might say that when Miss Terrell put it up for sale in the year she gave it to us, she wanted \$30,000 for it.

Mr. RYAN: Does any part of the \$3,900 go to pay municipal taxes in New Richmond?

Mr. BUSSIÈRE: They have just asked us to pay the taxes, and it will be the first time this year that we pay them.

Mr. RYAN: Have you any estimate of the taxes?

Miss BREEN: The bill was \$500 for the two boards.

Mr. RYAN: When you say that the expenses will be of a recurring nature, I take it that they would be less than \$3,900?

Mr. BUSSIÈRE: They will be approximately \$17,000, if the council decides to go on with the type of program it had there last year.

Mr. RYAN: That would be merely for the salary of the staff?

Mr. TRUEMAN: It would be for food and all that; the whole operating expense.

Mr. BUSSIÈRE: It is a form of scholarship which we provide for scholars and artists to meet there and discuss problems.

Mr. RYAN: I see that by your 1962 and 1963 report it suggests that there has not been much activity around there?

Mr. TRUEMAN: We only operated it for one season. We are in the second season now.

The VICE-CHAIRMAN: Mr. Francis, if you should leave now, we would lack a quorum. I know you do not want that to happen.

Mr. RYAN: From your experience so far with Stanley House, do you intend to continue with this program?

Mr. MARTINEAU: It is too early yet to say. We do not know if it is worth it or not. We tried it last year, and again this year. Then we shall look at the situation and decide whether we will keep it or not.

(Translation)

Mr. GRÉGOIRE: Mr. Martineau could you tell us whether, following the brief you submitted to the Secretary of State about increasing the Canada Council's funds, you expect a favourable answer shortly?

Mr. MARTINEAU: It was well received.

Mr. GRÉGOIRE: But is there any sign that you will be given satisfaction?

Mr. MARTINEAU: It is in the lap of the gods.

Mr. GRÉGOIRE: You have had no reply since March 1964 then?

Mr. MARTINEAU: We have not had an answer to what we asked for.

Mr. GRÉGOIRE: None at all?

The VICE-CHAIRMAN: I would like to thank the members of the committee for their patience, and also the people who came here as witnesses, and I would particularly like to thank them for having improved the culture of the members of the committee, and then allow them to get on with their work, because I know Mr. Martineau has an appointment this evening in Quebec and like that he will be able to get there.

Mr. PIGEON: I would like to congratulate all the people who answered our questions but I hope that next year we shall have at least a full day to study the Council's work in greater detail.

The VICE-CHAIRMAN: Your suggestion will be submitted to the committee.

Mr. GRÉGOIRE: If you will allow me to make one last remarks, I would like to thank them by saying that it is good for us to talk about art now and again, and to leave public accounts aside.

(Text)

Mr. MARTINEAU: Mr. Chairman and gentlemen, may I tell you how much we enjoyed this day. We feared it a little. I know I did, because I did not know exactly what was in store. But I see how useful your questions have been, and how helpful they could be during the year for us. We shall certainly have them in mind when we come back next year. May I thank you also for having stayed so late. You have helped many of us, who have come here and who did not know that Mr. Hees would be your "star" witness this morning. We had thought that we might get through earlier today. We thank you ever so much.

The VICE-CHAIRMAN: The committee now stands adjourned to the call of the Chair.

APPENDIX

DEPARTMENT OF NATIONAL DEFENCE

July 27, 1964

Mr. G. W. Baldwin
Chairman
Public Accounts Committee
House of Commons
Ottawa, Ontario

Dear Sir:

Mr. Winch requested a brief summary of procedures in the Department of National Defence relating to construction projects in the course of the examination of defence items by your Committee on July 14th.

I am enclosing such a summary which I believe covers the information Mr. Winch desired. If there are, however, any further points on which I could be of help, please let me know.

Yours very truly,

E. B. Armstrong
Deputy Minister

cliché

ENGINEERING CONTRACTUAL PROCEDURES FOR
CONSTRUCTION PROJECTS
DEPARTMENT OF NATIONAL DEFENCE

A project is defined to mean any construction or major maintenance work in excess of \$25,000 for labour and material handled as a single contract.

Projects may be originated at Station, Command or Headquarters level, normally to meet requirements resulting from a change in use of a specific facility. As an example, when new fighter aircraft were obtained for the RCAF, the runways had to be lengthened and strengthened to prevent failure because of the increased weight. These individual projects are carefully reviewed and costed, and where it is determined that the project is sufficiently urgent it is included in the following year's estimates. During general consideration of the estimates, these items, along with others, are under constant review by a committee of service officers, members of Treasury Board Staff and senior civilian members of the Department.

If the item is considered sufficiently urgent, approval is given to the appropriate design authority to proceed with the preliminary design. This requires soil and site surveys which may be carried out by a consultant or by technical staff under the Department's control. Once this information has been obtained and analyzed by appropriate technical personnel the final design is commenced—again by consultant or by departmental staffs. Where consultants are utilized, this Department requests Defence Construction Limited to obtain a suitably qualified consultant who acts under the general guidance and supervision of the appropriate design authority within this Department and produces final designs in accordance with the instructions provided. It is at this point that the various administrative and technical controls are incorporated in the design. In some cases a standard building design may be available and will be used. In this case, authority is obtained to employ a consultant capable of producing the necessary foundation design in accordance with soil conditions which were ascertained during the soil surveys.

Final approval to proceed with the project is normally obtained at this time, when the cost estimate prior to actually calling tenders has been developed and is in accordance with the original programme approval provided by Treasury Board. The plans and specifications are forwarded to the appropriate construction agency. Agencies carrying out this work for the Department include DCL, DDP, CMHC, DOT and DPW.

Defence Construction Limited handles the majority of defence work. Tenders are normally called based on Department of National Defence plans and specifications, and recommendations are made to the Minister responsible for the contracting agency concerning contract awards. It provides site supervision, daily contract administration while a project is in progress, and is responsible for the technical administration and liaison between the contractor and the design authority. Examples of items which may occur at this stage are:

- (a) *Changes due to site conditions:* This is the type of technical problem which comes up whenever the site or soil information obtained is incomplete or inaccurate. This incompleteness or inaccuracy can come about in several ways. Since the cost of obtaining soil and site information is quite high, there is occasionally a tendency to try to get by with the site information which has been obtained in the past and is still kept on record. Also, the soil tests, even under the

- best condition, may not reflect rock levels, silt pockets, current water levels, and the various other difficulties which may be encountered.
- (b) *Changes due to errors in design:* This can be a straight error particularly in the plans of any facility which was not caught in the checking subsequent to the design completion. Such errors may occur in the work produced by the Departmental staff as well as the best consultant firms available. Necessary changes normally can be handled at the site, but in certain cases may require addenda to the contract.
- (c) *Changes due to changes in equipment to be installed:* This may be caused by changes in electronic or air conditioning requirements which have developed as a result of increased knowledge in the state-of-the-art and may result in equipment savings many times the actual cost of the change in the construction. Associated with this is also the occasional necessity to increase the scope of a project. This normally requires reference to Treasury Board, as an increase in scope will usually be associated with an increase in cost.

Once the project has been completed, it is handed over to this Department by the construction agency. DCL do this by raising their forms DCL 51 and DCL 54. The DCL 51 is used to permit a preliminary take-over for interim use and is accompanied with deficiencies. The DCL 54 is a final hand-over certificate after all deficiencies have been corrected. The construction agency is now in a position to finalize all payments to the contractor in accordance with his contract.

During the progress of the work, a contractor may claim that he has not been paid for certain extra work which was not anticipated at the time of the original contract award. This is particularly so where a contractor has run into unexpected site conditions over which he had no control and feels that he should be appropriately recompensed. The supervising agency (DCL, DOT, etc.) is responsible for assessing the claim, seeking additional funds from the Department of National Defence if necessary to pay a claim, and obtaining Treasury Board approval to payment of the claim where required.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS

No. 19

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

FRIDAY, JULY 31, 1964

INCLUDING FIFTH REPORT TO THE HOUSE
(Respecting Canadian Broadcasting Corporation)

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Grégoire,
Gray,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,
Pilon,

Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

WEDNESDAY, August 5, 1964.

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

FIFTH REPORT

1. Pursuant to a resolution of the Committee of June 18, 1964, officials of the Canadian Broadcasting Corporation were called and appeared before your Committee.

2. The following is a report of your Committee on six meetings held on July 2 and July 7, 1964 at which Mr. J. Alphonse Ouimet, President of the Canadian Broadcasting Corporation and Mr. V. F. Davies, Comptroller of the Corporation were in attendance, together with Mr. A. M. Henderson, Auditor General of Canada and Mr. A. B. Stokes, Audit Director.

3. Your Committee examined the annual financial statements of the Canadian Broadcasting Corporation for its 1961-62 and 1962-63 fiscal years referred to by the Auditor General in paragraphs 158 and 137 of his Reports to the House of Commons for the years ended March 31, 1962 and 1963, respectively. This examination was facilitated by reference to the annual reports of the Corporation for each of the two fiscal years and by the supplementary reports on the accounts addressed to the Board of Directors of the Corporation by the Auditor General under date of December 6, 1962 and November 22, 1963, copies of which were distributed to the members of the Committee on June 30, 1964 for their advance information.

4. The Committee reviewed and discussed the foregoing with the President and Comptroller of the Corporation as witnesses, and with the Auditor General of Canada and the Audit Director in charge, and reached conclusions on five major points. These, together with the Committee's recommendations on each, are as follows:

The Annual Report of the Corporation

5. The Committee noted that the annual report of the Corporation, tabled annually by the Minister designated under the Broadcasting Act 1958, has generally limited its explanations or comments on its financial statements and accounts therein to the statutory accounts as reported upon by the Auditor General to the Minister under the Financial Administration Act.

While recognizing that no legal or statutory obligation rests upon the Corporation to present additional or supplementary financial information in an annual report of this nature, the members of the Committee expressed the view that the annual report of a Crown corporation responsible for providing a national service of this type should go to greater lengths to illustrate the pattern or broad general areas of its operations by presenting tables and graphs in its annual report showing a breakdown of revenues, expenditures and operations generally, including those of a capital nature.

Members of the Committee noted with interest the emphasis placed by the Corporation in carrying out its national mandate with regard to types or categories of programs both in television and radio, deployment of its

manpower by type and duties, its operating and capital budgets and network and station revenues and expenditures. The Committee expressed interest in obtaining information containing a summary indicating the relevant operating costs of (a) radio and television generally, and (b) the relevant operating costs as between French and English networks of radio and television. With respect to its capital requirements, the Committee felt that a breakdown should be furnished by the Corporation showing the broad areas of its capital spending, particularly the portion expended on developing and extending the national television service to outlying areas. It believes that a similar breakdown showing the Corporation's forward capital expenditure intentions, including the latest estimates of the cost of its projected consolidation of facilities, would provide Parliament and the public with a better understanding of the nature of the Corporation's future planning. Accordingly the Committee recommends that

the President and Board of Directors of the Corporation take steps to improve the contents of the Corporation's annual report by including therein supplementary financial information along the foregoing lines for both its operating and capital budgets and expenditures for the purpose of providing additional information to Parliament and the public.

The Committee was pleased to receive the President's assurance that such steps would be taken and supplementary financial information of the type described would henceforth be included in the Corporation's annual reports.

Statement of Operations

6. The Committee observed that not only does the annual Statement of Operations included in the Corporation's statutory financial statements not disclose the annual gross profit or loss arising from the sale of "Programs with Advertising" but noted the Auditor General's comment that the cost figure shown on the Statement of Operations for "Programs without Advertising" includes a substantial number of programs available for sale but which in fact could not be sold.

The Committee is of the opinion that the Statement of Operations would be materially improved (1) by a redefinition of the existing categories, or by the addition of further categories, so as to show separately the cost of programs without advertising but which were available for sale, and (2) by showing separately on the Statement the gross profit or loss derived from the sale of advertising from all sources during each fiscal year. Here again, the Committee feels that it would be desirable that this additional information should distinguish between (a) radio and television generally, and (b) the relevant operating costs as between French and English networks of radio and television. The Committee believes that separate disclosure of the financial results of a Crown corporation's commercial activities in such a manner is essential if Parliament and the public are to be in a position both to judge the results as well as to understand the implications of such operations regardless of the fact that the Corporation may, by reason of its mandate, be primarily concerned with operating a national service. Accordingly the Committee recommends that

the President and the Board of Directors realign the format of the annual Statement of Operations of the Corporation in a manner designed to show separately in future for each fiscal year (1) the cost of programs produced without advertising but which were available for sale, and (2) the gross profit or loss derived from the sale of advertising from all sources.

The Committee was pleased to learn from the President that such a re-alignment could be made of the Statement of Operations and expresses the hope that this can be done and made effective on a comparative basis commencing with the 1964-65 fiscal year.

Size of Operating and Capital Requirements

7. The Committee expressed concern over the increasing cost of the Corporation's annual operating requirements which the President stated he believes will continue to increase in size each year in future, assuming Parliament votes the necessary funds. The President indicated that the estimates for Montreal and Toronto, shown on the Corporation's balance sheet at March 31, 1963 to have been \$83 million, have since been further revised and are now expected to cost \$105 million. The Committee would also record that it has since noted from the Corporation's balance sheet as at March 31, 1964, tabled by the Secretary of State in the House on July 14, 1964, that the present estimate of the future cost of consolidation of facilities for the Corporation is stated to be \$128 million. The Committee expressed grave concern over the size of these large capital outlays estimated by the Corporation to be required to provide for the consolidation of facilities, as opposed to the extension of services to areas not now adequately served.

The President explained to the Committee how the Corporation prepares its annual budgets and estimates as to future costs and submits them to the Treasury Board for approval prior to the figures being placed before Parliament for appropriation. He showed how determination of the Corporation's annual financial requirements both on operating and capital account is based on the management's own estimate of how much it considers is going to be required to provide for continuance of an effective national broadcasting service, taking into consideration all known cost factors and estimates of revenue likely to be forthcoming. The Committee has noted that the Corporation's expenditures each year have been kept by its management within its operating and capital budgets.

Nevertheless, the Committee is seriously concerned at the levels the Corporation's spending on operating and capital account have reached since television was first introduced into the national service in 1955. The operating expenses of the Corporation totalled \$40 million in its fiscal year 1955-56 whereas these expenses had risen to \$108 million in the fiscal year 1962-63. The Committee emphasizes that the House of Commons, through the Committee of Supply, has a definite responsibility to exercise control on the extent to which public funds should be expended for the maintenance and development of the national broadcasting service. It is therefore pleased with the action of the government on May 25, 1964 in forming an Advisory Committee on Broadcasting and would commend consideration of this problem as one of the primary and immediate objectives of this Committee.

Authority of Comptroller over Regional Accountants

8. The Committee was disturbed to learn that the authority of the Comptroller over the accounting staffs at the regional centres of the Corporation across Canada is not clearly defined and expresses agreement with the view of the Auditor General that the regional accountants should be responsible directly to the Comptroller at head office in the interests of effective internal financial control. The Committee is of the opinion that a clear definition of this responsibility is overdue and was pleased to be advised by the President that it will receive early attention.

The Auditor General is requested to advise the Committee when this matter has been settled to his satisfaction.

Report of the Royal Commission on Government Organization

9. The Committee noted that the Auditor General raised questions concerning contents of Report No. 19, Volume 4 of the report of the Royal Commission on Government Organization, which was made public on April 17, 1963. In answering members of the Committee on these points, the President stated that he did not agree with all the recommendations of the Royal Commission and explained that the Royal Commission had apparently failed to understand the nature of the problem.

The Committee recommends that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by the Royal Commission in its Report No. 19, and that this be done before the estimates of the Corporation are considered by the House.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 11, 12 and 19*) is appended.

Respectfully submitted,

PAUL TARDIF,
Vice-Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, July 31, 1964
(32)

The Standing Committee on Public Accounts met this day *in Camera* at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Danforth, Fane, Fisher, Gendron, Gray, Hales, Leblanc, Mandziuk, Rondeau, Southam, Stefanson, Tardif, Tucker, Whelan, Winch—(17).

The Committee proceeded to the consideration of its "draft" report to the House relating to the Canadian Broadcasting Corporation, and following its consideration and amendment, was adopted. The Chairman was ordered to present it to the House as the Committee's Fifth Report.

The Chairman tabled returns from the Department of National Defence and the Canadian Broadcasting Corporation, which were ordered printed as Appendices to the record of this day. (*See Appendices 1 and 2*).

At 10.40 a.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

APPENDIX 1

(The following information supplied by the Deputy Minister, Department of National Defence, as requested at sitting of July 14)

TOWN OF OROMOCTO, N.B.
COMPARISON OF EXPENDITURES AND REVENUE
1956 to 1963 Inclusive

	1956	1957	1958	1959	1960	1961	1962	1963
EXPENDITURE								
General Administration.....	24,735.28	24,556.62	34,372.42	54,774.19	50,672.05	84,799.64	95,397.91	89,602.72
Town Planning.....	599.43	9.95	25,466.49	37,937.52	22,149.42	12,657.90	3,752.48	174.42
Health and Public Welfare.....	42.50	205.06	128.96	1,363.35	3,562.51	7,579.45	12,953.90	18,729.15
Public Services:								
(a) Police.....	—	5,181.88	11,557.36	20,388.82	26,306.72	28,360.27	31,830.62	30,931.07
(b) Works Department.....	28.60	15,632.51	78,193.20	201,996.06	197,026.54	200,808.43	213,547.81	216,333.03
(c) Fire Department.....	600.00	7,823.06	6,275.76	67,254.98	81,289.71	93,810.96	98,607.59	95,569.79
(d) Recreation.....	—	—	1,135.37	14,299.19	20,327.43	13,130.03	26,294.91	24,091.43
(e) Garbage Collection and Disposal	40.00	2,235.00	7,595.88	11,468.58	16,245.59	12,659.15	12,810.25	12,764.00
(f) Dog Pound Operation.....	—	—	1,841.43	3,682.75	1,707.37	2,604.41	1,856.63	2,837.21
(g) Street Lighting.....	619.94	560.70	373.80	358.80	15,355.09	19,788.15	27,601.28	29,769.74
Total—Public Services.....	1,288.54	31,433.15	106,972.80	319,449.18	358,258.45	371,161.40	412,549.09	412,296.27
Education.....	39,568.70	143,192.00	417,256.67	646,758.26	985,146.04	743,062.97	942,796.73	1,131,156.38
Grants.....	—	—	120,000.00	67,000.00	1,000.00	9,350.00	9,735.00	10,250.00
Provision for Uncollectable Taxes..	1,154.80	—	—	—	—	19.62	—	—
Debt Charges.....	—	15,003.64	161,571.99	239,859.57	330,862.03	362,704.75	362,696.11	362,529.90
County Warrant—Sunbury Co.....	2,255.84	1,465.18	1,834.98	7,217.13	9,033.88	10,000.00	16,450.00	15,734.00
Tax Discounts.....	431.37	236.50	339.53	488.89	961.98	1,106.47	1,396.41	1,440.98
Surplus—Excess of Revenue over Expenditure.....	31,904.03	36,441.59	6,012.86	138,258.81	28,983.43	94,489.02	—	—

Civil Defence Costs.....	—	—	—	—	—	—	117.66	802.16
Deficit from previous Year.....	—	—	—	—	—	—	—	6,202.93
Future Development Community Enterprises.....	—	—	—	—	108,205.41	—	—	—
TOTAL—Expenditure Section.	<u>101,980.49</u>	<u>252,543.69</u>	<u>873,956.70</u>	<u>1,513,106.90</u>	<u>1,898,835.20</u>	<u>1,696,931.22</u>	<u>1,857,845.29</u>	<u>2,048,918.91</u>
REVENUE								
Taxation.....	13,082.40	6,479.01	9,499.54	15,777.50	24,001.66	27,487.00	34,143.00	36,019.00
Licences and Permits.....	—	615.13	3,067.77	4,167.71	6,465.11	6,532.41	7,489.50	7,917.63
Rents.....	78.55	4,762.50	4,556.65	2,100.00	1,190.00	480.00	480.00	1,603.72
Fines.....	—	810.00	3,276.10	5,704.60	4,778.50	4,484.20	2,295.20	3,345.75
Interest.....	8,389.35	14,910.20	13,547.10	36,437.40	22,261.20	21,174.99	18,789.62	13,972.86
Contributions, Grants and Subsidies:								
(a) Dominion of Canada (D.N.D.)	75,000.00	184,552.65	794,905.09	1,433,609.00	1,812,891.00	1,479,400.00	1,541,898.00	1,736,071.00
(b) N.B. Provincial Subsidy.....	5,430.19	6,298.97	7,234.71	7,733.52	9,191.03	8,496.05	120,420.73	121,610.23
(c) N.B. Snow Removal Grant....	—	—	—	661.00	661.00	661.00	12,170.00	12,170.00
(d) N.B. Grants—Welfare and Civil Defence.....	—	—	—	—	—	4,690.60	4,755.29	11,058.82
(e) Lincoln & Burton—Fire Protection.....	—	—	—	672.15	600.00	600.00	600.00	600.00
Total—Contributions, Grants and Subsidies.....	<u>80,430.19</u>	<u>190,851.62</u>	<u>802,139.80</u>	<u>1,442,675.67</u>	<u>1,823,343.03</u>	<u>1,493,847.65</u>	<u>1,679,844.02</u>	<u>1,881,510.05</u>
Other Miscellaneous Revenue.....	—	2,211.20	1,428.15	231.16	362.86	684.86	886.64	245.84
Recoveries from Development Corporation.....	—	—	—	—	5,876.13	13,256.68	13,225.36	12,583.37
Surplus from previous Year.....	—	31,904.03	36,441.59	6,012.86	10,556.71	128,983.43	94,489.02	—
Deficit current Year—(excess of Expenditure over Revenue)....	—	—	—	—	—	—	6,202.93	91,720.69
TOTAL—Revenue Section.....	<u>101,980.49</u>	<u>252,543.69</u>	<u>873,956.70</u>	<u>1,513,106.90</u>	<u>1,898,835.20</u>	<u>1,696,931.22</u>	<u>1,857,845.29</u>	<u>2,048,918.91</u>

APPENDIX 2

CANADIAN BROADCASTING CORPORATION

P.O. Box 478,
Terminal "A",
Ottawa 2, Ontario,
July 29, 1964.

Mr. M. Slack,
Clerk of the Public Accounts Committee,
Committees Branch,
House of Commons,
Room 489,
West Block,
Ottawa, Ontario.

Dear Sir:

We have completed the further statements in reply to queries raised at the Public Accounts Committee meetings on July 2nd and 7th.

Each of these answers is attached in duplicate in English and French. The references to the Minutes of the Proceedings are as follows:

Schedule	Page	Member	Subject
1	360	Ryan	Film Purchase and Rentals
2	459	Prittie	Sale of CBC Programs to Commonwealth Countries
3	462	Southam	Accounts receivable—Miscellaneous
4	496	Ryan	Consolidation of Facilities.

Yours truly,

C. F. SPENCE,
for V. F. Davies, *Comptroller*.

SCHEDULE 1

CANADIAN BROADCASTING CORPORATION
FILM PURCHASE AND RENTALS
ACTUAL EXPENSE COMPARED WITH BUDGET TABLED
1959/60, 1960/61

1959/60

Budget tabled	\$6,090,000
Actual expense	7,313,000
Actual expense over budget	1,223,000

It had formerly been CBC practice to broadcast certain film series purchased and paid for by advertisers. In order to exercise quality control over all programs, the Corporation decided to buy all film series direct from distributors instead of broadcasting films supplied by the advertisers.

The increased expense relates to additional film series purchased as a result of this decision for sale to advertisers in the fall/winter of 1959/60. The increase was recovered in full from sales.

1960/61

Budget tabled	\$6,376,000
Actual expense	7,576,000
Actual expense over budget	1,200,000

The increase relates to the decision to buy all film series from the suppliers as in the previous year. In this year also the increase was recovered in full from sales.

17.7.64

SCHEDULE 2

CANADIAN BROADCASTING CORPORATION
SALE OF CBC PROGRAMS TO COMMONWEALTH COUNTRIES

1962/63

In the year 1962/63 the Corporation sold 39 programs or program episodes to commonwealth countries; 38 of these were sold in UK and one in Australia.

The total profit on these sales amounted to \$103,000.

July 22, 1964.

SCHEDULE 3

CANADIAN BROADCASTING CORPORATION
ACCOUNTS RECEIVABLE—MISCELLANEOUS

The report of the Auditor General for the year ended March 31, 1963 shows on page 10 miscellaneous accounts receivable amounting to \$285,903 compared with \$148,070 in the previous year.

The increase relates to Export Sales made late in the fiscal year. These accounts have since been paid.

13.7.64

SCHEDULE 4

CANADIAN BROADCASTING CORPORATION
CONSOLIDATION OF FACILITIES

Total expenditures on consolidation of facilities to March 31, 1963 were shown on page 17 of the report of the Auditor General for that year, in the amount of \$3,802,000. This is made up as follows:

Toronto:

Land	639,000	
Building design and plans	788,000	
Equipment engineering	375,000	
Consultant fees	287,000	
Other expenses	138,000	2,227,000

Montreal:

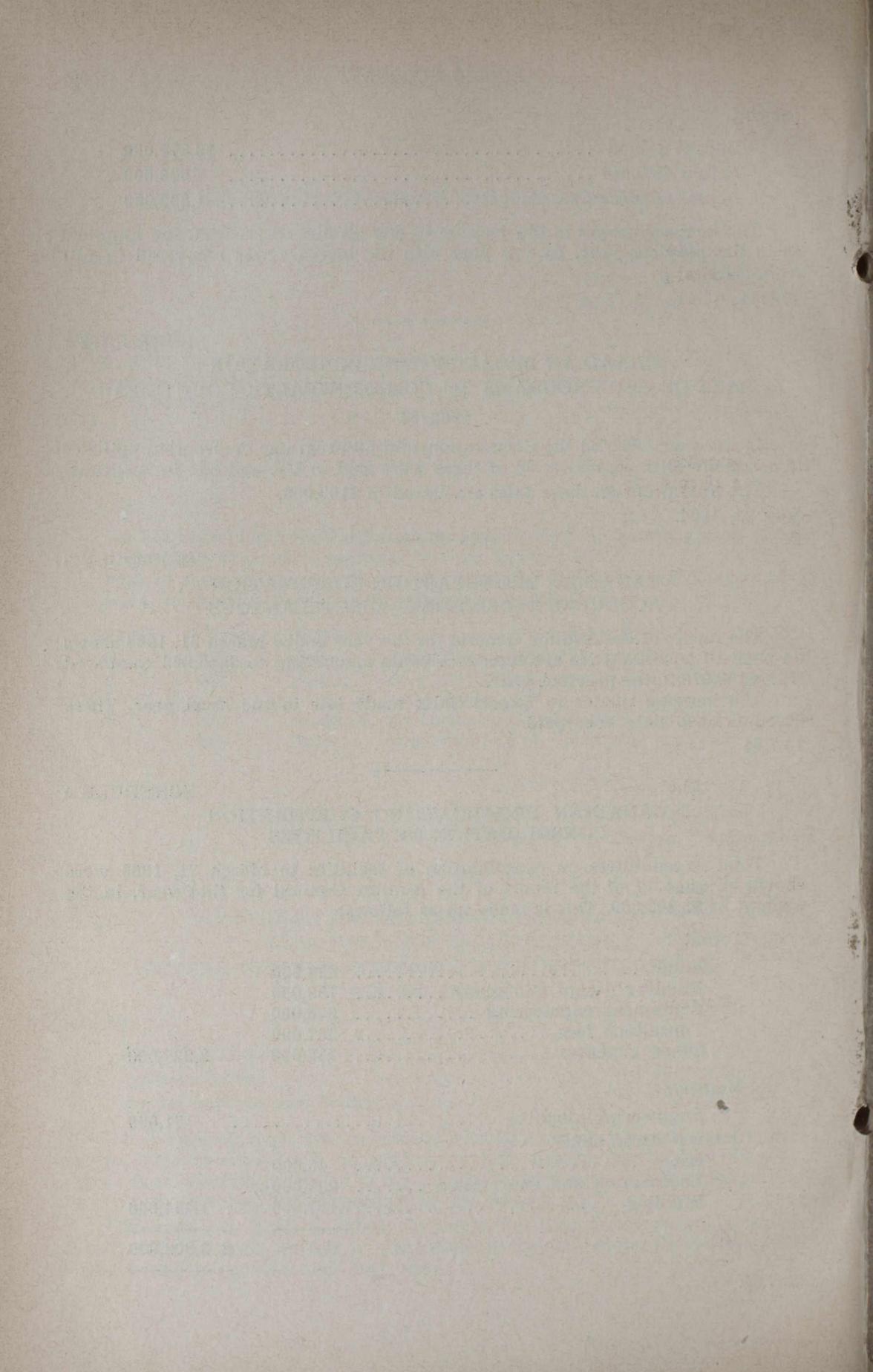
Engineering planning		131,000
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Ottawa—Head Office

Land	45,000	
Engineering and supervision	232,000	
Building	1,167,000	1,444,000

\$ 3,802,000

28.7.64.



HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, OCTOBER 15, 1964

TUESDAY, OCTOBER 20, 1964

INCLUDING SIXTH REPORT TO THE HOUSE

WITNESSES:

From the Department of Veterans Affairs: Mr. Paul Pelletier, Deputy Minister; Dr. J. N. B. Crawford, Assistant Deputy Minister and Director General Treatment Services. Mr. A. M. Henderson, Auditor General of Canada; and Mr. J. R. Douglas, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

TUESDAY, October 20, 1964.

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

SIXTH REPORT

1. The following is a further progress report made on the work done by your Committee in this Second Session of the 26th Parliament and relates to its meetings from July 9, 1964 up to and including July 31, 1964 when the Committee adjourned to the call of the Chair.
2. During that period your Committee held fifteen meetings in the course of which there were in attendance:

From the Department of National Defence—

Mr. E. B. Armstrong, Deputy Minister
Brigadier W. J. Lawson, Judge Advocate General

From Crown Assets Disposal Corporation—

Mr. Louis Richard, President and General Manager
Mr. I. M. Mackinnon, Assistant General Manager
Mr. L. M. Mondor, Comptroller

From the Department of Justice—

Mr. E. A. Driedger, Deputy Minister

From the Department of Transport—

Mr. G. A. Scott, Acting Deputy Minister
Mr. R. W. Goodwin, Director of Civil Aviation
Mr. H. J. Williamson, Chief, Technical and Policy Co-ordination
Mr. W. A. Ramsay, Chief Architect, Air

From the Department of Finance—

Mr. R. B. Bryce, Deputy Minister
Mr. A. B. Hockin, Director, Financial Affairs and Economic Analysis Division
Mr. H. D. Clark, Director, Pensions and Social Insurance Division
Mr. D. W. Franklin, Director, Program Analysis Division
Mr. M. H. Wilson, Financial Affairs and Economic Analysis Division
Mr. H. W. Johnson, Director, Accounting Services Branch, Office of the Comptroller of the Treasury
Mr. R. S. Robertson, Authorities Branch, Office of the Comptroller of the Treasury

From the Bank of Canada—

Mr. A. C. Lord, Assistant Chief, Foreign Exchange Department

From the Department of Public Works—

Mr. Lucien Lalonde, Deputy Minister
Mr. G. B. Williams, Assistant Deputy Minister (Technical)
Mr. L. P. Boyle, Financial Adviser

The Honourable George Hees

From the Canada Council—

Mr. Jean Martineau, Chairman
 Mr. Marcel Faribault, Member
 Mr. Trevor Moore, Member
 Dr. C. J. Mackenzie, Member
 Dr. A. W. Trueman, Director
 Mr. E. Bussière, Associate Director
 Mr. P. M. Dwyer, Assistant Director (Arts)
 Miss L. Breen, Secretary-Treasurer
 Mr. D. W. Bartlett, Acting Secretary General, Canadian National Commission for UNESCO
 Mr. L. Perinbam, Secretary General, Canadian National Commission for UNESCO
 Mr. D. H. Fullerton, Investment Consultant

From the Office of the Auditor General of Canada—

Mr. A. M. Henderson, Auditor General
 Mr. George Long, Acting Assistant Auditor General
 Mr. B. A. Millar, Audit Director
 Mr. D. A. Smith, Audit Director
 Mr. H. G. Crowley
 Mr. S. E. Chapman
 Mr. H. E. Hayes
 Mr. J. M. Laroche
 Mr. T. S. Hogan

3. In the course of its meetings your Committee gave consideration to the Reports of the Auditor General for the fiscal years ended March 31, 1962 and March 31, 1963 to the extent, in the case of the latter, of paragraphs 52 to 61, inclusive, and paragraph 175 covering matters concerning the Department of Finance; to paragraphs 64 to 70, inclusive, and to six items in Appendix 1 (non-productive expenditures) covering matters concerning the Department of National Defence; to paragraphs 79 to 87, inclusive, paragraph 96, and to twenty-five items in Appendix 1 (non-productive expenditures) covering matters concerning the Department of Transport and the Department of Public Works.

4. Your Committee also examined the financial statements of the Canada Council for its 1961-62 and 1962-63 fiscal years referred to by the Auditor General in paragraphs 192 and 173 of his Reports to the House of Commons for the years ended March 31, 1962 and 1963, respectively. This examination was facilitated by reference to the annual reports of the Council for each of the two fiscal years and by the supplementary reports on the accounts addressed to the Chairman and Members of the Canada Council by the Auditor General under date of July 31, 1962 and July 26, 1963, copies of which were distributed to the members of the Committee on July 21, 1964 for their advance information.

5. In addition to the foregoing, your Committee dealt with several other matters as mentioned hereinafter.

6. *Sub-Committee on Disposal of Surplus Crown Assets*

On July 9, 1964 the Auditor General, at the Committee's request, reported on the sale of new and usable surplus materials of the Department of National Defence by Crown Assets Disposal Corporation. This report gave an analysis of materials with a cost valuation of \$29 million representing 81% of the total cost valuation of \$35.6 million of surplus materials dealt with during the fiscal year 1962-63. The report indicated that the amount realized from this \$29 mil-

lion worth of materials was \$715,106. Your Committee heard statements concerning the sale of these surplus materials by Mr. E. B. Armstrong, Deputy Minister of the Department of National Defence, and Mr. Louis Richard, President and General Manager of Crown Assets Disposal Corporation.

Members of your Committee were concerned at the large quantity of materials becoming surplus with a relatively small percentage of recovery from their sale. The suggestion was made that more information concerning sales of surplus materials and equipment should appear in the departmental sections of the Public Accounts. In order that the matter might be reviewed in greater detail, a sub-committee consisting of Messrs. Tardif, Hales, Winch, Côté (*Chicoutimi*) and Francis was formed on July 23, 1964 under the chairmanship of Mr. Tardif. This sub-committee is currently meeting.

7. *Sub-Committee on Form of the Public Accounts*

Following consideration of the comments of the Auditor General on the form of the Public Accounts contained in his 1962 and 1963 Reports to the House, the Committee decided that a sub-committee should be established during the present session to examine and report upon this problem. Such a sub-committee was formed on July 23, 1964 consisting of Messrs. Ryan, Prittie, Southam, Smith, Rondeau, Pilon and Cameron (*High Park*). This sub-committee is under the chairmanship of Mr. Ryan and is currently meeting.

8. *Legal adviser to the Auditor General*

The Deputy Minister of Justice appeared before the Committee and explained how he had come to the conclusion that because the Minister of Justice is by statute and constitutional practice the official legal adviser of the Crown and the departments of government, he should not take on the official role of legal adviser to the Auditor General as he and his predecessors had done in the past.

In the opinion of the Committee, it is fundamental that the Auditor General should have recourse to legal advice in the form of written opinions independent of the Crown and executive branch of government. The Committee has suggested to the Auditor General that appropriate arrangements be made.

9. *Non-productive payments*

The Committee expressed concern at the increasing number of non-productive payments noted by the Auditor General, the listing for the year ending March 31, 1962 having amounted to 22 cases totalling \$627,547 while those for the year ending March 31, 1963 amounted to 37 cases involving \$1,051,193 in public funds.

Since the majority of these cases involved expenditure by three departments, namely Public Works, National Defence and Transport, members of the Committee questioned the deputy ministers of these three departments closely as to the causes and reasons of many of the larger losses. A number of these losses arose from circumstances beyond the control of the department named, for example Public Works in its role as a service department.

The Committee is of the opinion that the majority of these losses must be attributed either to failure to exercise normal commercial prudence in entering into contractual obligations or to lack of effective departmental specifications, organization or coordination. It also believes that failure by departments to pinpoint blame for many such losses and to take corrective action accordingly is a contributing factor.

The Committee reiterates the request it made to the Auditor General in 1961 concerning this type of loss, namely that in his future annual Reports to the House of Commons the Auditor General continue to include listings of all non-productive payments coming to his notice in the course of his audit.

10. *National Defence administrative regulations and practices*

The Committee is pleased to note that with the exception of lease termination payments, appropriate changes have been or are in the process of being made in each of the Armed Forces' administrative regulations commented on by the Auditor General. It trusts that the changes will bring about the desired results and requests the Auditor General to inform the House of Commons of any case where the changes appear to be inadequate or where abuse and waste of public funds develop.

11. *Lease termination payments*

The Committee has been consistently recommending since 1960 that the maximum period for lease termination payments be reduced in future from three months' rent as presently permitted to the equivalent of one month's rent. The Deputy Minister of National Defence explained to the Committee that its recommendation has not been adopted because of possible hardship to servicemen, but that steps had been taken to reduce such claims to a minimum and that the average period for which termination payments are made is approximately one month.

Your Committee does not wish to see servicemen penalized. It continues, however, to hold the opinion that the present regulation permitting payment of three months' rent is too susceptible to abuse and constitutes an unnecessary waste of public funds. It recommends that the regulation be changed to reduce the maximum period to one month with the proviso that payment up to three months may be made in cases of hardship, providing such cases are approved by the Deputy Minister.

12. *Unauthorized use of Crown-owned vehicles*

The Committee considers that uniform penalties of sufficient magnitude to act as a real deterrent to the unauthorized use of Crown-owned vehicles, applicable to all personnel, are desirable, particularly because of the number of accidents costly to the Crown which have occurred in such circumstances. The Committee recommends that the regulations be amended to provide for this.

13. *Financial assistance to Town of Oromocto*

The Committee notes the comments of the Auditor General in paragraph 142 of his 1962 Report and recommends to the Department of Finance that consideration be given to writing off to expense the loans referred to.

14. *Educational costs incurred by the Department of National Defence*

The Committee noted that audit examinations at selected departmental schools in Ontario indicated that there had been unsatisfactory control over the computation of grants recoverable from the provincial Department of Education and in some cases claims had not been made in respect of outlays eligible for grants. It was also noted that the Department was reviewing its practices regarding such grants.

The Committee requests that the Auditor General follow this matter up to determine that amounts of grants under-claimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate.

15. *Assistance to provinces by the Armed Forces in civil emergencies*

The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided to the provinces by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting

the accounts, they had been referred to the Executive for direction, and it noted such direction had not as yet been received. The Committee requests the Auditor General to inform it of the final outcome of these matters.

16. *Pension awards effective at early age*

The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requests the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

17. *Discretionary awards of Service pensions*

The Committee noted that the Department is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requests the Auditor General to advise it in due course of any action taken to revise the present system.

18. *Overlapping of pension benefits*

The Committee was pleased to hear from the Deputy Minister of National Defence that it was his intention when the Canadian Forces Superannuation Act is to be amended to bring this matter to the attention of the Ministers with a view to preventing future incidents of this kind. The Committee requests the Auditor General to keep it informed as to progress made.

19. *Catering contract, Montreal International Airport*

In considering the background to the placing of a contract for catering operations at the Montreal International Airport and of the problems with which the Department of Transport was later faced, the Committee was assisted in its review by the Minister of Transport at the time that the contract was entered into.

The Committee is of the opinion that greater care should have been exercised before the contract in question was entered into to ensure that the contractor was financially responsible and able to meet its contractual obligations, e.g., personal performance bonds by individual shareholders in an adequate sum should have been given. The Committee also believes that the Department was remiss in not using the means available to it under the contract to enforce its terms, particularly with regard to the procurement of furnishings and equipment and the payment of indebtedness to the Department.

20. *Advances to the Exchange Fund Account*

The Committee was pleased to receive and to give consideration to the report by the Minister of Finance on the Exchange Fund Account which it had requested in its Fifth Report 1961.

The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidated Revenue Fund.

The Committee approves of the Minister's proposal that the surplus of \$30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

21. *Superannuation Accounts*

The Committee discussed with the Deputy Minister of Finance the two problems associated with the Superannuation Accounts, namely amortization of past actuarial deficiencies in the Public Service Superannuation Account, Armed Forces Superannuation Account and R.C.M.P. Superannuation Account, and the question of contributions which had not been made over the past several years to the Public Service Superannuation Account with respect to salary increases of general application.

The Deputy Minister of Finance commented on the proposals made by the Minister of Finance to the House of Commons on March 6, 1964 with respect to the actuarial deficiencies in the three Superannuation Accounts, which proposals substantially meet the points raised by the Auditor General in his 1962 and 1963 Reports to the House of Commons. The Committee suggests that the Auditor General outline to the House in his next Report the adjustments which have been made in carrying out the new policy proposed by the Minister.

22. *Errors in Public Service Superannuation Account pension and contribution calculations*

The Deputy Minister of Finance informed the Committee that action has been taken to deal with this problem and suggested that the Committee should perhaps wait for a report until the accounts of the current year are before it. The Committee is concerned that this matter, which it regards as being very serious, is taking so long to be corrected. It requests the Auditor General to keep it fully informed.

23. *Pension increased by payment of two salaries*

The Committee was informed by the Deputy Minister of Finance that he agreed with the Auditor General's statement that an amendment to the Public Service Superannuation Act is necessary if the Superannuation Account is to be protected from excessive annuity charges due to contributions being made on two salaries when a contributor takes employment with a Crown corporation while on retiring leave from a department.

The Committee expects to see suitable amending legislation introduced in due course and requests the Auditor General to keep it fully informed.

24. *Reciprocal transfer agreements for superannuation benefits*

The Committee was informed by the Deputy Minister of Finance that the point involved here is a very technical legal one. It suggests that when the Public Service Superannuation Act is next amended a suitable amendment be introduced which will provide for the disposition of any excess amounts of contributions in reciprocal transfer cases.

25. *Interest charges on loans to the National Capital Commission*

In its Fourth Report in December 1963 the Committee expressed the view that, since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years. In the course of its meetings, the Committee heard additional arguments from the Deputy Minister of Finance in favour of the present method of financing these land purchases.

The Committee continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It points out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice.

The recommendation is therefore repeated that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

26. *Accounts receivable*

The Committee is concerned that weaknesses exist in the internal control with respect to accounts receivable and suggests that the Treasury Board have the matter studied with a view to establishing procedures designed to ensure that amounts due to the Crown are adequately recorded and that an accounts receivable control system be instituted. Collection procedures must be tightened up and firmly enforced.

The Committee agrees with the Auditor General's observation that it would be informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts of Canada each year.

27. *Indirect compensation to chartered banks*

The Committee in its Fourth Report 1963 advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93 (1) of the Bank Act.

The Committee reiterates its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

THE CANADA COUNCIL

28. In its Fourth Report in December 1963 the Committee noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the hotch-pot or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee postponed further consideration of the matter.

The Committee was informed that in the interim the Council has proceeded to allocate and distribute funds resulting from profits realized and interest

earned on the foregoing bases. The Committee regards the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommends that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the hotch-pot approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

The members were favourably impressed with the explanations and accounting furnished to the Committee by the Chairman, Members and officers of the Council.

* * * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 13 to 18 inclusive and No. 20*) is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, October 15, 1964
(33)

The Standing Committee on Public Accounts met this day *in camera* at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Forbes, Gendron, Grafftey, Hales, Harkness, Legault, Mandziuk, McLean (*Charlotte*), Rinfret, Rock, Ryan, Southam, Stefanson, Tardif, Tucker, Winch (20).

The Chairman announced a tentative schedule of further witnesses commencing October 27.

The Committee proceeded to the consideration of its "draft" further interim report to the House, and following its consideration and amendment, paragraph by paragraph, it was adopted. The Chairman was ordered to present it to the House as the Committee's Sixth Report.

At 10.35 a.m., the Committee adjourned until Tuesday, October 20, 1964, at 9.30 a.m.

TUESDAY, October 20, 1964.
(34)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Crouse, Danforth, Fane, Francis, Frenette, Harkness, Lessard (*Saint-Henri*), McLean (*Charlotte*), Pilon, Prittie, Rock, Ryan, Stefanson, Tardif, Tucker, Whelan, Winch (21).

In attendance: From the Department of Veterans Affairs: Mr. Paul Pelletier, Deputy Minister and Dr. J. N. B. Crawford, Assistant Deputy Minister and Director General Treatment Services, Mr. A. M. Henderson, Auditor General of Canada, and Mr. J. R. Douglas, of the Auditor General's office.

The Chairman announced the schedule of further witnesses commencing October 27. (*See Evidence*).

Mr. Baldwin tabled returns from the Departments of Transport, Public Works and National Defence which were ordered printed as Appendices to the record of this day. (*See Appendices 1, 2, 3 and 4.*)

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Chairman introduced Messrs. Pelletier and Crawford and then called Mr. Henderson.

On paragraphs 104 of the 1962 Report and 90 of the 1963 Report, *Veterans' hospitals and institutions*, Messrs. Henderson, Pelletier and Crawford reviewed this subject and were examined thereon and also supplied additional information.

On paragraphs 106 of the 1962 Report and 91 of the 1963 Report, *Employment of part-time doctors by Department of Veterans Affairs*, Mr. Henderson commented thereon and was examined, together with Mr. Douglas.

Messrs. Pelletier and Crawford were further examined and supplied additional information thereon.

The questioning of the witnesses being concluded, the Chairman thanked Messrs. Pelletier and Crawford for their assistance to the Committee.

At 11.30 a.m., the Committee adjourned until 9.30 a.m. Thursday, October 22, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, October 20, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I am glad to see we are all set to go with a further examination of Mr. Henderson's report.

Before I introduce the witnesses whom we have here today may I give you a general idea of the tentative schedule of the matters yet to be disposed of and which will require the presence of witnesses so that this will be on the record and we will know about it.

Next Thursday, on October 22, Dr. Cameron, the deputy minister of the Department of National Health and Welfare will be with us in connection with two items referred to in the report. On October 27, a week from today, Mr. Anderson, the chairman of the Canadian Pension Commission, and his officials will be here. On Thursday, October 29, Colonel Cromb, chairman of the war veterans' allowance board will be here. On Tuesday, November 3, we will have with us Mr. Sim, deputy minister of the Department of National Revenue. This will probably involve several meetings because there are a number of items to be discussed. We are also hoping that Mr. Castonguay will be with us some time around the first week in November. There are a number of items referred to in paragraph 49 dealing with election expenses.

Finally, there is an item involving the Port Arthur Elevator Company which may require the presence of Mr. Barry, the deputy minister of the Department of Agriculture. By that time, if we have completed all of the other matters included in Mr. Henderson's report, it is very likely that if the committee so wishes we might consider hearing one of the crown corporations which has not been the subject of any discussion before. I mention that because Mr. Slack, the clerk of the committee, made a search and we discovered that over the last eight years only five of the 20 crown corporations have been the subject of any examination at all. They are as follows: The Canadian Maritime Commission, the Export Credits Insurance Corporation, the Crown Assets Disposal Corporation, the Polymer Corporation and the Canadian Broadcasting Corporation which appeared before us this year. Anyone examining the reports will realize that there is a tremendous amount of money involved in these expenditures, and your steering committee did think that the committee might give some consideration to working out a procedure, certainly for next year, involving possibly the establishment of a subcommittee before which several crown corporations would appear each year. However, this is something we can decide later.

At this time we do hope we will have time to ask the officials of one of the crown corporations to appear, and possibly members might give some thought to which corporation they would like to see appear before the committee.

I have one other matter of routine business. I have here a number of letters which have come in during the recess which contain answers to questions asked by members during the course of our proceedings. I will not go over them with you in detail but I would ask that you agree that these be printed as appendices to today's proceedings so that answers to questions which members asked during the previous meetings would be available. Is this agreed? I understand it is.

We have Mr. Paul Pelletier with us today, the deputy minister of the Department of Veterans Affairs. I think he is known to most of you. Before

his present position he was a member of the civil service commission and as such did appear before the committee some years ago. He has with him Dr. Crawford, who is the director general in connection with veterans hospitals, which are the subject of discussion today.

We will be examining today items 90 and 91 which appear on page 58 of the Auditor General's 1963 report.

Following our usual practice, I will ask Mr. Henderson to give us the benefit of his comments, and then I will call upon Mr. Pelletier. We can then launch into the usual question and answer period.

Mr. Henderson.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman.

The first paragraphs with which we might deal are 104 in my 1962 report and 90 in my 1963 report, both of which have to do with veterans hospitals and institutions.

104. *Veterans hospitals and institutions.* Hospitals and institutions operated by the Department of Veterans Affairs, originally provided to take care of veterans requiring treatment for war service disabilities, are at present being occupied to a considerable extent by domiciliary care cases and war veterans allowance recipients. The latter, who are provided treatment for all conditions, service-induced or otherwise, are for the most part insured under the various provincial hospital insurance plans. During 1961-62 domiciliary care patients and war veterans allowance recipients accounted for 40 per cent and 21 per cent, respectively, of all patient days in departmental hospitals and institutions whereas disability pensioners accounted for only 17 per cent. During the year the average per diem cost of maintaining patients in active treatment hospitals where 38 per cent of the occupied beds were taken up by domiciliary care cases was \$18.76 compared with \$9.63 in non-active treatment centres where occupancy is predominantly by domiciliary care cases.

The cost of operating departmental hospitals and institutions for the fiscal years 1956-57 and 1961-62 was \$34,596,693 and \$46,771,192, which, based on total in patient days of 2,750,651 and 2,574,509, results in cost per in patient day of \$12.58 and \$18.17—an increase during the five year period of 44.4 per cent. In addition, capital expenditures, mainly for improvements and equipment, averaged approximately \$4.5 million per year during this period.

The introduction of provincial hospital insurance plans under which war veterans allowance recipients are insured, the declining numbers of pensionable disability cases being cared for in departmental hospitals, the rising cost of operating the hospitals and the increasing use of expensive active treatment facilities for housing domiciliary care cases, all indicate that a reappraisal of the department's role in the operation of hospitals would be desirable. We understand that this has been the subject of a detailed study carried out by the royal commission on government organization, although no report or recommendations have yet been made.

90. *Veterans' hospitals and institutions.* In last year's report (paragraph 104) we pointed out that hospitals and institutions operated by the Department of Veterans Affairs, originally established to take care of veterans requiring treatment for war service disabilities, were presently being occupied to a considerable extent by domiciliary care cases and war veterans allowance recipients. These two classes respectively accounted for 40 per cent and 21 per cent of the total patient days in these hospitals and institutions in 1961-62, whereas disability pen-

sioners accounted for only 17 per cent. We reported that during 1961-62 the average cost of maintaining patients in active treatment hospitals was \$18.76 per day compared with \$9.63 per day in non-active treatment centres, and we also referred to the fact that the cost per in patient day of operating departmental hospitals and institutions had risen by 44.4 per cent in the five-year period from 1956-57 to 1961-62. We concluded our comments with the suggestion that reappraisal of the department's role in the operation of hospitals seems desirable in view of:

- (a) the declining numbers of pensionable disability cases being cared for;
- (b) the rising cost of operating hospitals;
- (c) the increasing use of expensive active treatment facilities for housing domiciliary care cases; and
- (d) the introduction of provincial hospital insurance plans under which most of the War Veterans Allowance recipients are insured.

In 1962-63 the proportion of patient days accounted for by domiciliary care cases and war veterans allowance recipients rose slightly to 41 per cent and 22 per cent respectively, while that for disability pensioners remained at 17 per cent. The cost of operating departmental hospitals and institutions was \$49,884,000 compared with \$46,771,000 in 1961-62. The figure for 1962-63, however, included \$2,717,000 for the cost of medical services provided to the hospitals by part time doctors, an expense incurred but not allocated to hospital operations in previous years. On a comparative basis, therefore, the increase in the cost of operations in 1962-63 was \$396,000 over that for the preceding year. Based on a total of 2,545,552 in patient days (2,453,514 in active treatment hospitals), the average cost per patient day of maintaining patients in 1962-63 was \$20.21 in active treatment hospitals (including \$1.10 for medical services of part time doctors) compared with \$10.88 in non-active treatment centres. Thus the situation outlined in last year's report remained substantially unchanged during 1962-63.

I first made mention of the rising costs of these institutions in paragraph 104 of my 1962 report, which you will find at page 47 of that report, and I brought the same cost information up to date in paragraph 90 of my 1963 report, which you will find on page 58.

These hospital facilities were originally established to treat war service disabilities. Today, they are increasingly occupied by domiciliary care cases—to the extent of 41 per cent in 1962-63—which do not appear to require expensive general hospital accommodation, and war veterans' allowance recipients to the order of 22 per cent in 1962-63, who for the most part are insured under the provincial hospital insurance plans.

The annual cost of these facilities today runs to the order of \$54 million compared with \$34½ million in 1956-57.

It was suggested, in view of the declining number of disability cases being cared for in these hospitals, the rising cost of operating hospitals today, the increasing use of expensive active treatment for housing domiciliary cases and the introduction of hospital insurance plans under which most of the veterans' allowance recipients are insured, that a reappraisal of the department's role in the operation of these institutions might usefully be undertaken.

The Glassco commission, at page 195 of volume III, has since made similar comments, and has in fact recommended gradual disposal of these facilities. Likewise, I know the subject has been under long and active study by Mr. Pelletier, the deputy minister, and Dr. Crawford and their associates in the

department. As the Chairman has indicated, I am sure they would like to speak to this matter this morning.

The CHAIRMAN: Mr. Pelletier.

Mr. PAUL PELLETIER (*Deputy Minister, Department of Veterans Affairs*): Thank you, Mr. Chairman.

The matter raised by the Auditor General in paragraph 90 of his report for the fiscal year ended March 31, 1963, and in paragraph 104 of his previous report is a matter of which we are not only aware but, indeed, we can find very little if anything wrong with the observations made by the Auditor General in this respect. He suggests quite properly that this matter should be reappraised by the department in view of the fact—and I am paraphrasing what the Auditor General has said—that we are less and less carrying out what was the original essential purpose of veterans' hospitals. This reappraisal, as I am sure Mr. Henderson knows full well, has been going on for quite some time. This reappraisal preceded the Glassco commission report; it preceded my coming to the department; indeed it preceded Dr. Crawford's coming to the department. I think it was under his predecessor, Dr. Warner, that in view of the fact that the patient load in our hospitals was becoming less and less interesting to the medical profession, making it more difficult for us to keep the kind of people we wanted, there was introduced a new regulation which allowed veterans who did not have any disability claim to be admitted to our hospitals on a paying basis. Indeed, this worked for a while, and it is a matter on which the Auditor General has made observations in the following paragraph, to which we will come later.

This enabled us for a while to do what it was intended to achieve, to provide for the veterans who were entitled by law to treatment to get better treatment than they would otherwise have had. This, however, only worked for a time. As you might expect, following the Glassco commission report and indeed before, as I mentioned a moment ago, but more so after the Glassco commission report, we kept reviewing the matter which culminated, as you know, in statements of policy which were made initially by the Minister of Veterans Affairs in the House of Commons on March 16 and which were further elaborated upon by the Prime Minister in Winnipeg on May 18 at the convention of the Canadian Legion at which time the Minister of Veterans Affairs also spoke again.

The long and short of this policy is that discussions have been going on between the Department of Veterans Affairs and a certain number of non-federal jurisdictions to see whether by some change in operation we could improve or at least maintain the quality of service given veterans. To date these discussions have resulted in only one formal agreement, with which I think you are familiar; that has to do with the veterans' home in Edmonton which involved the turning back to the province of the old government house which the province wished to use as a centennial project. In return for this, a nursing home of 150 beds is being built as opposed to the 75 beds which are in the old government house. This will be turned over to the Department of Veterans Affairs when completed and will be used by the department for so long as it is needed. This, of course, is a nursing home and not a hospital. The Auditor General primarily is addressing himself to active hospitals.

Discussions are going on with regard to other hospitals. I am not at liberty to say which because none of these have been concluded yet. However, we are very much aware of this problem, and until such time as different arrangements can be made the best we can do is see to it that our active treatment hospitals are used to the best possible advantage.

Mr. Chairman, I do not think I have anything to add on this particular section at the moment. It might be more useful and more fruitful for the committee if Dr. Crawford and I expose ourselves to your questions which I have no doubt will be intensive and probing and, I hope, as humane as the carrying out of your duties will allow.

The CHAIRMAN: Thank you. This is a particularly humane committee; there is no doubt about it.

Mr. WINCH: I wonder whether the deputy minister could obtain for us the number who are hospitalized in veterans' active treatment hospitals from the Canadian penitentiary service; also would he advise us whether a charge is being made by this department against the penitentiary service, and if so in what amount? I would like that for information.

Dr. J. N. CRAWFORD (*Director General, Treatment Services, Department of Veterans Affairs*): I can give you an inclusive figure which includes the people from penitentiaries; it also covers some sick mariners who come to us; these are responsibilities of federal departments other than the Department of National Defence. These penitentiary cases, plus sick mariners, account today for 95 patients in departmental hospitals, 1.4 per cent of our total patient load. This figure is in the order of magnitude it has been in for many years. For example, in 1960 we had 76 representing .9 per cent of our patient load at that time. These federal departments do pay us for the service we provide.

Mr. WINCH: Could you give the approximate figure showing how much is received? Are they charged on a varying basis across Canada?

Mr. CRAWFORD: No. We charge a flat rate for hospitalization, medical and surgical care.

Mr. WINCH: That would be about what?

Mr. CRAWFORD: It amounts to about \$20 odd a day.

Mr. WINCH: Thank you.

Mr. RYAN: Mr. Chairman, I would like to ask Mr. Pelletier what happens in the case where war veterans' allowance recipients are insured by provincial governments. Do these insurance plans pay the \$20.21 a day in active treatment cases?

Mr. PELLETIER: Not quite. In the case of war veterans' allowance recipients who are insured, in many cases we pay the premiums for these war veterans allowance recipients. They are insured; they receive the full hospitalization benefits. The medical expenditures involved are met by the department. I should say, perhaps, that we are not obligated in law to assume responsibility for these expenditures, but in fact we do.

Mr. RYAN: You say "they received". Do you mean that the veterans received it?

Mr. PELLETIER: No, the hospitals.

Mr. WINCH: I have one more question for information. Is it possible for us in trying to obtain an understanding of paragraph 90 to be given the percentage of occupancy in your various veterans' hospitals? What was the original intent of the veteran, and what is the occupancy basis, and on that basis, what is the percentage of total occupancy in your hospitals?

Mr. PELLETIER: I shall ask Dr. Crawford to answer your question in detail but in general you will notice in the Auditor General's report, which was written some time ago for the year 1962-1963, that in the sixth line he mentions 40 per cent and 21 per cent. These figures are still correct as of August of this year. The figure of 17 per cent, to be quite candid with the committee, as

I am sure you would wish us to be, is now about 15 per cent as of August of this year.

Mr. WINCH: The reason I ask the question is this. Has there been any radical change in the last two years?

Mr. PELLETIER: Not in the first two figures. They have remained just about unchanged. However, if you want a more refined breakdown, Dr. Crawford can give it to you with respect to the various categories. These are the big categories which the Auditor General has picked out.

Mr. WINCH: I think the committee might also like to know if there is any difference, shall we say, between your hospitals in the east and your hospitals in the west, or is it the general picture all across the country?

Dr. CRAWFORD: I can answer that specifically with respect to any one hospital. It would take a little calculation to do so, but the figures are all here. I have them compiled on a system basis. There are some variations as between hospitals. But these variations are slight. In general the same sort of picture applies in Vancouver as applies in Halifax and every place in between. We have about 8,900 beds in departmental institutions.

For the purposes of calculation I think we should look at them as being of two kinds. We have two large institutions, one at Ste. Anne's, which is just outside Montreal, and the other being the Westminster hospital at London, Ontario. They are devoted largely to the provision of mental care, chronic committed mental patients. These are service incurred; they are mental diseases which have arisen out of wartime service. And there is a statutory obligation upon us to provide care.

So that in considering our patient load, I think we should look at it as a combined load including these mental patients. We should also look at it as a general treatment load excluding mental cases. Because it is really the general beds which are under the spotlight, so to speak, at the present time. However, in our combined load in August—or let us go back to March which is a high occupancy month—at the end of last fiscal year, we had just under 7,000 patients in departmental institutions.

At that time—and this is the combined load including mentals—15 per cent of them were pensioners with service incurred disabilities. Four per cent of them were serving members of the armed forces or the R.C.M.P., which is also a statutory responsibility on the federal government, and 21 per cent were war veterans' allowance cases receiving more or less active treatment. I say "more or less" because although they have chronic disease, they require a great deal of nursing and care. Forty and one half per cent were under domiciliary care, which does not mean that they were boarding with us. Do not misunderstand it. They were sick men and had some medical reason to be there. But they were cases for which little could be done, or needed to be done medically. And 13 per cent in March were elective cases, patients who had come into veterans' hospital, rather than going to community hospitals; they elected to come into our hospital, paying all or part of the costs of the treatment. That is the combined load.

Suppose we take the general treatment load, excluding mental cases, we now find that 8 per cent of our patients in these general beds are there for the treatment of service incurred disability; 5 per cent are armed forces; 20 per cent are war veterans' allowance recipients; 46 per cent are chronic or domiciliary care cases; and 15 per cent are elective cases.

Does that answer your question?

Mr. WINCH: Yes. May I just follow that up with one other question?

I am interested in your statement that 46 per cent are chronic cases.

Mr. CRAWFORD: No, that is not quite the case; they were chronic or domiciliary cases.

Mr. WINCH: I think this raises an important point. What is the difference between your bed load, say, at the Shaughnessy hospital in Vancouver and the George Darby hospital in Burnaby.

Mr. CRAWFORD: For the purpose of these figures the George Darby is part of the Shaughnessy hospital; it is an administrative unit of the Shaughnessy hospital so the George Darby load is included in the figure for the Shaughnessy hospital.

Mr. WINCH: Is there not a difference with regard to the type of patient who goes to the George Darby and the type of patient who goes to the Shaughnessy?

Mr. CRAWFORD: There is a difference in construction.

Mr. WINCH: And is there a difference in the type of patient?

Mr. CRAWFORD: The George Darby hospital is solely devoted to domiciliary care. To get into the George Darby one must be able to get around sufficiently to go for meals and so on.

Mr. WINCH: Have you any vacancies in the George Darby?

Mr. CRAWFORD: Yes. The occupancy of the George Darby is running at something over 80 per cent.

Mr. WINCH: Eighty per cent occupancy in the George Darby itself? What is the occupancy, according to your latest figures, in the Shaughnessy hospital?

Mr. CRAWFORD: About the same. I had about 900 patients in Shaughnessy hospital, including the George Darby. The total capacity is about 1,200 beds.

Mr. WINCH: Then if you still have 80 per cent—

Mr. CRAWFORD: Approximately.

Mr. WINCH: —of bed occupancy in the Shaughnessy may I ask why there should be any consideration of a change in administration or a change in policy as between a provincial and/or federal jurisdiction or something else? For the purpose of this, 80 per cent would strike me as being not such an extraordinary situation that it would call for a change in policy, administration, authorization, and so on.

Mr. PELLETIER: Mr. Winch, you are now covering the whole field of veterans' hospital policy.

Mr. WINCH: You understand, sir, the reason for which I am bringing this up? I know British Columbia and I know the Shaughnessy.

Mr. PELLETIER: That is right. Unfortunately, Mr. Winch, I do not know Shaughnessy too well; I will, but I have not been in the department very long.

May I take another hospital as an example to give you an illustration which may answer your question? At the moment in Sunnybrook hospital, which is a good active hospital—and a large one, as you know—there are approximately 250 domiciliary care cases. Granted, you may say that that is not a very large number in view of the fact that the total bed capacity of Sunnybrook is 1,470. However, there are 250 people there who are taking up beds which might better be used as active treatment beds. To get back to your point, we are interested in running good hospitals. The Auditor General is interested in seeing to it that the money is well spent.

I must confess this is expensive care for those 250 people. This is a situation which is getting worse rather than better. That is the reason, and the only reason, for which consideration has been given to a change in policy. With the increase in that type of patient load in hospitals, the over-all quality of medical care is bound to go down; and of course the veterans will suffer thereby.

The CHAIRMAN: I have on my list of those wishing to put questions to the witnesses Mr. Francis, Mr. Harkness, and then Mr. Rock.

Mr. FRANCIS: I think Dr. Crawford has answered most of the questions I had in mind. But I would like just to fill out the gaps with regard to the 46 per cent chronic or domiciliary care cases, the 20 per cent veterans' allowance cases and the 17 per cent disability cases. I think the rest were electives.

The question to which I would like to return, Mr. Pelletier, indicated that one institution has been turned over by agreement in accordance with the new policy the minister and the department are trying to put into effect. I think I would be concerned if we had not some reason to expect that we would turn over more than one institution. There are some very fine institutions developed under D.V.A., and the federal government has paid the capital cost. I wonder if we could have some indication whether we can expect any further agreements and what are the difficulties in arriving at agreements with the communities concerned or the provincial authorities concerned?

Mr. PELLETIER: You will appreciate, Mr. Francis, that I can only answer that question in most general terms because I certainly would not wish to place myself in the position of violating any confidences.

Before we contemplate any change of jurisdiction we must ensure a number of things. We insist: first, that we shall have priority use of the number of beds we need for those veterans for whom we are responsible by statute; second, that provision be made for those veterans who are in need of domiciliary care, such as the 250 I mentioned in Sunnybrook; third, that adequate provision be made for war veterans' allowance recipients for whom—although we have no statutory responsibility—the federal government has assumed a certain moral responsibility. Provision must be made for these people. Finally, we must ensure that our staff, who are excellent and who have rendered very good service indeed, are fully protected in any changeover.

If all these conditions can be met—and these form the basis, the bedrock, on which we base all our discussions—then we are prepared to contemplate changeovers.

As I mentioned a moment ago, there are discussions going on with respect to a number of institutions, but I am not now at liberty to say which ones. All I can say is that in all probability some of these discussions will come to fruition in the not too distant future.

The CHAIRMAN: Mr. Harkness.

Mr. HARKNESS: What is the basis of the entitlement of the 40 per cent domiciliary care patients? what proportion of these people are people who, because of war disabilities, are entitled to treatment but are being treated for something other than the particular disability for which they draw their pension? In addition to people of that kind, what type of patient constitutes the rest? What is the basis of their being in the hospital?

Mr. PELLETIER: I do not know if Dr. Crawford can give you a detailed breakdown, Mr. Harkness, but by and large these domiciliary care patients are made up of war veterans' allowance recipients.

Mr. CRAWFORD: In very general terms and on the basis of a spot check in one of our hospitals several months ago, we have found that 77 per cent of the people were there by virtue of being recipients of the war veterans' allowance. The other 23 per cent were divided roughly equally between people in receipt of disability pensions, and therefore eligible for this type of care, and those who were coming in and paying us for domiciliary care at a rate of up to \$4 per day. This is the maximum rate that we can charge for the provision of domiciliary care.

I think it is only fair for me to tell you that our cost of providing domiciliary care are now in the order of \$9. We can charge up to \$4 now if a man can afford that; if he cannot afford it, he may get in for nothing.

Mr. HARKNESS: You state here, you see, that the domiciliary care people constituted 40 per cent and war veterans' allowance people constituted 21 per cent.

Mr. CRAWFORD: I thought I had clarified that, Mr. Harkness, when I said the 20 per cent war veterans' allowance recipients were receiving more active treatment.

Mr. HARKNESS: So far as this 40 per cent is concerned, then, did you say 23 per cent were people who were entitled to be there because they were disability pensioners?

Mr. CRAWFORD: No, no one is entitled to domiciliary care. The provision of domiciliary care is entirely a matter of discretion. The department is allowed to exercise discretion in the provision of domiciliary care within the number of beds that we have available. They are there because they are recipients of a war veterans' allowance, or they are there because they are pensioners or because they are paying their own way.

Mr. HARKNESS: However, is a pensioner not entitled to hospitalization?

Mr. CRAWFORD: He is entitled to treatment for his service incurred disability. This is his statutory entitlement. If a man has a gunshot wound in the arm he is entitled to treatment for that gunshot wound. For anything else what happens to him we give him favourable consideration because of his service incurred disability; but his entitlement is limited to his service incurred disability, whatever that may be.

Mr. HARKNESS: Do you not get into an area in which it is very difficult to say whether his need for hospital care is due to a particular disability which he got directly as a result of his service or not?

Mr. CRAWFORD: I maintain it is very simple professionally, medically, to make this distinction. I know that my political friends do not agree with me many times, but nevertheless it is a very simple decision to make.

Mr. HARKNESS: But—leaving politicians out of it!—most veterans organizations would make a very strong case that this was so, would they not?

Mr. CRAWFORD: Let me put it in another way, Mr. Harkness. I will say that anyone with the proper knowledge of the condition finds it easy to make the decision.

Mr. HARKNESS: Would you not agree that there is also some difference of opinion as far as medical men are concerned in regard to these cases?

Mr. CRAWFORD: Not really, no.

Mr. HARKNESS: No?

Mr. CRAWFORD: Not really. There are disputes, of course, in two areas. There are disputes with regard to whether a man's disability is a result of his wartime service. This applies particularly, I think, in the area of psychiatric disabilities, but by and large there is little dispute, an absolute minimal amount of dispute, with regard to the connection between a service incurred disability and some condition which has arisen subsequently. They are usually pretty clearcut—there is or there is not a connection.

Mr. HARKNESS: I did not get clearly the numbers of the psychiatric cases concerned.

Mr. CRAWFORD: As of August of this year, for example, in this mental group I had approximately 950 in departmental institutions. That is the total figure.

Mr. ROCK: Of that 950 how many would there be in Ste. Anne's hospital?

Mr. CRAWFORD: Approximately 400.

Mr. HARKNESS: Are these two hospitals devoted to mental or psychiatric cases completely filled or are there any spare beds?

Mr. CRAWFORD: In both instances we have overflowed the confines of the mental infirmary and we have some mental patients—under control, of course—in other parts of the hospital.

Mr. HARKNESS: Is there a need for more hospital beds for mental patients than you are able to provide at the present time in your psychiatric institutions? That is what I wanted to know.

Mr. CRAWFORD: I must ask you in what sort of population you mean "need". In service incurred mental disease, no.

Mr. HARKNESS: What I want to know is whether there are more people requiring this type of medical treatment which you have said is a statutory requirement than the number for whom you have beds in those two institutions? You have said it is a statutory requirement to look after these people.

Mr. CRAWFORD: No, I have plenty of beds to fulfil the statutory requirements.

Mr. PELLETIER: I think there may be a little confusion here, Mr. Harkness. Of the total number of mental patients we have, not all are our statutory obligation.

Mr. CRAWFORD: No, indeed not.

Mr. PELLETIER: Many of these cases are not service incurred mental cases; in many instances they happen to be veterans in receipt of war veterans' allowance who happen to be mental cases, and we take care of them. If you consider the beds we need for those mental patients who are our statutory responsibility, we have all the beds we need.

Mr. CRAWFORD: I told you, for example, that there are approximately 900 beds in our institutions for mental patients. Only approximately 500 patients are there as a result of service incurred mental disease.

Mr. HARKNESS: This would be another area in which, I think you would agree, there would be a big difference of opinion among psychiatrists on the question of whether or not the mental disability was a result of their service.

Mr. CRAWFORD: I think it is fair to say that this has been the biggest area of dispute, probably, and for very obvious reasons. However, it is also fair to say and should be said that the dispute with regard to whether a mental disability is a direct result of service has been getting less and less vociferous as the years have elapsed since the end of the war. This may have had considerable validity from, say, 1945 to 1950 but I think there has been little validity to this argument since 1950 or thereabouts.

Mr. HARKNESS: What is the amount charged to veterans who were in the institutions for treatment on a voluntary basis?

Mr. CRAWFORD: All these people are insured under provincial hospitalization schemes and we are paid by the schemes for their hospitalization so the veteran is charged nothing. He may be charged a medical fee by his attending part time doctor, and doubtless we will be coming around to this later on this morning. This is a matter between the doctor and the patient.

Mr. HARKNESS: You used to charge a flat fee for people of this kind. Do you not do that any more?

Mr. CRAWFORD: No, because the advent of hospital insurance plans has relieved us of that necessity. We are paid by the provincial hospital commission for the services we supply.

Mr. HARKNESS: Then we will say that you charge separately for the medical service you give, depending upon the purpose for which the man has gone into hospital? If it is an operation of one kind you charge so much and if it is an operation of another kind you charge a different amount?

Mr. CRAWFORD: I make no charge at all; the department makes no charge at all. This is purely a matter between the attending physician and the patient. These are people who elect to come to our hospital rather than going to a community hospital, and they are treated in exactly the same way as if they had gone to a community hospital.

Mr. HARKNESS: The old flat fee basis to cover all the medical costs has gone?

Mr. CRAWFORD: This has gone.

Mr. HARKNESS: How long is it since that was eliminated?

Mr. CRAWFORD: Since the advent of the hospital plans. I think the first one was about 1958 or 1959.

Mr. ROCK: Around what year did this domiciliary care service start? You mentioned that you have no obligation to give this domiciliary care. I would like to know exactly what year this service started.

Mr. CRAWFORD: I cannot answer that exactly. I think even before world war II there were some elements of this sort of care in department of pensions and national health institutions. What was the basis of entitlement to this care or eligibility for this care I cannot tell you. Immediately after world war II our hospitals were filled with people returning from the war in need of active treatment, and there was little if any domiciliary care at that time. It was about 1948 that we began to get an increase in the proportion of domiciliary care in our hospitals, and this has progressed fairly steadily ever since. Because it is discretionary, we have managed to hold it somewhere between 40 and 45 per cent of our total occupancy.

Mr. ROCK: You mentioned previously the change of jurisdiction in respect of Sunnybrook hospital and that it would be run by the provincial authorities. You have no set policy in this regard; in other words, Sunnybrook hospital is one case. Ste. Anne de Bellevue would be another, and Queen Mary another. Each one would be a separate case.

Mr. PELLETIER: That is right. For obvious reasons, the jurisdictions which may or may not take over the operation of these hospitals would be different; there would be different statutes, different regulations, and so on. The patient load is different and the institutions are different. You mentioned Sunnybrook hospital and Ste. Anne de Bellevue. Those are two vastly different places. Sunnybrook hospital is an active treatment hospital, although we do have some domiciliary care patients there. Ste. Anne de Bellevue, on the other hand, is partly mental, about 350 beds out of a total of 1,200 beds; the remainder largely is made up of chronic and domiciliary care cases. Conditions may be vastly different from institution to institution.

Mr. ROCK: In certain areas where you have two or three hospitals, for instance in the Montreal area,—

Mr. PELLETIER: We have two there.

Mr. ROCK: —can we be assured that in an area like this you would combine the two hospitals into one before you would put the two hospitals under the jurisdiction of the provincial authorities?

Mr. PELLETIER: Here again it is virtually impossible to generalize. What we endeavour to do in each case is to achieve an end product which will produce the best result for the veteran; that is, which will provide him eventually with the best care. In some cases a combination of the kind you mention may be the answer; in others it may not be. Each case will have to be looked at individually to see what is the best plan in that particular case.

Mr. ROCK: In other words, your department does not have the intention of, say, following the trend of working towards the end where your department

would give up completely the running of these hospitals. Has your department any intention of getting rid completely of the running of the hospitals?

Mr. PELLETIER: Here again you cannot give a categorical reply to that; it cannot be a categorical yes or a categorical no. If, by turning over the operation of our hospitals we will achieve the results we want, we will do it; if not, we will not do it. I cannot answer that in any other way.

The CHAIRMAN: I suppose when you get into such a discussion it really is a matter of government policy.

Mr. PELLETIER: In the final analysis, definitely, Mr. Chairman.

Mr. PRITTE: I was going to make the same comment. It seems to me we are taking the remarks of the Auditor General concerning a particular department and questioning an official of the department on these remarks. The Auditor General has questioned the amount of chronic or domiciliary care in veterans' hospitals as opposed to acute cases, and the department is well aware of this situation and is doing something about it. It seems to me the question of whether or not the department's policy is correct, or whether it should be the type of arrangement it is, is not a question for this committee, but rather a question for the veterans affairs committee.

The CHAIRMAN: The only exception would be that this discloses a certain set of facts and I have no doubt the questions and answers here will be of use to the government, the department, and, of course, to members; this primarily is our reason for being here and asking these questions.

Mr. CARDIFF: I would like to ask Dr. Crawford a question with regard to an answer he gave a while ago to Mr. Harkness when he stated there was no difficulty for a doctor to tell whether a person's disability was caused by active service. I have had a good deal of experience with veterans who have come back from the war who, in a great many cases, have something which they claim was caused by active service, but when they go to the veterans' hospital, they do not get any satisfaction from the doctor. When a man is taken into the army as A-1 he is supposed to be in first class condition and yet when he comes out probably with a gun shot wound and something else develops he is told it is not due to active service. How can you be sure of it?

Mr. CRAWFORD: I do not think your question actually follows on my first statement. However, I do think I must remind you that this is not a decision which I as director of the treatment branch, or any of my physicians in the treatment branch, are called upon, or authorized, to make. This decision is made by the Canadian Pension Commission which decides, after consideration of all the evidence, whether a disability is or is not connected with wartime service. I do not make that decision. So long as I have any discretion in the matter, I can provide treatment on the assumption that it is going to be related to service, but once a decision is made by the Canadian Pension Commission I no longer have discretion.

Mr. CARDIFF: It is out of your hands?

Mr. CRAWFORD: It never has been in my hands.

Mr. CARDIFF: I am not a doctor, but I run into many cases where there is no doubt in my mind that the person had this condition before he was out of the army. Perhaps I am wrong.

Mr. CRAWFORD: If we could be as sure as the people who carry the torch for some of these veterans, life would be much simpler for us.

The CHAIRMAN: Mr. Anderson, the chairman of the Canadian Pension Commission, will be here.

Mr. CROUSE: What is the statutory provision for medical care for war veterans' allowance recipients?

Mr. CRAWFORD: There is none. This is done by an order in council whereby the governor in council permits us to provide medical care for war veterans' allowance recipients. No mention is made of this in the War Veterans' Allowance Act.

Mr. CROUSE: It is not under any statute.

Mr. WINCH: May I ask a supplementary question? Would there be any advantage to your administration and your decisions if this care was made statutory?

Mr. PELLETIER: Mr. Winch, I do not think you honestly expect me to answer that question, because this goes back to fundamental policy which is a matter for government decision. As Dr. Crawford said, this is done not under the War Veterans' Allowance Act, in which there is no provision whatsoever, but is done under the Department of Veterans Affairs Act in which there is a very general provision which enables the governor in council to make regulations for the care and treatment of veterans. I think it is just as loose as that. An order in council was passed, and it is a perfectly legal order in council. I do not feel at this point that I can or should answer your question more precisely.

Mr. HARKNESS: When was this order in council passed?

Mr. PELLETIER: In 1948.

Mr. HARKNESS: That was in consequence of the sort of general promise that was made to the effect that medical treatment would be provided for veterans, was it not?

Mr. CRAWFORD: I am not aware of any such promise. I have heard it referred to many times. Maybe it is so. However, I cannot tell you the reason; the understanding which I have obtained from reading the past history of this thing is that the War Veterans' Allowance Act provides for veterans who are indigent and they are given an allowance in order to provide them with food, shelter, clothing, and the other necessities of life. It seemed perfectly reasonable they also should be provided with medical care. This is the only basis I can find for this.

Mr. HARKNESS: I have not read the evidence given at the veterans affairs committee of 1945 and 1946 when the veterans' charter was produced, but I have a very distinct recollection of a considerable amount of discussion there at that time and statements on the part of the Hon. Ian Mackenzie and other people with regard to the provision of medical care for these people.

Mr. CRAWFORD: The way this was reflected was that all veterans on returning to Canada would receive medical attention which they required for a period of one year. This was to enable them to become rehabilitated and get back into civilian life. That was done.

The CHAIRMAN: We might be able to obtain a copy of the order in council in question, and it might contain in it some information which would show the base on which it was passed.

Mr. WINCH: That would be interesting.

Mr. HARKNESS: As I say, there were discussions, statements, and guarantees made in the veterans affairs committee in 1945, 1946 and 1947 when the whole matter of the veterans was under discussion.

Mr. WINCH: I would take it, from the answer we have been given on this matter, that if this policy or action by the department is by order in council which is legal, then you do have the statutory authority.

Mr. PELLETIER: Well, yes; delegated statutory authority, if you like. What we mean is that it is not written into the law.

Mr. FRANCIS: Surely an order in council is not a statute.

Mr. McLEAN (*Charlotte*): I would like to ask Dr. Crawford whether the various hospital schemes in the provinces cover any domiciliary care for the veteran?

Mr. CRAWFORD: In general, Mr. McLean, no. Some provinces cover chronic cases as an insured service, and all provinces cover acute cases. Some provinces cover the chronic cases as an insured service, but so far as I know no province covers domiciliary care as an insured service. Some provinces, notably Alberta, will heavily subsidize nursing home care so that the effect is almost that of having it an insured service, a half insured service, if you like.

Mr. McLEAN (*Charlotte*): Would you be subsidized by the Alberta government?

Mr. CRAWFORD: This has not been the case in the past because we, as a federal agency, have been pretty much on our own; we have been fairly independent of the Alberta operation. Under the new scheme I suspect that in this new institution we will be regarded as operating a nursing home for the benefit of citizens of Alberta who happen to be veterans, and therefore will be regarded in the same light as other operators of nursing homes.

Mr. McLEAN (*Charlotte*): What percentage of veterans are paying veterans?

Mr. CRAWFORD: This is difficult; I cannot give you an exact answer. However, in August 7 per cent of my total patient load was paying patients; that is, their hospitalization was paid for by a provincial plan and presumably they were paying their own doctors for the care provided. Another 8½ per cent have their hospital cost paid for by the provincial plan and they may or may not have received bills from their attending doctors because of the state of their finances. As doctors do not generally send bills to people who they do not think can pay, perhaps they did not send bills to 8 per cent; but again I do not know, because I do not send the bills. This is a matter between the doctor and patient. So, about 15 per cent of the patients in our hospitals were paying patients to some degree or other.

Mr. McLEAN (*Charlotte*): I think a lot of the general public think all veterans get free service.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will move on to paragraph 91. This is a point on which both Mr. McLean and Mr. Harkness have touched. This paragraph has to do with employment of part time doctors by Department of Veterans Affairs.

91. *Employment of part time doctors by Department of Veterans Affairs.* In paragraph 106 of last year's report attention was drawn to an administrative problem resulting from the extensive staffing of Department of Veterans Affairs hospitals with part time doctors retained on a negotiated fee basis, with no clearly defined terms of employment, to complement a nucleus of full time medical personnel employed by the department. The problem related to the status of funds derived from fees for services provided by the medical staff to patients who had been admitted to the hospitals on a paying basis, and this had become of greater significance because of the growing volume of paying patients arising out of the broadening of the treatment regulations in recent years. The department, while forbidding full time salaried employees to participate, had permitted the part time doctors to make billings for services to such patients—encouraging them, however, to use the proceeds for purposes that would benefit the hospitals in which they were employed (although at some hospitals the part time doctors formed

associations to bill patients and divided the proceeds among themselves and in some instances full time doctors became sharing members).

We reported last year that the department had proposed that a solution to the problem might be the creation of a special fund under its control to which would be credited the proceeds from fees for services rendered paying patients by both the part time and full time doctors, the proceeds to be used for purposes specified by the department, including the purchase of books for the hospital library and payment of expenses incurred by the hospital staff while attending scientific or similar meetings of benefit to the hospital. The audit office view was that, although there appeared to be merit in this approach in comparison with the former procedure, in that the department would be in a better position to control the situation, parliamentary authority would be required for the establishment of the special fund as the proceeds from this source were public moneys and the department's proposal would not meet the requirements of the Financial Administration Act regarding their disposition. Our reasons for the view were: (a) full time doctors are public servants and any fees deriving from their services with the department are public revenues, (b) there was no evidence that the annual negotiated fees for part time doctors were to be with respect only to services rendered to patients entitled to free treatment, and (c) moneys collected arose from services undertaken in departmental hospitals using hospital facilities. We reported that the matter had been directed to the attention of the treasury board and that the general problem and the department's proposed solution were under study by the board.

The treasury board's study resulted in the issuance of order in council P.C. 1963-35/890 of June 13, 1963. This order makes it clear that departmental payments to the "half-day" doctors are for services rendered to all persons admitted under the provisions of the Veterans Treatment Regulations except those admitted under sections 13, 14, 23, 24 and 25 (the paying classes of patients) and also makes available departmental facilities, without charge, to doctors employed under the order for the treatment of paying patients. Thus the part time doctors remained in the position of being able to bill patients under the payment sections.

While the order removes doubts regarding some aspects of the problem, in that it sanctions the use by part time doctors of departmental facilities without charge and clearly defines the terms and basis of employment of the part time doctors, it does not recognize the fact that there is no practical way to distinguish between the amount of service rendered paying patients by part time doctors on the one hand and full time doctors on the other. Services provided such patients, nominally assigned to part time doctors, almost inevitably involve the services of full time salaried practitioners. Thus, in effect, there is a government subsidy: either to the part time doctor, if he bills in accordance with the provincial schedule of medical fees for the treatment given (including treatment by salaried departmental medical officers); or to the patient, if the fee billed by the "half day" doctor is reduced to allow for services provided by salaried departmental officers (since this reduction would not be available to him in other hospitals).

An associated administrative problem, which has existed for some time and was not resolved by the order referred to above, relates to the determination of time spent in hospitals to arrive at the number of half days of attendance which forms the basis of the departmental

payment to part time doctors. This order, as did previous orders, provides that payment for professional services rendered shall be on the basis of a fee for "each half day of attendance or the equivalent thereof". The department has, however, never paid fees on the basis of actual time worked, having always regarded the half day basis more as an administrative device than an actual method of control. Indeed, the recent order makes the keeping of time records almost impracticable since it requires that the time spent in the hospital be allocated between service to paying patients and service to patients for whom the department is directly responsible. While payments to the doctors are made monthly, ostensibly on the basis of attendance or services rendered in the month, in practice the "half day" doctor is engaged on the basis of an annual honorarium the amount of which is negotiated between the doctor and the department based on the department's estimate of the value of the services to be rendered and the funds available for these purposes. Thus the "half day" payment to a doctor may not bear any close relationship to the time actually spent in providing the services.

Would you like to make a comment on this, Mr. Henderson?

Mr. HENDERSON: This subject, the employment of part time doctors by the Department of Veterans Affairs, was covered in paragraph 106 of the 1962 report and paragraph 91 of the 1963 report. In the fiscal year 1962 we observed that part time doctors employed by the Department of Veterans Affairs on a negotiated fee basis were at the same time charging paying patients in Department of Veterans Affairs hospitals. We took the view that such charges made by the part time doctors constituted public funds and therefore should be handled in accordance with the requirements of the Financial Administration Act; that is to say, the part time doctor, paid by the federal government for part time service, bills the patient and receives money from the patient.

Mr. WINCH: You mean, they collect twice?

Mr. HENDERSON: To oversimplify it, that is the point.

We also questioned the basis of the fee payments being made to the part time doctors on which the orders in council were not specific.

Following discussion of the matter with the officials of the department two years ago, we suggested it be referred to the treasury board for clarification. The problem is a difficult one administratively, as Mr. Pelletier and Dr. Crawford will themselves be explaining to you.

The meeting with treasury board resulted in the issuance of P.C. 1963-35/890 of June 13, 1963. But like its predecessor, the order in council sets out that part time doctors are to be paid on the basis of a fee for each half day of attendance or the equivalent thereof.

In point of fact, the department has never paid these doctors on the basis of actual time worked, having always regarded the authority provided in the order as merely a convenient administrative device by which to vary the payments to different doctors in a way that bears some relationship to the respective value of their services to the department. This provided a degree of administrative flexibility which, though desirable from the standpoint of the department's senior officers, was not compatible with the basis of payment outlined in the order.

The new executive order does, however, authorize the part time doctors to bill paying patients. It is, however, difficult to understand how the revised order in council can operate either to control employment of part time doctors or to clarify the revenue picture, because

if it is to be effective the following assumptions must be made which are not in accordance with actual operating conditions:

- (1) that part time doctors are employed to treat specific classes of patients, i.e., that they do in fact keep a record of time spent on classes of patients that are the responsibility of the department on the one hand and the paying classes on the other; and
- (2) that it is possible to separate the value of services rendered patients in general by full time doctors and part time doctors when they in fact act as a team.

My officers and I believe the executive order should be amended and reworded so as to recognize and deal with the actual operating conditions as they exist and function in the hospitals. The question as to whether or not the fees collected by the doctors from the paying patients constitute public funds which should be paid back to the crown is one on which I propose to obtain legal opinion when I am in a position to do so.

I suggest, Mr. Chairman, that perhaps Mr. Pelletier and Dr. Crawford might like to take over at this point, because this has been the subject of discussion between us.

The CHAIRMAN: Mr. Pelletier, would you care to make a comment?

Mr. PELLETIER: As simple as paragraph 90 was, as complex this one is. It is an immensely complicated problem. I know that the Auditor General and the Director General of Treatment Services have had it under discussion on many occasions. There are really I suppose four main points which the Auditor General has raised in this paragraph. First of all, what should be done with the funds derived from the fees for services? Second, he points out that there may be some form of subsidization of the doctor, because of the free use of our hospital facilities. Third, there may be some form of subsidization of the patient, and finally, the lack of control of the time actually spent by the part time doctors on some of the patients in our hospitals.

I would like to begin by making a general statement or comment. The Auditor General is quite properly concerned with seeing to it that there are sound and good accounts kept of the manner in which our hospitals are operated. On the other hand, we are concerned primarily with running first class hospitals for veterans within reasonable costs. In other words, what I am trying to say is that the aims which the Auditor General is trying to achieve and the aims which we are trying to achieve are almost diametrically opposed. I do not suggest for a moment that we are trying to operate the best possible hospitals regardless of cost. Far from it. What we have been trying to do is to find the best possible means to achieve both ends. We are still convinced that the manner in which we presently operate is the manner best designed to achieve these purposes.

Mr. Henderson referred to an order in council which was passed in 1963 which governs part time doctors. The rates laid down in that order in council have since been amended. What we actually pay now is on a half day basis, \$20.00 a half day for a general practitioner, and \$40.00 per half day for a specialist, with a ceiling of \$9,500.00 in any year for the general practitioner, and a ceiling of \$11,500.00 in any year for the specialist.

At the moment, in order that you may have an over-all picture of what is involved, we have 155 full time doctors, and 855 part time doctors. Of this latter figure, of the 855 part time doctors, 88 are general practitioners and 767 are specialists.

Now, if we control the time actually spent by the doctors on our patients, in other words, if we attempt to run a punch or time clock operation in our

hospitals, what we would quite rapidly develop is a situation where we would be unable to retain the first rate doctors we now have—and we do have first rate doctors. We work very closely with university medical faculties and we do have some of the best medical brains in the country working for us. But I am convinced that if we tried to impose a one to five sort of thing, where you had to punch a clock, we would just lose these people. We would only be able to attract the kind of doctors to whom you and I would not wish to entrust our families. I would think that in the long run—although we can not prove this with a slide rule—we would spend more money than we are now spending, and we would certainly not give as good care as we are now giving.

With regard to the charging of fees for services rendered, we have laid down a rule in our hospitals that full time doctors are not to indulge in that practice. They are paid a salary which varies. For the general practitioners the minimum is \$11,000, up to \$19,000 maximum, and for specialists from \$16,000 up to no fixed ceiling.

I do not think we have any full time specialists getting more than \$19,000. As a matter of fact they are paid on a full time basis.

Now, part time doctors are allowed to do this. What alternative can you think of? Even if we agreed with the Auditor General that this should be considered as public revenues, how are we going to administer it? Is the government of Canada going to get into the business of sending out bills and trying to collect from patients in a field which constitutionally is none of the federal government's business at all? It would make it, to say the least, completely unworkable, and would rapidly develop, I am afraid, into a pretty chaotic situation.

With regard to the subsidization factor, we all know doctors have to use operating rooms in general hospitals. The doctors do not get charged for it. The patient does. With regard to subsidization of the patient, we have mentioned in connection with section 90 the hospitalization insurance schemes. Our hospitals are treated on the same basis as any general hospital. We get reimbursed for hospitalization for all our veterans except disability patients, the armed forces, and those for whom the federal government has statutory obligations.

I cannot think, Mr. Chairman, of any alternative better than the one we now have. If one can be designed, we would be quite prepared to adopt it.

The CHAIRMAN: Thank you.

Mr. CARDIFF: Is there any supervision over the part time doctors at all?

Mr. PELLETIER: Yes; very much so. The senior treatment medical officer, who is our head doctor in each one of our institutions, keeps them under watch continuously and makes periodic reports to the director general of treatment services. And this in turn is taken very much into account when negotiating a fee basis. It means perhaps that this expression that the Auditor General has used may have led you into error. It is not a fee that is negotiated; it is the number of half days which any doctor will be allowed.

Mr. CARDIFF: I think if you had a proper supervisor, that is the best idea you could possibly have, because I do not care what doctor, lawyer, or politician you have, there are always some chiselers, in those group of people, no matter who they are, or what occupation they have. If there is any supervision over them, it should not be hard to catch those fellows, and to know who is putting it over and who is not.

Mr. PELLETIER: I could not agree with you more. I would not like to comment on the chiselers, but—

Mr. CARDIFF: You will agree that there are chiselers.

Mr. PELLETIER: —what I do not know is that we may have specialists, for example, in hospitals whom we retain, let us say, for two half days a week.

That is the basis on which we retain them. Let us say it is to be Tuesday and Thursday. But on a Tuesday, he may not be there at all, or only for an hour. However, there may be a Saturday night when he is there at 11 o'clock, or he is there on a Sunday morning. We rely on our men in the district to make periodic reports and to let us know, first of all, the quality of service rendered, and second, the quantity.

Mr. FRANCIS: I gather, as the Auditor General has pointed out in 1962 that this problem arose out of the opening up of veterans' institutions on a paying basis for elective classes, and before that you did not have this problem. Have you any idea how much money is involved? Are there any estimates prepared by the Auditor General with respect to funds? I know that in the 1963 report in some hospitals the full time doctors or the part time doctors forgo sending bills. How much money is involved? Is there any indication of a sum of money?

Mr. CRAWFORD: One of the troubles with this sort of discussion is that I would like to be able to say that the Auditor General was completely wrong and that we were completely right. But the unhappy position in which we find ourselves here is that the Auditor General is as right as we are in this business. I shall get around to your question in just a moment, but I do want to say this.

The Auditor General is particularly right when he says that this half day fee basis is nonsense, and it is a fiction. It is an administrative tool. In my opinion it is an extremely valuable administrative tool, and I shall explain why. In fact, when we are looking for a specialist to go to one of our hospitals, we go to the associated university and we say that we want, let us say, an orthopaedic surgeon. The university says: "We have got Dr. Jones who is a first class man and well trained. He is just getting started in practice. He is on the teaching staff of university. We think he would be an excellent man for your purpose." So we approach Dr. Jones and we say that we would like him to come down to the hospital, and that we would expect him to provide a service to the orthopaedic ward of the hospital for which we would pay him "X" dollars, that is, so much money.

Each year all these units of "X" dollars are added up and come to a total amount of money which the superintendent of the hospital has at his disposal for payment to doctors treating veterans who are federal responsibilities, and others. The Auditor General is quite right when he says that this is a negotiated rate in that we have told the man that we will pay him so much money.

But the man may become busier with his private practice, and he will say two or three years from now "I cannot give you that much service. I want you to get someone else to help."

The total service is still the same, so I can say to the superintendent at that time, "All right, if you want to take on another orthopaedic surgeon, go ahead in the same way, through the university. Now you have two. But I am not going to pay twice as much for them. You are still working within your ceiling." The superintendent then says how many half days will be payable to each. There is no contract. I do not want a contract, because our hands would be tied. This association we have gives you administrative flexibility to change upwards or downwards the amount paid to any part time doctor in any month in relation to the amount of service which he is supplying. It is an extremely valuable tool, and it works out for the federal government extremely cheaply, because if we paid these people on a fee for service basis, instead of on the honorarium sort of basis, I think it would at least double and perhaps treble the amount of money which is now being paid.

Now, to come to your question of how much money is involved, I do not know, because, as we have said, we know how many people we have got,

but we do not know how many of them get bills. We do not know how much money comes back to the doctor himself who sends them.

Mr. FRANCIS: Do I understand Dr. Crawford to say that in fact it is really no longer a fee for service matter?

Mr. CRAWFORD: It never has been a fee for service.

Mr. FRANCIS: I assumed at the beginning there was something in relation to it.

Mr. CRAWFORD: In the beginning this system started immediately after the war when the Department of Veterans Affairs was set up. Prior to that our medical service was provided either by full time people, or by part time people, all of whom were civil servants, that is, full time or part time civil servants. As a result, the rates were set by the civil service commission. We tried then to bring about a contract basis, but we were not able to get the kind of doctors that we wanted.

Mr. FRANCIS: Has the Canadian Medical Association or representative groups made any representations to you with respect to this problem?

Mr. CRAWFORD: Have they ever! At the very beginning when my predecessor introduced this concept of admitting elective cases to our hospitals, obviously one of the agencies which had to be consulted was the Canadian Medical Association. The Canadian Medical Association agreed that we could admit to our hospitals and they would have no objection to our admitting to our hospitals citizens of the community who happened to be veterans provided that those citizens of the community were treated in exactly the same way as they would have been treated had they gone to a community hospital. And this is the reason for this medical fee business.

Now, Mr. Harkness mentioned that originally we included a flat medical charge for some of them, but we very quickly got out of that practice, and we got entirely into this situation where our hospitals for this purpose are exactly like community hospitals.

Mr. FRANCIS: This is my last question, because I do not want to take up too much time at this point. If the position of the Canadian Medical Association is that patients should be treated on the same basis in hospitals, what about the other side of the coin? Should not physicians be treated in the same way as if they were treating their patients in a community hospital? If a part time physician had 75 per cent or more people in the elective categories, is the department not concerned with the annual retainer that he should earn?

Mr. CRAWFORD: Well, yes indeed. The most recent order in council to which we have referred specifies—and this was brought up in the conversation with the Auditor General—the classes of patients for whom this retainer is being paid—in general the pensioners with service incurred disability; war veteran's allowance recipients, members of the armed forces, and of the R.C.M.P., for all practical purposes.

Mr. FRANCIS: There is no billing done in respect to these?

Mr. CRAWFORD: There is no billing done with respect to these, whatsoever.

Mr. FRANCIS: There is no extra bill in respect of those classes?

Mr. CRAWFORD: No extra billing whatsoever in respect of them. If we got to the point where the total of these three categories were reduced, then you would be right, we should reconsider the amount of this retainer that we pay. However, this category is not decreasing. The pensioners are decreasing but the war veterans' allowance recipients are increasing all the time and will continue to increase, so that only 15 per cent of our total patient load is involved in the paying categories.

Mr. FRANCIS: Dr. Crawford, you said that the war veterans' allowance component is increasing. Do you mean the active treatment phase of the war veterans' allowances and not the domiciliary phase?

Mr. CRAWFORD: Our chronic treatment and domiciliary care patient is also provided with the necessary medical attention, whatever it may be, at our expense.

Mr. RYAN: Mr. Chairman, I would ask Mr. Pelletier if it is not the case that most of these hospitals have X-ray and pathology laboratories.

Mr. PELLETIER: Yes, the active hospitals.

Mr. RYAN: And in this area do you have permanent staff, X-ray specialists and pathologists?

Mr. CRAWFORD: In the main all our radiologists—this is not entirely true because there are some exceptions—are full time, as well as our pathologists and anaesthetists, generally speaking. This, I suggest to you, is exactly the situation you would find in any community hospital.

Mr. RYAN: I am wondering whether you bring in specialists on occasion?

Mr. CRAWFORD: Oh, yes. For example, in Westminster hospital the chief of my laboratory service is a part time man. In Shaughnessy hospital the chief of my radiological service is a part time man.

Mr. RYAN: Do you have a regular staff in the X-ray department to service the private patients as well as the public patients?

Mr. CRAWFORD: Yes. Again the situation is similar to that in a community hospital. This sort of diagnostic service is an insured service under the provincial hospitalization scheme. This is part of the cost of hospitalization for which we are reimbursed by the provincial plan.

Mr. RYAN: But I take it that on occasion you do have a specialist who comes in and he has the same privileges in the X-ray department as any other specialist?

Mr. CRAWFORD: Not in pathology or radiology because this is a diagnostic service included under the provincial plan. They cannot send bills for this.

Mr. CAMERON (*High Park*): I want to get this thing clarified. As I understand, Dr. Jones whom you mentioned is an orthopaedic surgeon and he serves everybody in the hospital on a part time basis.

Mr. CRAWFORD: No, because the order in council specifies that we are taking him on for the care of service connected disabilities, war veterans' allowance, members of the armed forces and the R.C.M.P. This is the deal we make with him. He provides care for these people.

Mr. CAMERON (*High Park*): Are any of those paying patients?

Mr. CRAWFORD: None.

Mr. CAMERON (*High Park*): What is the problem then?

Mr. CRAWFORD: We do have 15 per cent of our patient load who are paying patients to some degree or another, and the Auditor General feels that this should be public money and come to the Receiver General of Canada.

Mr. CAMERON (*High Park*): But they are elective patients and he comes to them because they ask him to come.

Mr. CRAWFORD: Yes, I disagree with the Auditor General.

Mr. CAMERON (*High Park*): He bills them on the basis that they are private patients. He is not giving them the service he is being paid for on a part time basis.

Mr. WINCH: That is the very point on which I have a supplementary question. I am not quite clear on it. You have all these doctors on a part time basis, let us say it is for a half day or something of that nature. Is the doctor expected

for that half day for which he is being paid to devote his services and his time to those he is not going to bill? Are those he is going to bill in addition and on his own time to the half day that he is being paid for out of the federal treasury to take care of those who are definitely the direct responsibility of the department?

Mr. CRAWFORD: This is the point that the Auditor General makes. He says we are paying people on a half day basis and we do not know that they are there for half a day and we do not know what they are doing for the half day they are there. He is right, we do not know, but we do know this as Mr. Pelletier pointed out, if we are paying a man at the rate of two half days a month he is providing us with a valuable service. I explained that this is nothing more than an administrative tool. In fact, what we have done is to say to this doctor, "We want you to provide a service for certain patients and we will pay you so much." It is an honorarium. For administrative purposes we break it down into half day units. We do know this, that probably the doctor is not in the hospital two half days, as two distinct units of so many hours each at any time, but he is there every day in the week for an hour. He is there on Saturdays and he is there on Sundays. In other words, he is providing a service. Now, this authority for half day units has got us into a lot of trouble because the Auditor General does not like it. He says it is a measure of time and we are not measuring time. I agree we are not measuring time but I do say that this device gives me the administrative flexibility which enables me to get the best people I want to provide a service which is the best they can provide at a reasonable rate. I do not want to lose that administrative flexibility.

Mr. WINCH: I understand your explanation is that you are hiring a service and that service must be available, and that you are not concerned how much time he may spend on one category or the other as long as the service is available. Is that the basis of it?

Mr. CRAWFORD: That is entirely the basis.

Mr. CARDIFF: What constitutes a half day? Is it four hours?

Mr. CRAWFORD: I have no idea what constitutes a half day. The civil service week is constituted of $37\frac{1}{2}$ hours, I believe. It is very flexible. If you want, I can change this and give an honorarium, but if I have contracted with a man to provide a service at a monthly rate or an annual rate, I have lost my ability to change my mind half way through.

Mr. CARDIFF: If at the end of the month he says he wishes to make up his time, what happens?

Mr. CRAWFORD: Time has nothing to do with this. He would never make up his time. If you are going to have a gall bladder out are you going to pay a surgeon more because it has taken him two hours than if it took him half an hour? Not a whit! You are paying for a service, and this is what I am getting.

The CHAIRMAN: I might ask a question here. Would it be possible, having in mind this is by order in council and does not require statutory amendment, for an amendment to be made to the order in council which, while retaining this system, would give a certain flexibility and would satisfy the Auditor General in that it would then have legality? Would it be possible for an amendment to be made? I am throwing this out as a suggestion.

Mr. HENDERSON: That is the point we are making. We believe that the existing order in council could be amended and reworded to give effect to the manner in which the department is administering the arrangement with respect to which we have no criticism at all. I think the description that has been given to the members by Dr. Crawford is an admirable one and pre-

cisely what takes place, but as the auditor of this institution we are of course bound by the wording of the order in council. I will quote from it:

Payment for professional services as provided in this order shall be on the basis of a fee for each half day of attendance, or the equivalent thereof, calculated as follows:

In another section mention is made of the paying classes which the doctors are able to bill. This order in council, as I mentioned, was intended to clarify the previous one, but it has not gone far enough for the reasons I have given.

May I be permitted to ask Mr. Douglas, who is familiar with the details, to say a word on this?

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): Mr. Chairman, as Mr. Henderson has said, we have no criticism whatsoever of the way the department is operating, and we certainly would not expect that the procedures be put on a time clock basis, as Mr. Pelletier suggests. We know very well that this is impossible.

There are several points I could make, however. One is that we had understood when we were discussing this matter with the department that it was in effect impossible to determine how much time is being spent by the half day doctors on various classes of patients. Indeed, as Dr. Crawford said, this is of no concern as long as they get the job done.

Furthermore, it is impossible to determine the split in service between the full time civil service doctors and the part time doctors because they do act as teams. Indeed, in the early days we were finding occasionally that the full time civil servant doctors were billing because they could see no reason why they should not bill if the part time doctors were billing. Of course, when we drew this to the attention of the department it was promptly corrected and appropriate action was taken to try to see that it would not occur again.

Another thing I would like to point out is that there is not an entirely normal private doctor-patient relationship in connection with paying patients who are treated in a veterans hospital. When they go into a hospital they accept the team of doctors which is there and inevitably—or perhaps I should not say inevitably, but often there are full time doctors who are civil servants involved in the treatment of these patients. Indeed, this was one of the reasons why the syndicates were formed to bill patients. It was because it could not readily be determined just who should do the billing and how the money should be split when the funds came in from billing the patients.

For this reason we felt there was indeed a problem about the nature of the revenues and about the propriety of the billings being made. We realized that it was not practical to follow the executive order, and we felt it should therefore be changed. It certainly gives the impression—or it gave the impression before and it does to some extent now—that one could go into a hospital, examine the records and determine the appropriate payments to the doctors, which of course is nonsense because there are no records. On some occasions the doctor shown on the payroll for a particular month was not even in attendance; perhaps some substitute doctor had been in attendance. It was impossible from an audit viewpoint to attack the problem.

The CHAIRMAN: I would just like to leave this thought with you. I do not know whether you have already done this, but possibly Mr. Henderson and Mr. Pelletier might be able to consider inserting into the order in council a proviso concerning the calculations of these amounts and certain authority on behalf of the department. In other words, you can make a fictional calculation if your order in council is flexible, thereby satisfying the Auditor General and in no way diminishing the department's primary responsibility, which is to provide the service which the statute lays down.

Mr. HENDERSON: These are really honorariums negotiated by properly qualified people in the department, and I cannot see why the order in council could not give recognition to that, specifying that it requires half day attendance or its equivalent as the department may decide.

Mr. WINCH: Mr. Chairman, if I understand it correctly I cannot see that there is any major or fundamental difference of opinion between the Auditor General and the department. There is only one point, that is that the Auditor General, considering his responsibilities, feels that the present wording of the order in council does not give authority for what is being done. All he is asking is not a change in the policy of the department but that the order in council be brought into line with the service that is being given. Surely, then, if there is broad acceptance or complete agreement on the service between the Auditor General and the minister of the department there can be established whatever it is felt is required from an auditor's point of view or from a legal point of view to bring the order in council in line with the service.

Mr. ROCK: It could be done on the recommendation of the committee.

Mr. HENDERSON: I think that can be done, Mr. Winch, with the recommendation of the committee. There should also be a further discussion with the treasury board to see if it could not be remedied.

As far as the billings and question of public funds are concerned, this order in council gives authority to the part time doctor to bill persons eligible for treatment under certain of the sections as we have been discussing here. It might therefore be argued that because the order in council has recognized it, this in effect removes these particular funds from the sphere of public funds; that is to say, that the governor in council gave recognition to the fact that they would be collecting money from the paying patients and that was taken into account in computing the negotiated fee.

I am not yet prepared to express an opinion on the legal aspect of that, but it was the direction in which I understood they were moving when they put this order in council forward last June.

The CHAIRMAN: Mr. Danforth.

Mr. DANFORTH: I have a question to put to Mr. Crawford.

The Auditor General, Mr. Henderson, used the term "honorarium", as did you in your remarks, Dr. Crawford. As I understand it, the services are not on a time clock basis; you are employing a doctor to assume a certain responsibility for which he is paid, and the number of hours is up to him as long as he fulfils the responsibility for which he is being paid.

Could you, sir, elaborate on why this term "honorarium" should not be used? Would it interfere with your flexibility if this term were used?

Mr. CRAWFORD: Yes, I think it would to some extent. If I used the term "honorarium", I should say that this honorarium is to cover a period of time—a month, a half year, a week, or something like that. I do change the rate of half days payable to an individual doctor at monthly intervals. If I could whittle this honorarium down to a month, probably I would have no administrative difficulty. If I make the operative period longer than a month, then I lose administrative flexibility.

Mr. CROUSE: I have listened very carefully to the remarks of Dr. Crawford, and it seems to me that this whole matter is one of splitting hairs. There are people today who buy a licence to drive their automobiles on a highway, and that licence permits them to use the car twelve months of the year. Through disability or some other trouble, they may find the car stands in the garage for some eight months, but they are permitted to use the highway. My car is also licenced for twelve months of the year, but much of the time

it stands in the parking lot of the House of Commons. However, I want to know that I have the service and the car available.

It seems to me that the evidence Dr. Crawford has given to us here has shown us that he requires the services of the doctors, and he wants to know that they are available. I think the present system should be allowed to remain.

Mr. RYAN: I would like to ask Dr. Crawford to give us an illustration of what happens to a specialist who receives an honorarium of the top amount, say \$11,000 a year, on the basis of two half days a week.

Mr. CRAWFORD: More than that.

Mr. RYAN: I am speaking of a specialist who, in addition, is allowed to bill the patients in the hospital on a private basis.

I would like to have some idea what income some of these specialists are obtaining from the privilege of their position.

Mr. CRAWFORD: Frankly, sir, I do not think that is any of my business. I do not know the answer.

Let us take for example the case of a professor or assistant professor of medicine in one of the universities who has a consulting practice outside, and who is working for me in the hospital perhaps as the chief of my medical service, responsible for the operation of the entire medical service. I would pay that man \$11,500 for what he does for me; and I think I am being well served at that amount of money. What he gets from the university is not my concern. What he gets from the private practice is not my concern.

Mr. RYAN: Perhaps I am being a little unfair in my question. Let me put it this way: Have you seen any case where there has been an abuse by a specialist? Perhaps I should not use the term abuse. I am speaking of a case in which a specialist spends his full time at the hospital doing two and a half days in connection with public patients and dealing with the private patients sector for the remainder of his time.

Mr. CRAWFORD: No. this has never happened. First of all, the maximum for which I would take on a man on this half day basis would be 20 half days a month. This would mean that I am paying him to be there every day. Such a man would in fact be charged with the administrative responsibility of his section of the hospital as well as the care of patients and supervision of the work of other doctors working with him. This is what would be required to bring him up to the maximum of \$11,500. If he is there for more than that length of time he may be getting a few dollars from private patients in that hospital. He is probably, however, working in some other hospital as well, and he is getting a lot of money from that.

Mr. RYAN: Would you yourself recommend that there should be an amendment put through to this order in council so that the proceeds from the service of specialists treating patients who are in the hospital on a paying basis would be syndicated?

Mr. CRAWFORD: May I read to you something I wrote? You will understand that when the Auditor General makes his observations and forms his report those observations come to the departments, and everybody takes a look at what the Auditor General has said. In our department, at any rate, each of us individually makes a comment on the Auditor General's observations. This is what I wrote with respect to paragraph 91 of the 1962-63 report.

I said:

The Auditor General draws attention to the administrative difficulties arising from the payment of medical fees of patients being treated under certain sections of the veterans' treatment regulations. These diffi-

culties have long been recognized by the department. No entirely satisfactory method of resolving them has been found.

In view of the general satisfaction which has resulted from methods adopted in the past in the employment of medical officers in departmental hospitals, the department feels they should continue these methods and accept the administrative difficulties that may be associated with them.

If I may paraphrase that, I have been concerned about this problem since I joined the department eight years ago. I have given a great deal of thought to the best ways of meeting the objections which have been raised, not only by the Auditor General, but by myself. I have been unable to find a completely satisfactory method, and if the Auditor General and the deputy minister in their wisdom can find a better way, God bless them; but in eight years of hard work I have not been able to do it and I would like to leave the thing alone.

Mr. RYAN: In other words, you feel that if you deprive some of these able specialists of the right to keep the funds they earn from these private patients they will no longer work with the department. Is this the case?

Mr. CRAWFORD: No. I think if we did not have these elective patients in our hospitals it would not make any difference. These doctors are not primarily concerned with the number of dollars they are getting for the treatment. You will appreciate the fact that the medical profession is extremely tender at the moment, and has been for some time, about anything which looks like state medicine. I am dependant on their good will and must co-operate as much as I can with them and they with me. They say that so long as we are going to have these elective patients in hospital they must be treated as if they were in community hospitals. If we did not have them, I do not think it would make any difference, but so long as we have them, we must treat them in this way.

Mr. RYAN: There are cases where they object to syndicated funds.

Mr. CRAWFORD: What they do with the money they get is of no concern to me. They can send the bills. If they want to pool it and split it up among themselves, they may. On the other hand, if a doctor wishes to send an individual bill, that is the doctor's concern and not mine.

Mr. ROCK: The elective patients are what we are concerned with right now, the amount of fees they are paying to the doctor.

Mr. CRAWFORD: We are not concerned at all with the amount of the fees, I submit.

Mr. ROCK: I mean, the discussion with which we are concerned here.

Mr. CRAWFORD: Yes.

Mr. ROCK: And not what you are concerned with. Do these doctors work also in a clinic where there are other patients who are not elective patients in the hospital and who come in for treatment?

Mr. CRAWFORD: You mean in the out patient clinic of the hospital?

Mr. ROCK: Yes.

Mr. CRAWFORD: No. We do not do any of this so-called section 23 work on an outpatient basis; this is just internal in the hospital.

Mr. HARKNESS: This difficulty which is dealt with in this particular section arises as a result of doing away with the flat fee basis for elective patients; in other words, when there was a flat fee basis this question did not arise because under those circumstances the doctors who treated these elective patients were being paid just the same as they were being paid for disability pensioners, and so on. What was wrong with the flat fee basis? Why would not the restoration of this get away from these difficulties?

Mr. CRAWFORD: First of all, remember we are paying a very minimal amount to the doctors who work for us; it averages out something in the order of \$2 a day. This, then, is putting a value of \$2 a day on the services of the surgeon who is taking out the brain tumour, is doing the gall bladder operation, and so on. The medical profession—and in this case I think quite rightly—says this is not acceptable; we will not have our services valued with regard to private patients at that rate. Now, there are two options; we can change our whole system of remuneration of medical officers and go on to a fee for service basis where I will pay \$1,000 to the neurosurgeon who takes out the brain tumour for the chap for whom I am responsible; or we can say, all right, work for your \$2 a day per patient for the people who are under my responsibility and the others are private patients, do what you will with them.

Mr. HARKNESS: In other words, the reason you moved away from a flat fee basis was that the medical profession objected to it?

Mr. CRAWFORD: Primarily, or at least that was a very important factor.

The CHAIRMAN: Are there any more questions on this item, gentlemen? If not, I am sure the committee would want me to extend our gratitude to Mr. Pelletier and Dr. Crawford for the careful and detailed explanations and the assistance they have given to us. We appreciate your coming here, Mr. Pelletier and Dr. Crawford.

Now, gentlemen, it is half past 11 and I do not think there is any point in commencing another item at this time. We will adjourn to reconvene on Thursday at which time Dr. Cameron, the deputy minister of national health and welfare, will be here. In addition, there will be one or two other items and these will appear on the notice which is sent to you.

APPENDIX 1

DEPARTMENT OF TRANSPORT

OTTAWA, August 5, 1964

Mr. G. W. Baldwin,
Chairman,
The Standing Committee on Public Accounts,
House of Commons,
Ottawa, Canada.

Dear Mr. Baldwin:

When the Departmental Officials appeared before the Standing Committee on July 28th, the question was asked as to how the figure of \$350,000. was determined for inserting as a condition in the lease with Air Food Caterers.

An examination of Departmental files does not indicate clearly and completely why the figure of \$350,000. was inserted as a condition of the lease. It would, however, appear that this figure was an oral estimate made by the bidder to the Department respecting the cost of suitably equipping and furnishing the lounge area and Departmental Officials referred to this cost estimate in later discussions with Treasury Board Officials. Subsequently, the Treasury Board Minute approving the award of the concession to Air Food Caterers contained the proviso that:

"The concessionaire shall spend a minimum of \$350,000. as the initial cost of furnishing, equipping and decorating the various concessions. In this regard and as a condition for entry into the lease, detailed plans and specifications shall be prepared for the program, the implementation of which shall be conditions precedent to the balance of the lease arrangement."

Yours very truly,

G. A. Scott,
*Assistant Deputy Minister,
Economic Policy and Research.*

APPENDIX 2

DEPUTY MINISTER OF PUBLIC WORKS

OTTAWA 8, July 31, 1964.

Mr. G. W. Baldwin, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa 4.

Dear Mr. Baldwin:

This letter refers to the following two items relating to the Department of Public Works which remained outstanding at the meetings of the Public Accounts Committee on Thursday, July 23, 1964.

A: 1963 Report, paragraph 80—Construction of a Public Building, North Bay, Ontario

Mr. A. D. Hales, M.P., asked for the number of tenders received and whether the lowest was recommended.

Answer:— Fourteen tenders were received in response to public advertisement, ranging in value from \$1,341,698 to \$1,483,176. The contract was awarded to the lowest tenderer (Bennett & Pratt Limited, Weston, Ontario).

B: 1962 Report, paragraph 115: 1963 Report, paragraph 98—Non-productive payments Generally

In order to place the reported payments in the proper perspective, the Committee requested that a statement be provided showing, for the two years under review, the total number of contracts completed, with the total claims received indicating those that were rejected.

The preparation of this statement involves a considerable amount of research into departmental records. This is now being carried out. The requested statement will be provided as early as possible and, in any event, no later than Friday, August 7, 1964.

I trust that will be satisfactory.

Yours sincerely,
Lucien Lalonde.

APPENDIX 3

DEPUTY MINISTER OF PUBLIC WORKS

OTTAWA 8, August 20, 1964.

Mr. G. W. Baldwin, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa 4.

Dear Mr. Baldwin:

At the meeting of the Standing Committee on Public Accounts held on Thursday, July 23, 1964 the department undertook to provide additional information in respect of the total number of contracts completed and the claims received on these contracts for the two years under review.

The attached appendix sets out the requested information in respect of both construction contracts and consultants' agreements. In order to eliminate a large volume of small contracts of minor value, the report is confined to construction contracts in excess of \$15,000 and consultants' agreements in excess of \$5,000.

I trust that this information will satisfy the requirements of the Committee and will assist in placing the reported "non-productive" payments in the proper perspective.

Yours sincerely,

Lucien Lalonde.

Att.

Appended to letter of August 20, 1964, to Chairman, Public Accounts Committee, from Deputy Minister of Department of Public Works.

Department of Public Works

Summary of Contracts and Claims Received Thereon,
1961-62 and 1962-63*A: Contracts and Claims Summary*

Fiscal Year	Number and Value of Contracts	Number and Value of Claims Rec'd.	Number and Value of Claims Paid	Value of Non-Productive Element of Claims Paid
1961-62	525—\$ 99,737,400	38—\$2,996,300	30—\$ 771,300	\$333,600
1962-63	548—\$107,208,600	55—\$2,846,700	47—\$1,146,700	\$464,800

B: Disposition of Claims

Fiscal Year	Number and Value Paid in Full	Number and Value Paid in Reduced Amt.	Number and Value Rejected in Full
1961-62	8—\$ 98,500	22—\$672,800	8—\$109,000
1962-63	17—\$164,000	30—\$982,700	8—\$125,000

Notes:

1. Section A

- (a) The "non-productive" element of claims paid includes all claims reported by the Auditor General with the exception of the payment in each year in respect of unused office space in London, England, which did not involve a contract claim.
- (b) The difference in value between claims paid and "non-productive" elements of claims paid represents payments for extra work and other contractual obligations.

2. Section B

The details of claims rejected in full does not include claims rejected at District level and not pursued by the contractor to Headquarters level.

APPENDIX 4

DEPARTMENT OF NATIONAL DEFENCE

OTTAWA.

July 30, 1964

Mr. G. W. Baldwin
 Chairman
 Public Accounts Committee
 House of Commons
 Ottawa, Ontario

Dear Sir:

During the examination of the defence items in the Public Accounts Committee, Mr. Choquette asked for information concerning the distribution of the French language volumes of the Official Histories of the First and Second World Wars. I am enclosing a statement on each of these volumes.

Yours very truly,

E. B. Armstrong,
Deputy Minister.

OFFICIAL HISTORY FIRST WORLD WAR (FRENCH)

One Volume (French)

Total printed	2,200
Total Cost	\$25,602.00
DND share	\$20,660.00 for 200 copies
Current selling price	\$6.50

Q.P. Distribution

Free	162*
Sales	174
Stock	1,664

D. History Distribution

Government Departments	10
D. Public Relations	30
Netherlands Embassy	1
Foreign His. Sections France and Belgium	4
Authors complimentary copies	5
Stock	50

*includes distribution to university and public libraries.

OFFICIAL HISTORY SECOND WORLD WAR (FRENCH)

Vol. 1 French

Total printed	2,905
Total cost	\$22,794.00
DND share	\$18,401.00 for 405 copies
Current Selling Price	\$4.50

Q.P. Distribution

Free	121*
Sales	2,379
Stock	Nil

D. History Distribution (Free)

Through Q.P. for promotional purposes to newspapers	55
Other Government Depts.	} 33
Armed Forces	
Minister of National Defence	
Dept. Library	
External Affairs Library	} 5
Governor General	
Authors complimentary copies	7
Stock	

*includes distribution to university and public libraries.

OFFICIAL HISTORY SECOND WORLD WAR (FRENCH)

Vol. 2 French

Total printed	3,000
Total cost	\$27,436.00
DND share	\$21,593.00 for 500 copies
Current Selling Price	\$4.50

Q.P. Distribution

Free	150*
Sales	860
Stock	1,490

D. History Distribution—Free

Government Depts.	35
Q.P. for promotional purposes to newspapers	55
D. of Public Relations	25
Authors complimentary copies	9
Stock	26

*includes distribution to university and public libraries.

OFFICIAL HISTORY SECOND WORLD WAR (FRENCH)

Vol. 3 French

Total printed	2,700
Total cost	\$13,500.00
DND share	\$8,500 for 200 copies
Current Selling Price	\$5.25

Q.P. Distribution

Free	165*
Sales	465
Stock	1,870

D. History Distribution

D. Public Relations	30
Other Govt. Depts.	34
Foreign Historical Sections France & Belgium	4
Q.P. for promotional purposes through newspapers	50
Stock	59

*includes distribution to university and public libraries.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, OCTOBER 22, 1964

WITNESSES:

Dr. G. D. W. Cameron, Deputy Minister of National Health, Department of National Health and Welfare; Mr. A. M. Henderson, Auditor General of Canada, and Messrs. J. R. Douglas and D. A. Smith, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, October 22, 1964.

(35)

The Standing Committee on Public Accounts met this day at 9.45 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Forbes, Francis, Frenette, Hales, Harkness, McLean (*Charlotte*), McMillan, O'Keefe, Pilon, Regan, Rock, Southam, Stefanson, Stenson, Tardif and Tucker.—(18).

In attendance: Dr. G. D. W. Cameron, Deputy Minister of National Health, Department of National Health and Welfare; Mr. A. M. Henderson, Auditor General of Canada, and Messrs. J. R. Douglas and D. A. Smith of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Chairman introduced Dr. Cameron and then called Mr. Henderson.

On paragraphs 85 of the 1962 Report and 72 of the 1963 Report, *Hospital construction grants*, Mr. Henderson reviewed this subject and was examined thereon, assisted by Mr. Douglas.

Dr. Cameron commented briefly and was examined thereon, and supplied additional information.

On paragraph 73 of the 1963 Report, *Indian hospitals and hospital insurance*, Messrs. Henderson and Cameron commented briefly and were examined thereon.

On paragraph 74 of the 1963 Report, *Improper authorization of use of a Government-owned automobile*, Messrs. Henderson and Cameron were examined thereon. Mr. Henderson tabled a letter in this connection which he received from Dr. Cameron, dated June 15, 1964, which was ordered printed as an Appendix to the record of this day. (*See Appendix*).

The questioning of Dr. Cameron being concluded, the Chairman thanked him and he was permitted to retire.

Paragraph 49 of the 1963 Report, *General Election Expenditures*, was allowed to stand in order to hear Mr. Castonguay later.

Mr. Henderson reviewed paragraphs 51, 62, 63, 71, 78, 97 and 98 and was questioned thereon, assisted by Messrs. Douglas and Smith.

The questioning of Mr. Henderson still continuing, at 11.15 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, October 27, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, October 22, 1964.

The CHAIRMAN: Gentlemen, I see we have a quorum. The meeting will come to order.

Today we have with us Dr. Cameron who needs no introduction at all to any of you; he is here as deputy minister of national health of the Department of National Health and Welfare and has been kind enough to leave another meeting which has been going on for some time so that he could appear before us at our request.

We will deal particularly with paragraphs 72, 73 and 74 which appear on pages 45 and 46 of the 1963 report. Pursuant to our usual practice, I will ask Mr. Henderson to comment first of all on paragraph 72, after which I will call on Dr. Cameron.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. Paragraph 72 of my 1963 report dealing with hospital construction grants deals with a subject mentioned in the previous year's report, 1962, under paragraph 85 which likewise was left for this discussion.

What we have suggested in these two comments is that because of the nature of the construction grant program—the fact that long term planning is involved—it should be on a period of years basis rather than dependant on annual appropriations. I then point out the difficulties encountered in trying to finance the program from year to year. For example, I note that although an appropriation is intended to provide for commitments coming in course of payment during the year, 1962-63 was the third consecutive year in which insufficient funds were available to meet the federal government's obligations under the program and as a result substantial amounts of unpaid claims had to be carried forward.

It is noted that the Glassco Commission in volume 3 of their report, page 209, recommended that:

The present reporting and accounting requirements for health grants be reviewed and simplified, and consideration be given to placing health grant programs, of which the hospital construction grant was one, on a period-of-years basis.

Perhaps Mr. Cameron might care to comment upon this procedure, Mr. Chairman.

The CHAIRMAN: Yes. Dr. Cameron, any statement you have to make would be appreciated by the committee.

Dr. G. D. CAMERON (*Deputy Minister, Department of National Health and Welfare*): I should preface any comment of mine by saying that the situation has gradually developed since the inception of the grant program. I should also point out that the method we are using to finance our contributions to hospital construction is as we have been directed to do it by our ministers. In other words, it has been government policy that we have been following. The fact that we are supporting construction of hospitals means that we are obliged to make commitments well in advance, months, sometimes years in advance of the actual completion of construction. The building of a large hospital may run over two years and possibly into three years. The commitment of the

government has been for five year periods. The current commitment under which we are operating is a promise of \$20 million a year approximately for five years ending in 1968.

In making commitments to provinces, approving the project of a province, our purpose is to ensure that the funds would be made available, if annual appropriations are voted, and that there will be sufficient coming to that province to meet the commitments which we make in any current year, as pointed out, but in a five year period. Now, this is the way we have done it and I really cannot say much more than that.

The CHAIRMAN: Thank you, Dr. Cameron. Are there any questions on this subject?

Mr. McMILLAN: You say you receive \$20 million in five years, according to the rate you are going now?

Mr. CAMERON: No. I did not say that.

Mr. McMILLAN: Is there any allocation of money for these grants in the provinces?

Mr. CAMERON: Yes.

Mr. McMILLAN: I mean each year, going back to the \$100 million in excess?

Mr. CAMERON: As to the current year.

The CHAIRMAN: Are there any other questions? If not, might I ask you this: As I understand it, you promise \$20 million a year; this is promised by the federal government to an aggregation of all the provinces, and it would be a total of \$100 million in five years.

Mr. CAMERON: Yes.

The CHAIRMAN: I suppose what happens is that the provinces involve themselves in hospital construction, and if they would limit it to their proportionate share of the total of \$100 million in any one year, it would be all right. But sometimes they go a little faster than would be expected, and then you become faced with this *fait accompli*, a request for funds and grants over and above what your undertaking has been. Is this about the size of it?

Mr. CAMERON: I think that the different provinces appear to handle it differently. In some provinces they simply go ahead with their program, and they make payments to actual constructors of hospitals, to owners of hospitals, and collect from us as they go. In some cases where they cannot collect from us what appears to have been promised, then they protest. I do not know if I have answered your question.

The CHAIRMAN: Yes, I think I understand your point.

Mr. FRANCIS: Might I ask Dr. Cameron if there is any instance of a submission by a province, which appeared otherwise to be in order according to the rules, being turned down on the grounds of lack of federal funds?

Mr. CAMERON: Yes. In respect of two provinces I think we are just about at the end of our run at the present time.

Mr. FRANCIS: Perhaps I could put the question another way. Is it not basically a matter of timing? Say, if a province should be over in its quota or allotment in any particular year could not the same project be resubmitted at the beginning of the next fiscal year?

Mr. CAMERON: Yes.

Mr. FRANCIS: I can appreciate the problem of timing, but have there been any instances of such projects failing to receive federal grants after being constructed?

Mr. CAMERON: No.

Mr. FRANCIS: Of course, I am referring to such projects which have fallen within the rules.

Mr. CAMERON: Yes, I understand, and the answer is no.

Mr. McMILLAN: I understand that some hospitals use an amount less than their allocations.

Mr. CAMERON: Some provinces.

Mr. McMILLAN: Yes. And, you do not exceed \$20 million in any year.

Mr. CAMERON: I hope Mr. Henderson will come to my rescue in this regard. I am sure we are staying within the amount promised, having regard for the five year block.

Mr. FRANCIS: Of course, there may be a few delays.

Mr. CAMERON: Oh, indeed. There are days caused by resubmissions, putting it off and so on, but I think we are within the amount.

Mr. SOUTHAM: May I ask Dr. Cameron in respect of this \$20 million a year or \$100 million for five years how the department attempts to allocate this money between the provinces? Is it on a per capita basis or is some other formula used?

Mr. CAMERON: There is a basic amount, although I do not recall exactly what it is, and all our health grants are on this basis. As I say, there is a basic amount to all provinces and then the remainder is allocated on a per capita basis. This is done to ensure that a reasonable sum is available to the very small provinces.

Mr. CARDIFF: Is there any excuse for over-expansion in respect of any one province building more than it is supposed to under the allotment?

Mr. CAMERON: Well, Mr. Chairman, these allocations of funds are not done on the basis of what we regard as an adequate number of beds in a province. This is one of the criticisms of this method of supporting hospital construction. The policy has been to offer the same amount on a per capita basis, roughly speaking, to each province and not taking into account the number of beds per thousand already existing in that province.

Mr. CARDIFF: It states in paragraph 72 that one province was in excess \$2.1 million, whereas the other seven provinces were behind \$1.3 million. In the one case there was over expansion and in the others the reverse.

Mr. CAMERON: Of course, there has been a very rapid development in Quebec.

Mr. FRANCIS: It is catching up for a lack of development in previous years.

Mr. CAMERON: Yes. They have their proportion, the same as the rest.

Mr. HENDERSON: Could I ask Mr. Douglas to add something to this. He is responsible for this phase of the work and is very familiar with it.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): There is one point that should be clarified, namely the distinction between \$2.1 million and \$1.3 million, which is mentioned in the note.

The \$1.3 million of unpaid claims arose because the appropriation for the year was not sufficient to meet all the matured commitments in respect of projects completed in that year. In other words, you might say, there is a technical overspending of the vote for that year, \$1.3 million in accounts payable, you might say, had to be carried into the next year before being paid.

In the case of the \$2.1 million, this is a matter which under the present practice or procedure the federal government has not had control over, and it simply means that one province goes ahead with its construction program

knowing full well that the federal contributions cannot be made in the present year and that they must wait until subsequent years for payment. That is principally the distinction between these two situations.

Mr. HARKNESS: As I understand it, the Auditor General is suggesting that there should be an over-all limit for the five year period on the amount of money available under this program. Now, Dr. Cameron has said that there is an over-all limit, which would be \$100 million for the five years. But, that is not a statutory limit or anything of that nature, I take it; it is a sort of understanding. Am I correct in that respect?

Mr. CAMERON: It is a declaration of policy by the government; it is not statutory.

Mr. HARKNESS: Well, your point, Mr. Henderson, is that it should be statutory. Am I correct in that assumption?

Mr. HENDERSON: Yes, we think it would make for more effective control of spending, if the whole thing is planned on a five year basis, were parliament to acknowledge the total commitment even if it is only going to vote \$20 million a year annually for each of the five years.

Mr. HENDERSON: In other words, it is pointing out a matter in respect of the form of the estimates rather than anything else.

Mr. HENDERSON: Yes. I would like to suggest, if the proposition commends itself to the committee, that this is something the treasury board could take into consideration in respect of this whole area of program budgeting. You might recall, when we discussed the form of the estimates, one of the points I made was there should be a declaration and notification of all commitments over the next five years or so because in many cases today we have a five year program. A clearcut statement of what these commitments are in the estimates would add to your sum total of information; in this way you would be able to see what is the sum total of the commitments.

If you feel, in the light of the explanation Dr. Cameron has given, that this is reasonable and that parliament would thus have a more effective control, then perhaps it could be grouped in with the program of budgeting approach which treasury now has under way. We could tie both together. As you know, Treasury Board is examining the four departments with a view to introducing this type of program of program or project budgeting as distinct from budgeting or estimating by objectives. This is one of the Glassco financial management recommendations. It is part of that. I think if the committee believes there is merit along these lines this approach might be considered.

Mr. STENSON: Mr. Chairman, I am new on this committee and this question may have been asked. How is the allotment set up for each province?

Mr. CAMERON: There is a basic allotment to all provinces and then it is per capita. This applies to all our health grants.

Mr. STENSON: Would a poor province receive more on the basic allowance than would Ontario?

Mr. CAMERON: Only if it is a small province. What I am getting at is that it is in proportion. All provinces receive a basic grant. A small province does better under that than a big province; but from there on it is on a per capita basis.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will pass on to paragraph 73.

73. *Indian hospitals and hospital insurance.* Section 5 of the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, requires every province to agree to make insured services available to all residents of the province upon uniform terms and conditions. When hospital insurance

was discussed by the 1956-57 special committee on estimates, and later when the relative bill was debated in parliament, it was made clear this would oblige the provinces to provide insured services for Indian as well as other residents.

Indian and northern health services of the Department of National Health and Welfare has been providing these services to Indians and recently the volume of general treatment has increased as hospital facilities previously used for tuberculous Indians became available for general treatment.

The hospital insurance agreement with the province of British Columbia included the three Indian hospitals in the province, in recognition of their role in providing general hospital care to Indians. The province, however, has insisted that the agreement is subject to an earlier understanding that the province will only pay for care in Indian hospitals if no general public hospital accommodation is available. Thus, the province has refused to pay Miller bay Indian hospital for insured services to insured residents when accounts are not accompanied by a certificate from the nearby Prince Rupert General hospital that they had no accommodation available. While the province may wish to promote the integration of Indians and the general population, financial considerations appear to be paramount. Under the agreement the province pays practically the full operating costs of the Prince Rupert General hospital whether its beds are used or not, but for hospitalization in the Indian hospital the province pays only for the beds used.

In the calendar year 1962 the Prince Rupert General hospital's average occupancy was 95 per cent of its rated capacity of 88 beds, while the Miller bay Indian hospital's average occupancy was only 60 per cent of its rated capacity of 70 beds assigned to general care. The occupancy rates appear to reflect the province's policy of using this Indian hospital to provide stand-by facilities for the general hospital.

The 1962-63 public accounts show the operating costs of the Miller bay Indian hospital at \$73,000 and about half of this amount could be regarded as related to general care. Revenue received from the province's hospital insurance plan, as an offset to the cost related to general care, amounted to only \$14,000 or about 4 per cent of the federal expenditure. The failure to recover a larger share of costs at the Miller bay Indian hospital is explained by the fact that (a) the province will not pay for insured patients at the Indian hospital unless accommodation is not available in the general hospital, (b) per diem rates set by the province are below actual cost (and also below the corresponding rates in the Prince Rupert General hospital), and (c) the province deems some of the care given insured patients unnecessary, and will not pay for it. Thus, notwithstanding the fact that general care includes uninsured chronic and custodial care, it seems evident that Canada is bearing costs it was intended that the provinces assume under the Hospital Insurance and Diagnostic Services Act.

Mr. HENDERSON: Paragraph 73 deals with Indian hospitals and hospital insurance. As you will have noted here, it is concerned with what to us appeared to be the inadequate recovery of costs from the province of British Columbia under the hospital insurance agreement for insured services to Indian patients in the Miller bay Indian hospital. There are three reasons for this. First of all, the refusal of the province to accept accounts for the treatment of Indians unless accompanied by certificates from the Prince Rupert General hospital that accommodation was not available there.

The department considers this restriction to be contrary to the agreement, but the province insists that the agreement is subject to an earlier understanding to the effect that the province would pay only for care in Indian hospitals if no general public hospital accommodation were available. Secondly, the per diem rates set by the province for Miller bay are below those for hospitals other than federal hospitals in British Columbia that are comparable in respect of size, facilities, standards of service, and location, for example, the Prince Rupert General hospital. Finally, the province deems some of the care given insured patients unnecessary and will not pay for it.

I believe there have been developments subsequent to the appearance of this note, and perhaps Dr. Cameron might outline them to the committee.

The CHAIRMAN: Yes, Dr. Cameron, would you bring us up to date on this and give us your views?

Mr. CAMERON: Mr. Chairman, this has been a thorny business between the British Columbia Hospital Services Commission and the department for some years. Miller bay is not very far from Prince Rupert; it is a wartime hospital which we took over at the end of the war. We care for a variety of patients in this hospital. If I may deal with the last point made by the Auditor General first, that is that we keep people and do things in our hospitals which they do not contemplate in their hospital system; I can only say we do indeed. We have long term chronic cases; we have people who must be looked after simply because they are convalescent and there is no place else for them to go. In our arrangement with the hospital commissions in various provinces, we have made an allowance for this. We ask them to pay only in respect of active treatment such as they would pay for in their own hospitals.

As stated here, we do not accept that there was any undertaking that we would take only the overflow from the Prince Rupert General hospital. However, I am very glad to say at the present time that this is all past history. Last spring I met with the senior officials of the Hospital Services Commission in British Columbia at which time we made an arrangement that they would honour our accounts for so many hospital days per year at Miller bay. We have made our calculations and feel that this is a reasonable offer and we have accepted it. This is in respect of ongoing care of patients. Included in the agreement is an undertaking that the Hospital Services Commission would pay the outstanding accounts which have been accumulated and which we were pressing them to settle.

Another feature of this which has had a part in our thinking about it is the fact that we hope to close Miller bay hospital when it is practical and possible. We may not close it but perhaps change the nature of it. However, our general over-all policy is to discontinue these hospitals and use the normal community hospitals for our patients wherever that is practical. I anticipate that the application of that policy to this situation should come about before many years pass.

The CHAIRMAN: Thank you, doctor. Are there any questions on this paragraph?

Mr. HALES: I gather, Mr. Chairman, that it is pretty well solved to the satisfaction of both parties.

Mr. CAMERON: It certainly is solved to our satisfaction and that of the hospital commission of British Columbia.

Mr. HALES: Now that British Columbia has lots of money they will be able to pay up their back balance.

Mr. FRANCIS: I presume the Auditor General is aware of the new arrangements. Has he any further comment?

Mr. HENDERSON: No, we have not. We have not examined the detailed arrangements as yet; it is coming under audit review in the now current fiscal

year. However, it appears to me this may be a satisfactory answer to the problem and I am grateful to Dr. Cameron for the explanation.

The CHAIRMAN: We hope it will not show up in next year's report.

Mr. FRANCIS: Obviously it will not be as serious.

The CHAIRMAN: If there are no further questions, we will pass on to paragraph 74.

74. *Improper authorization of use of a government-owned automobile.* An employee of the Department of National Health and Welfare took a course at a university in a city some 150 miles away from his home. He was granted "educational leave" pursuant to section 73 of the civil service regulations and the treasury board authorized payment of a non-accountable allowance equal to full pay, tuition fees of \$250, and actual return transportation expenses (which the department had advised would be about \$20). In addition, a subsistence allowance at the rate of \$175 a month was approved, retroactively, after the course terminated.

While on this leave, the employee was permitted to continue to use the crown-owned automobile which had been provided for the performance of his duties. The automobile was used by him to travel between the university and his lodgings and to return home on week ends, with all running expenses being charged to the government, by means of credit cards, for a total of approximately 4,500 miles.

In view of the fact that (a) the employee was permitted to use the vehicle and (b) it was not made clear to him that he was on leave without pay rather than on official duty, the department has advised us that they will not take action to recover from the employee the costs resulting from the use of the vehicle (see also paragraph 93, "educational program costs"). As a result of our drawing this matter to the attention of the department, we understand that administrative changes are being made to prevent a recurrence.

Mr. HENDERSON: Mr. Chairman, members of the committee will recollect that they did take note of this comment at the time Dr. Davidson was the witness before the committee when we were discussing educational leave taken pursuant to section 73 of the civil service regulations. You will remember it was explained how officers of the public service are given educational leave, non-accountable allowances, tuition fees paid, and so on.

I believe your sixth report which was tabled the other day recorded your view that the total cost of this educational leave should be shown all in one place in the public accounts. If this is done in future issues of the public accounts the sum total of this type of expenditure will appear in one place rather than appearing individually under salaries, and the other expense categories.

With reference to paragraph 74, there is very little I can add by way of clarification to what has been said in the note itself. It is a question involving improper authorization of use of a government-owned car. Dr. Cameron was kind enough to write me a letter about this last spring explaining how this irregular use of the vehicle came about and the remedial action the department has taken. I do not know whether the members would wish to spend any time on this comment, Mr. Chairman. I have Dr. Cameron's letter here, and I would be happy to place it on the record, if you wish.

Mr. TARDIF: How does an employee get this kind of privileged treatment; who is he a friend of and what happens to the man who approves a thing like this? Does the man who approves a thing like this get fired, and if not, why not?

Mr. HENDERSON: I think that is a question that Dr. Cameron might be prepared to speak to.

Mr. TARDIF: I do not know whether or not I am right, but this looks like gross abuse on the part of the man responsible for granting this permission.

The CHAIRMAN: We might ask Dr. Cameron to speak to it, and then we might consider adding to the record by placing the letter on the record later.

Mr. CAMERON: Mr. Chairman, I think the correct interpretation of this mistake is failure in our administration; this should not have been done.

Mr. TARDIF: Was this fellow related to the chap who said yes?

Mr. CAMERON: No.

Mr. TARDIF: Was he married to his daughter?

Mr. CAMERON: No. I think, Mr. Chairman, this is a straight case of failure of our administration to catch this and deal with it properly.

Mr. TARDIF: But somebody must have given permission for this.

Mr. CAMERON: I think the fellow just went on using the car that was assigned to him.

Mr. TARDIF: The fellow who was his superior did not notice that?

Mr. CAMERON: That is right.

Mr. TARDIF: Then we have too many cars.

Mr. CAMERON: I sometimes think that myself, Mr. Tardif, but I do not know. In this kind of work involving inspectors, you either provide cars or you do not get these people out on the job.

Mr. TARDIF: What kind of a course was this fellow taking?

Mr. CAMERON: A course for sanitary inspectors. We are trying to train people to do more of the duties which have been done in the past by medical officers and nurses.

Mr. TARDIF: I know of the system, but surely this fellow received preferred treatment. I bet that if a check were made you would find he is related to somebody.

Mr. FRANCIS: How long was the course?

Mr. CAMERON: It was a short course, I think three months.

Mr. FRANCIS: I wonder whether Dr. Cameron would indicate whether or not there is any difficulty encountered in recruiting persons for employment as sanitary inspectors at this stage, especially in outlying areas?

Mr. CAMERON: This is a difficult area. You very seldom can recruit the type of person you want for this job. You have to recruit the best you can and do some training. These people do not exist already trained.

Mr. REGAN: Dr. Cameron, was this person taking the course as a result of a directive from the department?

Mr. CAMERON: It was as a result of an arrangement.

Mr. REGAN: In other words, the department wanted him to take the course?

Mr. CAMERON: Yes.

Mr. REGAN: It was not his idea?

Mr. CAMERON: It may have been his idea when he joined us, but that is not the point; the point is, the course was given not to please him but to accommodate us.

Mr. REGAN: What I am trying to determine is, what is the regulation that was abused? Was he entitled to be paid for transportation back and forth? Actually, the only transportation he charged was the gasoline used by the automobile. Is that accurate?

Mr. DOUGLAS: Yes, this is true; the operating costs of the automobile, the use of the automobile.

Mr. REGAN: Would not his transportation cost have been as expensive or more so had he not used the government vehicle and the government would have been responsible for those costs?

Mr. DOUGLAS: Of course, a lot of the travelling he did was unnecessary.

Mr. HENDERSON: He was attending a course at the University of Montreal and yet clocked up 4,500 miles.

Mr. REGAN: Where was he stationed?

Mr. HENDERSON: In Ottawa.

Mr. REGAN: How long was the course? Perhaps he commuted every day.

Mr. TARDIF: Is this the only case of this kind, or are there others who are doing this?

Mr. HENDERSON: Apparently the course was 11 weeks.

Mr. REGAN: He only made 300 miles a week, and that is only one return trip a week.

An hon. MEMBER: 400 miles.

Mr. CAMERON: It certainly is not our policy that people taking courses in this way travel around the countryside in marked government cars. I can assure you that everybody is looking for this now. We have made the mistake once.

Mr. TARDIF: I think what everybody should be looking for is the fellow who permitted this to happen.

Mr. HALES: Is this person who was given the training course employed now in the department?

Mr. CAMERON: Yes.

Mr. HALES: Who was responsible for approving these expenses; would it be the comptroller of your department?

Mr. CAMERON: Yes; the expense accounts would come in through the accounting system of the department, the office of the departmental secretary.

Mr. HALES: What disciplinary action was taken when you found this out?

Mr. CAMERON: Well, it was not directed to accounts; it was directed to the superior officers where the man was working.

Mr. HALES: Did the conscience of this chap who was given this time off to take this course not tell him he had no right to a government car; what explanation did he give for using a government car? Did he appear before you, Dr. Cameron?

Mr. CAMERON: No, he did not.

Mr. HALES: Whom did he appear before?

Mr. CAMERON: His own superior officers; but it was not felt by us that he was the one at fault; it was the administration, the people senior to him who allowed this thing to happen. We did not feel that this man himself was deliberately putting one over.

Mr. HALES: Have you spoken to his superior officers in this matter?

Mr. CAMERON: At a higher level, yes.

Mr. ROCK: Why do you have this sanitary course; in other words, what are the sanitary inspectors doing in your departments; where do they work when they do and why do you need these people in this federal department?

Mr. CAMERON: They have a variety of jobs that require basic training in sanitation. The course at the University of Montreal, at the University of

Toronto, and a correspondence course which has been organized by the Canadian Public Health Association are the best courses of instruction; they are basic courses in sanitation. We have persons working in our public health engineering division who are responsible, for example, for the purity and safety of water supplies on common carriers. They inspect sewers and water supply; they inspect food supply and food distribution. In our quarantine section, as I mentioned a while ago, we try to train sanitary inspectors and introduce them into the role of quarantine inspectors, that is to say, watching the arrival of ships, aircraft, and so on. I am sure there are other tasks that we have in the Indian health services as well.

Mr. TARDIF: I do not know if I understand this well, but I presume that while this fellow was out taking this special course, he was paid. Do you know what his rate of pay was?

Mr. CAMERON: No.

Mr. TARDIF: He would be making a least \$3,600 as a minimum.

Mr. CAMERON: I would think so.

Mr. TARDIF: He would probably be making \$4,200; and if my calculation is right, it cost close to \$2,135 to send him away for the three months course: and you paid him \$175 a month for living allowances, \$450 for travelling expenses, and \$250 for tuition. If he had gone according to the original agreement, and received \$20 a month for travelling expenses, it would have cost you \$60 a month, and \$450; and if he also had received his salary, it would total up to \$2,135 with all these expenses. While it may be necessary to train them—and I have no objection to it—might I ask if the department made an agreement with this man that he would work for the department for a certain length of time, or was he at liberty to leave the department after being trained and take employment somewhere else which would pay him more?

Mr. CAMERON: There is a moral obligation, but you cannot bind a person. I think that is the experience of many agencies which have done this kind of thing.

Mr. TARDIF: Mr. Francis and I have been in civic administration, and it may be that we are a little tougher than people in federal administration; but in addition to the moral obligation we also draw up a contract with them and make them responsible for the total cost if they do not serve a certain amount of time, and do not serve conscientiously. Most people who have good training are conscientious anyhow. But in spite of that, we draw up a contract, and we have no trouble at all. Previous to the adopting of this system we used to make an agreement which was verbal, on the man's honour, because he had a moral obligation. But 99 per cent of the time we did not succeed. The reason for the decimal there is that there is a fellow who still owes us for three months. Perhaps the committee would agree that we have to do something further than merely to rely upon a moral obligation; we have to draw up a contract and make them responsible for the past if they should quit before a certain length of time.

The CHAIRMAN: Perhaps some of the committee members might care to take up the subject of civic education with the city of Ottawa.

Mr. TARDIF: I am sure you do not want to confuse the issue. But these are some of the regulations we were able to bring about, sometimes against very strong opposition. But we did succeed.

Mr. ROCK: The city of Ottawa is not a good example.

The CHAIRMAN: Thank you very much.

Mr. McMILLAN: Who decides on the number of cars needed for the department? Here is a case where for a period of three months a car was not used. Is there a chance of there being too many cars?

Mr. CAMERON: There is always a chance of that. I think that transportation in a lot of our work is a difficult problem. You are torn two ways in this; your inspectors are no good sitting around in an office; and unless you facilitate and make it easier for them to get out, you are not going to get from your inspectors what you want from them. If you accept that, and I think it is true because it has been our experience, then it is probable that you actually do have more cars than are strictly necessary. I think you err on the side of having too many. I cannot go beyond that, because I cannot prove a word of it.

Mr. TARDIF: If that is the case, and you admit that we buy more cars than are necessary, who is responsible for giving the final O.K. on things like that?

Mr. CAMERON: I am, in advising the minister; and this comes under the agency of government which is responsible for supervising or keeping an eye on transportation in the government service.

Mr. TARDIF: There is nobody in your department who is responsible for deciding the matter. That type of decision should not all be left to you. There should be one person responsible for deciding whether or not the vehicles you buy are in too great number or are really necessary.

Mr. CAMERON: We do not have a transportation officer of the department. We do not operate it that way. What we do is to rely on the director of the particular service. Under him there is a supervisor of the particular branch of the service, and he would make out a case. We do not buy all the cars asked for by any means.

Mr. TARDIF: It is a good thing.

Mr. CAMERON: And even if we felt overly generous, as I have said, there are other agencies of government which watch over the total picture.

Mr. HARKNESS: Including the treasury board.

Mr. CAMERON: Yes, including the treasury board.

Mr. STENSON: Are these cars used by these people on week ends? Are they allowed to take them home, or do they stay at the place of business when they are finished with them at the end of the day?

Mr. CAMERON: It depends on the area and the job you are thinking of. If it is an official using a car here for departmental business in this city, it is not available to him. But whether he takes the car home or puts it in a public parking lot is often an individual arrangement, because the economics of the thing sometimes dictate that the cheapest thing to do is for him to take it home and park it there.

Mr. STENSON: These are all marked cars?

Mr. CAMERON: Yes, these are all marked cars. And when you come to the situation of the public health nurse in the field, she keeps her car with her all the time, because she may be out on duty on Sunday or any other day. So there is no simple rule.

The CHAIRMAN: Thank you.

Mr. HARKNESS: Have you any personnel who use their own cars on a mileage basis?

Mr. CAMERON: Indeed we have.

Mr. HARKNESS: So a considerable amount of your transportation is done on that basis?

Mr. CAMERON: Quite a bit of it is; but again, the determination of whether it is done on that basis or whether we provide the car is the combination of the wish of the individual plus the kind of mileage and the situation you are dealing with.

The CHAIRMAN: Are there any further questions?

Mr. STENSON: Do they not have to report at any time, or report weekly the number of miles that went on their cars?

Mr. CAMERON: There is a report kept on the use of the cars by the heads of the various branches in the department. We have a full report of them. It is the sort of thing you require before a replacement for example is authorized.

Mr. STENSON: I understand that some provincial government employees may take government cars home when they are charged a certain rate per month, and that this entitles them to use the car for their own personal use. I know that Manitoba has a system like that.

Mr. CAMERON: All our cars are prominently marked with the department insignia, and Canada, with the coat of arms and so on. They are government cars.

The CHAIRMAN: Are there any further questions? If not, we are happy to excuse Dr. Cameron. We are very happy to have had him here today. The deputy minister is absent from a meeting on mental health and retardation. This is not a clinical study. He is here legitimately. Thank you very much, Dr. Cameron, we appreciate your being here today.

Now gentlemen, we have some time ahead of us, and there are a number of smaller items which Mr. Henderson might deal with at this time, and which do not require the presence of other witnesses. I am thinking of item No. 49. But before that, is it agreed that the letter from Dr. Cameron to Mr. Henderson, the Auditor General should be filed and printed as an appendix to today's proceedings?

Agreed.

Now turn to paragraph No. 49. We hope that Mr. Castonguay will be with us later.

Mr. HENDERSON: I might explain to the committee that thus far in the deliberations of the committee this year you have tackled up to paragraph No. 49 in the 1963 report, and you have also tackled quite a number of items subsequent to that. So we have marked down this, beginning at paragraph No. 49 with which you have not yet dealt, and this in fact represents the workload from here on to the completion of the work of the committee.

The first of these is paragraph 49 in the 1963 report. It deals with general election expenses wherein, running through page 24, excess expenditures of one kind or another were made. I believe that you have under consideration inviting Mr. Castonguay to appear before you as a witness to explain these over-expenditures. Therefore, is it your wish that we skip this for the moment, if that is going to be done?

The CHAIRMAN: We have not made a firm date as yet, bearing in mind the redistribution bill. But we are hoping to be able to fix a date shortly. I think we will have him here to deal with this particular paragraph. Shall we stand it at this time?

Agreed.

Mr. HENDERSON: The next one which comes forward from paragraph 49 is paragraph 51:

51. *Reporting for counterpart funds by recipient countries.* In previous reports references were made to amounts that had been spent out

of funds appropriated by parliament for the purchase of commodities supplied by Canada, in accordance with agreements with the recipient countries requiring that the commodities be sold or otherwise distributed and that "counterpart funds" be set aside by them for subsequent use in connection with agreed economic development projects. All of the agreements further require that the recipient countries from time to time report the position of their counterpart funds accounts to the government of Canada and, in addition, certain of the agreements require that these reports be certified by the auditors general of the recipient countries.

As of March 31, 1963 a total of \$197,752,000 had been expended on commodities calling for the establishment of counterpart funds, including \$17,576,000 expended during the year under review. With respect to those agreements requiring that the auditors general of the recipient countries certify the position of the counterpart funds accounts, a total of \$193,893,000 had been expended by the government of Canada and the situation as regards certification was as follows:

Certified by auditors general of recipient countries	\$ 154,159,000
Reported but not certified	19,047,000
Unreported—previous years' expenditures ..	3,261,000
Unreported—1962-63 expenditures	17,426,000
	<hr/>
	\$ 193,893,000

With respect to those agreements which do not call for certificates of the auditors general of the recipient countries, a total of \$3,859,000 had been expended by the government of Canada and the situation as regards reporting was as follows:

Reported by recipient countries	\$ 3,249,000
Unreported—previous years' expenditures ..	460,000
Unreported—1962-63 expenditures	150,000
	<hr/>
	\$ 3,859,000

Another requirement of all the agreements with the recipient countries is that expenditures out of the counterpart funds on agreed economic development projects be reported by the recipient countries and certified by their auditors general. At the time of our examination in October 1963 this information was not completely available and the external aid office was to determine the extent to which these certificates have been received.

The committee recommended in 1961 that efforts be made by the director general, External Aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements entered into by Canada with the recipients and requested the Auditor General to report on the results in due course.

This was the situation the committee had before it on November 22 last year when the director general of external aid came before the Committee to discuss the matter (see pages 141-147 of the evidence).

Mr. Moran explained to the committee at that time how some of the under-developed countries had difficulty in keeping track of requirements of this plan. He said that his office had itself not had much difficulty in reconciling

its figures with those reported by the recipient departments of overseas countries receiving material aid and that the situation was much improved at March 31, 1963 when auditors' certificates had been received for \$154,159,000 out of a total of \$197,752,000; in other words something like 80 per cent of the funds reported. These figures are shown in paragraph 51 on page 25 of my 1963 report.

If you add them all together you will have a total of \$197,000,000 of aid, and we have received audit certificates on only 80 per cent, namely, \$154,000,000. The situation at March 31, 1964 showed something better than this 80 per cent level. In fact, I could report that it is closer to 90 per cent at that date, and this we regard as a fairly favourable achievement. But unless you care to have me give the precise figures, I will be happy to put this statement which I have into the testimony. It is prepared in precisely the same manner as it appears on page 25 in front of you, that is to say, one year later.

The CHAIRMAN: This would bring it up to date.

Mr. HENDERSON: Yes, this would bring it up to date. So might I suggest, without further ado, that this be done. I said in our examination a year ago (see page 25, 1963 A.G.'s. report as quoted) that this information was not completely available and the External Aid Office was to determine the extent to which these certificates had been received, but it is now dealt with in the material which I would be happy to put into the record.

The CHAIRMAN: Does the committee agree that this be taken as read and inserted in the record at this particular point of the proceedings?

Agreed.

Counterpart Funds

Mr. HENDERSON: The statement follows:

As at March 31, 1964, a total of \$218,846,247 had been expended on commodities calling for the establishment of counterpart funds, including \$21,094,000 expended during the year under review. With respect to those agreements requiring that the auditors general of the recipient countries certify the position of the counterpart funds accounts, a total of \$214,096,247 had been expended by the government of Canada and the situation as regards certification was as follows:

Certified by auditors general of recipient countries	\$191,355,000
Unreported—previous years' expenditures	2,397,247
Unreported—1963-64 expenditures	20,344,000
	<hr/>
	\$214,096,247
	<hr/>

With respect to those agreements which do not call for certificates of the Auditors General of the recipient countries, a total of \$4,750,000 had been expended by the government of Canada and the situation as regards reporting was as follows:

Reported by recipient countries	\$ 3,390,000
Unreported—previous years' expenditures	610,000
Unreported—1963-64 expenditures	750,000
	<hr/>
	\$ 4,750,000
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Another requirement of all the agreements with the recipient countries is that expenditures out of the counterpart funds on agreed economic development projects be reported by the recipient countries and certified by their auditors general. In this connection, certificates have been received as at March 31, 1964, covering expenditures out of counterpart funds which total \$32,089,428.

Mr. HALES: There is nothing here for us to go into?

Mr. HENDERSON: I think not.

Mr. McLEAN (*Charlotte*): I was amazed to read in the reports of the European Economic Community that interest was charged on a lot of this aid in these countries, and there was about \$2 billion of aid outstanding on which interest had been charged and that these countries were finding it hard even to get enough money to pay the interest on the aid. I wondered if Canada received any of it.

Mr. HENDERSON: I do not believe any interest was charged on our aid, but I would be glad to look into it.

Mr. FRANCIS: I wonder if that relates to loans from a bank?

Mr. McLEAN (*Charlotte*): They called it soft and hard; they are all tied up together.

Mr. HENDERSON: Yes, the word soft connotes a very long term loan so as to make repayment easier, and because it is a long term loan there is a very low rate of interest. I cannot say the extent to which Canada has made such loans. But I do know that they are being made. What sort of investment it represents to the lending country, I would not know. But there is interest charged rather than making it a straight give away. It is the next degree easier.

Mr. McLEAN (*Charlotte*): The two go along together, and when you say soft loan and hard loan, are these all tied together in the one package?

Mr. HENDERSON: There are no loans in the figures we have here in discussing external aid. These are for external aid by Canada in respect of which counterpart funds under the agreement have to be set aside to be spent in the countries concerned. We are talking about the difficulty Canada had in getting verification through official channels of these counterpart funds.

Mr. McLEAN (*Charlotte*): It was stated in the article that the United States received about one per cent, and that England and France received about five or six per cent.

Mr. HENDERSON: It would be quite interesting to run this down. With your permission we would be glad to do so, and give you a note on it at a later meeting.

The CHAIRMAN: Yes. Are there any more questions?

Mr. HALES: It would appear from your observation that the external aid office is doing a much better job now than it did previously in getting these certificates?

Mr. HENDERSON: That is what we feel. It was not a matter that we raised lightly at the time, because this could be an embarrassing situation for Canada to be pressing for these certificates.

Mr. HALES: What are your views on those which are reported as not certain?

Mr. HENDERSON: Well, perhaps I could give you a few notes as to the procedure. When Canada receives a request for goods, they are purchased in Canada and delivered at seaboard with the receiving country paying all the shipping costs involved. The receiving country then sells the goods to consumers at home. The local currency obtained from those sales is earmarked to

become what are known as counterpart funds and these moneys are then used for the purpose of economic development on projects in the recipient country as agreed upon with Canada. In other words, Canadian consent to the use of these funds for that purpose has to be obtained. This means there are two stages so far as accounting is concerned. The first stage is the auditor's certificate of the receiving country which states that the local currency derived from the sale of the Canadian gift, in fact, has been received. The next stage is the commitment of those funds for expenditure on the agreed upon project for the country. Accordingly there is always a time lag between shipment of Canada's aid and its accounting by the recipient country under this arrangement and the external aid office has to follow through on each shipment. This is not always easy, particularly so when it becomes necessary for them to press for the certificates, which I must call for as my officers audit the various steps. That is why I say that a 90 per cent achievement is, I think, fair enough. The figure you see here represents the ones that have not to date come through. In other cases, we may never receive certificates.

Mr. HALES: It would seem to me that we should have some better system than we have at the present time.

Mr. HENDERSON: So long as Canada is going to require that the auditor generals of the commonwealth countries certify these shipments in this way then, presumably, difficulties can be expected to develop and delays follow.

I should have thought possibly there might have been a simpler form of certificate which could be obtained. But, this is the way it was required to be done in the agreements and it is my duty to follow it up and see that they are obtained. The external aid office has gone to a great deal of work to bring the record up to this level, and that is why I say I think it is a pretty fair report under the circumstances.

Mr. SOUTHAM: I have a supplementary question to put at this time. On the basis of our experience in the processes of accounting is this procedure similar to what the United States use in accounting its external aid to Latin American or other comparative countries?

Mr. HENDERSON: Frankly, I cannot answer that. I should be able to do so, but in view of my officer, who is responsible for this, not being here this morning I am not able to say. And, I do not know whether he would know the United States practice. I know some of the other commonwealth countries operate this practice.

Mr. SOUTHAM: The reason I put the question is that it has come to our attention from time to time that the Americans down south have experienced some difficulty in this area and it is not the kind of criticism we would like to have directed toward us in respect of this program. I would hope that we would not find ourselves in that same category. I do agree that the figure of 90 per cent, under this type of auditing program, seems to be a relatively good record.

Mr. HENDERSON: In the whole scheme of things, as you envisage the aid going out, the obtaining of the certificate to cover this is pretty minor, and it is something that can get pushed off to one side. But, this can be embarrassing. I think Mr. Moran explained to the committee how he had to keep getting after them for the certificates.

The CHAIRMAN: When Mr. Moran was here he explained that one of the difficulties was in respect of some of the new emerging countries, which did not have their audit staffs up to the same degree of efficiency as ours. He said that one of the problems was the establishment of the Auditor General's staff and, as I say, this is one of the difficulties they were up against. But, Mr.

Moran said that he was making frequent trips to these countries and the results which Mr. Henderson has indicated to us this morning show there has been this improvement.

Mr. McLEAN (*Charlotte*): It is my understanding that the United States authorities have shipped material and it has remained piled up at the seaport. So, you could hardly obtain a certificate for that.

Mr. McMILLAN: Directly over what period of time was this \$197 million odd spent on commodities for external aid?

Mr. HENDERSON: I am just giving you a quick figure, and I would say possibly in the period of about seven or eight years. Dr. McMillan, I would like to check that with Mr. Moran after the committee adjourns.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will proceed to the next paragraph, which is paragraph number 62.

62. *Isolation allowances to judges of territorial courts.* Consideration was given by the Department of Justice in the latter part of 1962 to the question of paying isolation allowances to the judges of the two territorial courts. Initially the view was taken that since judges are not in the "public service" within the meaning of section 7 of the Financial Administration Act, the treasury board lacked authority under that Act to authorize the contemplated allowances and that, as the Judges Act, R.S. c. 159, prohibits the payment to a judge of any remuneration, other than a living allowance and moving and transportation expenses, the authority of parliament would be essential to the payment of isolation allowances.

It was accordingly decided that, until such time as it might be regarded as appropriate to seek an amendment to the Judges Act to provide for additional remuneration to judges, each of the judges of the two territorial courts should be paid an isolation allowance pursuant to an item to be included in the earliest possible estimates. However, parliament was dissolved before it had an opportunity to consider an estimates item relating to the matter. Nevertheless, with treasury board approval, payments of \$1,000 were made in March 1963 to each of the judges of the two territorial courts, for isolation allowances at the rate of \$2,000 per annum, effective October 1, 1962.

Mr. HENDERSON: As the Chairman has told you, the next item is paragraph 62, which is isolation allowances to judges of territorial courts. This appears on page 32.

The payments described here cover what was termed an isolation allowance for two judges, paid with treasury board approval in March, 1963, at the rate of \$2,000 per annum. We had questioned whether the treasury board could authorize these allowances because the Judges Act appeared to us to prohibit the payment to a judge of any remuneration of this nature and consequently the authority of parliament seemed to us to be essential to the payment of these isolation allowances.

It had been proposed to provide for these payments by an item to be included in the earliest possible estimates, but parliament was dissolved before it had an opportunity to consider any estimates item which had been prepared to cover the proposed payments. Accordingly, the treasury board authorized the use of the general salaries vote to supplement appropriations of the Department of Justice. Since then, with respect to the fiscal year 1963-64 the course was followed of including specific provision for these items in supplementary estimates.

I have discussed this paragraph with Mr. E. A. Driedger, the deputy minister of justice, since the comment appeared in my 1963 report. He says that

while it would have been desirable to have had specific parliamentary authority for the payment of the isolation allowances by means of an amendment to the Judges Act so as to avoid the necessity of requesting annual appropriations from parliament or, as a temporary expedient, an estimates item specifically providing for the allowances, nevertheless in his view there was no impediment, statutory or otherwise, to the payment of these additional allowances to the judges in question.

Under the circumstances, I think the members of the committee will be satisfied that the matter has been adequately taken care of.

The CHAIRMAN: Are there any questions or comments?

Mr. REGAN: My only question would be this. Are you satisfied that that is the case; in other words, that there is no impediment?

Mr. HENDERSON: I have been without benefit of legal advisers since last May, as you know and, consequently, I cannot express any legal opinion on this thus far. But, Mr. Driedger has given that to me as his opinion.

The CHAIRMAN: Are there any further questions or comments on this paragraph? If not, we will proceed to paragraph 63.

63. *Unemployment insurance administration.* The Unemployment Insurance Act, 1955, c. 50, is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the governor in council. The administrative expenses of the commission are paid out of an annual parliamentary appropriation (Department of Labour Vote 50) in accordance with section 10 of the act. These expenses amounted to \$48,034,000 in 1962-63 compared with \$45,935,000 for the preceding year. Despite a reduction in full-time staff from 8,941 at March 31, 1962 to 8,726 at March 31, 1963 and in casual employees from 1,904 to 1,432 at the respective year-ends, salaries rose by \$2,242,000, due mainly to a general salary increase granted during the year. This, offset to the extent of \$285,000 by savings effected in the cost of office stationery, supplies and equipment, accounted for most of the net increase of \$2,099,000 in administrative expenses during the year.

In our 1960 report we referred at some length to the broader coverage which had been effected over the years, and the resulting decrease in the emphasis on insurance principles recognized when the unemployment insurance fund was first established. The public accounts committee, having expressed concern over the sharp reduction in the balance of the fund at that time, recommended in its fifth report 1961 (paragraph 80):

“that the entire matter undergo immediate and careful study and that action be taken to re-establish and maintain the Fund on a basis consistent with insurance principles.”

A special committee of inquiry was established by the governor in council on July 17, 1961 to inquire into and report upon the suitability of the scope, basic principles and provisions of the Unemployment Insurance Act, including its relationship to other social security programs, the measures needed to deal with seasonal unemployment and the means of correcting any abuses or deficiencies that might be found to exist. The committee's report was tabled in the house by the Prime Minister on December 20, 1962.

The committee recommended the adoption of a three-part program of support for the unemployed, as follows: (i) an insurance plan to cover short-term unemployment with benefits limited to 26 weeks, financed

solely by employer-employee contributions; (ii) a plan, financed out of general taxation revenues, to provide extended benefits up to a maximum of 39 weeks to persons who have exhausted their insurance benefits and, subject to certain conditions, to persons whose unemployment follows a seasonal pattern; and (iii) an assistance plan to take care of residual 'hard core' unemployment, applied on a needs-test basis under the present federal-provincial unemployment assistance program.

The committee proposed that the unemployment insurance plan be based on insurance principles and to this end it recommended, in part, that:

- (a) the plan be extended to cover all but a few classes of employees;
- (b) the present seasonal benefit program be amended so that insurance benefits would not be paid during any period of unemployment that, on the basis of a claimant's personal employment record, is shown to be of a repetitive seasonal character; and
- (c) coverage of self-employed fishermen be withdrawn and replaced by a separate plan to be developed under the Department of Fisheries.

The committee also made recommendations designed to lessen abuses to which the present plan has been subjected. These included the adoption of programs: to provide for more active claims supervision and more vigorous follow-up of cases in an effort to identify those who are not genuinely seeking employment; to improve interviewing techniques and procedures as a means of determining the true facts concerning availability for employment; and to increase the extent of post-auditing procedures in connection with claims to bring to light possible concealment of earnings.

The public accounts committee, in its fifth report 1961 (paragraph 81), recommended:

"that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field."

Notwithstanding our continuing staff shortage, arrangements were made to increase the number of offices visited in 1962-63, by curtailing other work.

In keeping with past practice, we reported to the chief commissioner on each of the examinations made during the year. Prompt attention was given to all audit observations raised and corrective action taken where called for. Briefly, our examinations are designed to test the adequacy of internal control over the collection of and accounting for contributions and other income, the payment of benefits and the recording and collection of overpayments. The extent to which adjudication of claims complies with the provisions of the act and regulations is likewise examined. In appraising the validity of benefit awards, no attempt is made by the audit office to verify the accuracy or completeness of information regarding claimants, contained in the records of the commission and provided to it by claimants, employers or others, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the commission's own investigation-enforcement staff. Although operating at a slightly lower level of strength during 1962-63, this staff achieved a slight increase in the number of investigations completed over that of the preceding year. Notwithstanding this increase, penalties imposed on claimants for

false or misleading statements were fewer in number, totalling 20,367 compared with 22,650 in 1961-62, a drop of 10 per cent.

The transactions of the unemployment insurance fund, administered by the commission, are reported upon in paragraph 181 of this report.

Mr. HENDERSON: Paragraph 63 is in respect of the unemployment insurance administration.

Now, we dealt with this paragraph at the time it appeared during previous consideration of this report and I do not think perhaps the members of the committee will want to spend very much time on this. In fact, you already have commented on the unemployment insurance fund in one of your reports presented to the house.

We have followed the practice for the past two years, particularly because the unemployment insurance fund has not as yet been fixed up, of saying something about the administration of the commission, the size of its expenditures and overhead, and also because while we are certifying the financial statements of the Unemployment Insurance Commission as a separate matter there has still been no change made in the act requiring those statements to be prepared. In other words, the arrangement has not yet been put on a statutory basis, which this committee recommended, as well as the Gill committee of inquiry. As you know, that committee made a similar recommendation.

I would like to ask the members of the committee a question. Does this type of approach to this type of thing commend itself to you in terms of showing something of the costs of this sort of administration in a paragraph of this type?

The CHAIRMAN: Are there any comments on this?

Mr. McLEAN (*Charlotte*): Is the expense of \$48 million not charged against the fund?

Mr. HENDERSON: No; that is a separate parliamentary appropriation for administrative expenses.

Mr. McLEAN (*Charlotte*): I would think it should have been.

Mr. HENDERSON: The only thing that is charged against the fund is the assistance it pays out. It would not have room to pay this.

Mr. McLEAN (*Charlotte*): I know it would not, but how do we know how much the fund is costing the taxpayer?

Mr. HENDERSON: There is a statement in the back of my report as well as in the public accounts, giving the full position of the fund itself. There is a cross reference from this which refers to the administration that is being brought to it and what this is costing. Elsewhere we show the precise position of the fund itself.

The CHAIRMAN: Are there any other comments?

Mr. McMILLAN: Do you spot audit any of the contributions made under that fund?

Mr. HENDERSON: Do you mean the disbursements made under it?

Mr. McMILLAN: Yes.

Mr. HENDERSON: I would like Mr. Douglas to speak to that. He carries out that work on a test examination basis.

Mr. DOUGLAS: Were you speaking of contributions or what was the nature of your inquiry?

Mr. McMILLAN: I was referring to benefits paid.

Mr. DOUGLAS: Oh, yes, we do, on a cyclical basis. We have a program designed to cover all the local offices of the commission periodically. We go into

each local office and we do a percentage test of the benefit payments, paying particular attention to the actual adjudication of the claim and whether we feel it is in accordance with the statutory requirements and the regulations of the governor in council. We do the usual cash audit, you might say, of the local office, verification of the bank account and so on.

Mr. McMILLAN: Are changes in respect of benefits paid made by regulations rather than by legislation?

Mr. DOUGLAS: The actual benefits payments would be by legislation. We submit individual reports of each audit we do to the commission.

Mr. HALES: Prior to the 1961 meeting of the public accounts committee I do not think the Auditor General's department was making spot checks of the commission. Am I correct in this assumption?

Mr. HENDERSON: We were asked by the 1961 committee, I think it was, to step up, if we could, the frequency of our audits. That was when we had the officers of the commission before the committee. And, that we did. As Mr. Douglas has explained, he is now able to cover more offices, and after he has completed the tests that he mentioned the audit findings are referred to the chairman of the commission and are checked right out.

Mr. HALES: Could I ask Mr. Douglas if they have found discrepancies in any large amounts, which are serious, in these spot audits?

Mr. DOUGLAS: I would not say so, Mr. Hales. Of course, we do find discrepancies. We disagree with them at times in matters of adjudication. We make recommendations about strengthening their over-all system of internal control and so on, but we have not found what you would call any serious errors or discrepancies.

Mr. HALES: As you know, the unemployment insurance offices pay these benefits in cash. As a result of this they handle a terrifically large amount of money. In our community I think it is every Tuesday that they pay out these benefits, and in mid-winter there are tremendous amounts of money handled, all in cash. Are you satisfied that paying in cash is the best system?

Mr. DOUGLAS: Well, actually, there is a change under consideration at the present time. Of course, presently payments are made both by cash, and warrant for those who are not convenient to a local office. When they are not convenient to these offices the payments are by warrant.

At the present time an electronic computer system is being considered. It is presently being tried out in Winnipeg, and when all the difficulties are ironed out it is expected in due course it will be put in all across the country, which will pretty well eliminate cash payments.

Mr. McLEAN (*Charlotte*): I would like to ask Mr. Henderson this question. We all know this is supposed to be an unemployment insurance fund. However, is it run as an employment insurance fund? In my opinion, if it was, we would not have the deficits in the fund which we have. I was wondering whether it was done on an actuarial basis and if you have made any report in respect of actual rat holes in the fund with regard to where the money is going.

Mr. HENDERSON: We brought that before the committee. It was because of the remarks we made in my 1960 report that in 1961 this committee brought the officers of the commission before it, and then came out in very strong terms pinpointing the rat holes that you mentioned very clearly. And, it was shortly after this committee's report in 1961 in this respect that the Gill committee actually was formed. If I have not repeated then all again in subsequent reports—we have, I think, dealt with them in other paragraphs which you already have discussed—it is because we are standing by awaiting some action which this committee has called for in its reports to the house.

The CHAIRMAN: One of our reports this year did suggest that.

Mr. HENDERSON: Yes, I have a separate note here on the unemployment insurance itself. At page 143 of this report you will find the whole picture of the fund itself. But, you interest me by the question you put because it might be a useful exercise to reiterate some of these rat holes that you mentioned. But, as I say, the figures and the financial position is shown at page 143.

Mr. McLEAN (*Charlotte*): I notice there is noted a \$7,269,000 loss on the sale of securities. Are they in the stock and bond business as well?

Mr. HENDERSON: Well, if you will look at page 144 you will see what happened. They got rid of their investments and how they got rid of them is explained there. This is when they were holding securities and, in this case, they were not saddled with the loss, the Minister of Finance having taken the investments over at par.

Mr. McMILLAN: At par.

Mr. HENDERSON: Yes.

The CHAIRMAN: For your information, Mr. McLean, our fourth report dated in July, 1964 set out in paragraph 36, that the committee feels it to be in the public interest that the government's consideration of the report of the committee of inquiry be completed as soon as possible and that the government bring forward such proposals as it may deem necessary to deal with the problems raised by the reports, which are the same problems you mentioned, Mr. McLean.

Mr. McLEAN (*Charlotte*): Is there any real reason for them to go into the securities business? Can they not do double entry bookkeeping?

Mr. HENDERSON: Well, that would not absolve them from absorbing the loss.

Mr. McLEAN (*Charlotte*): I know that.

Mr. HENDERSON: The assets of the fund used to be kept in the form of negotiable securities guaranteed by the dominion of Canada, and I think they were dominion of Canada bonds and Canadian National Railways bonds, and as they needed money they would liquidate them, as a result of which they took some substantial losses.

They remained in that position through the end of 1962. Now, in the year you are seeing there they had to take a loss of \$7 million. The following year it was only \$632,000. As I said, these investments were taken over at the book value by the Minister of Finance in the year 1962-63, and they are no longer in such a vulnerable position. They were heavy traders in the market.

Mr. MACLEAN (*Queens*): Why should they not keep out of the market and simply owe the market or the government for them, and just have a system of bookkeeping?

Mr. HENDERSON: How they are going to do these things is a matter for the Department of Finance to decide. Mr. Fleming, the then minister of finance in 1961-62, did change the method, and as explained on page 144, no losses on sales of securities, therefore, are going to appear in the future.

Mr. McLEAN (*Charlotte*): It seems to me it is just taking out of one pocket and putting it into another, and if they go into the market they will be just taking a loss in doing so.

Mr. HARKNESS: The whole reason they were buying securities was to earn an interest to build up the fund.

Mr. McLEAN (*Charlotte*): Could not the government pay interest on what they owed them?

Mr. HARKNESS: It is not so much a matter of that. The fund was building up for years by the contributions of employers and employees and there was no use in having the money sitting there.

Mr. McLEAN (*Charlotte*): All you have to do is implement a bookkeeping procedure. The United States tried that in respect of their insurance and found out they could not get enough storage space to take care of all the bonds.

Mr. FRANCIS: I believe the investment was entirely government of Canada securities.

Mr. HENDERSON: Yes.

Mr. FRANCIS: In other words, it raised a question in respect of the advice that was given in the terms of the operation with regard to securities, and I think that is a broader question of policy.

Mr. HENDERSON: The purpose of the take-over in 1962-63 was explained to the house by the Minister of Finance so as to remove from the bond market the fund holdings of government securities which because of their size and volume of sales and purchases were exerting an unstabilizing influence on the market.

They had a very substantial portfolio. That statement was made in the house by him and subsequently the Department of Finance took over the portfolio of the fund at that time at book value—that is to say, what the fund paid for it—and substituted for it a special issue of non-marketable securities.

Mr. McLEAN (*Charlotte*): If it was anything else but government bonds I could see that, but they are taking it out of one pocket and putting it into another one.

Mr. HENDERSON: They are paying interest to the fund now on this paper that they gave in exchange for the securities.

Mr. McLEAN (*Charlotte*): I did not know the fund had anything upon which to pay interest.

The CHAIRMAN: Are there any further questions on this item?

Mr. McMILLAN: One thing I have noticed in practising medicine is this: in respect of men who have gone on pension, for instance, some would receive benefits under the Unemployment Insurance Act for a while others would not. Do you people check that sort of thing?

Mr. HENDERSON: Well, I think that would come to a greater degree under the inspector's role than under our external auditing. They have their own inspectors checking the individual cases. We do not contact the public, you see. Perhaps Mr. Douglas could enlarge on what I have said.

Mr. DOUGLAS: The problem here is that it is a matter which involves personal integrity of the individual concerned. Now, to draw insurance a person must be in the labour market. Some people who retire, particularly on small pensions, do continue to be in the labour market if they are in good health, and if they cannot get a job, then they are entitled to insurance. But, many people who retire have no intention whatsoever of taking any job and they will register notwithstanding that fact with the unemployment insurance office for the purpose of drawing their unemployment insurance benefits which, of course, they are not entitled to under these circumstances. Now, this is a very very difficult problem with which to deal, and unless there are special safeguards in the act and regulations, which is one of the problems the Gill committee considered, there is not much an auditor can do about it.

Mr. SOUTHAM: In other words, you are saying there are a certain number of people using it as a pension fund rather than for the purpose for which it was intended?

Mr. DOUGLAS: Yes. In respect of the rat holes you have mentioned, we have referred to these in certain cases in our report.

Mr. SOUTHAM: This is the sort of thing that will have to be weeded out.

Mr. DOUGLAS: Yes.

Mr. McMILLAN: There must be regulations by order in council over and above the legislation to cover this sort of thing.

Mr. DOUGLAS: That is correct.

The CHAIRMAN: Are there any further questions? If not, we will proceed to paragraph 71.

71. *Unemployment Assistance.* Under the Unemployment Assistance Act, 1956, c. 26, the federal government contributes to the provinces and territories 50 per cent of the cost of providing financial assistance to persons unemployed and in need.

In paragraph 84 of last year's Report the Audit Office opinion was repeated that the Unemployment Assistance Act administered by the Department of National Health and Welfare includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. Our examinations during the year under review confirmed our opinion. Possible changes in the legislation, and the use of regulations, mentioned in last year's Report as being under study by the Department, are still being actively considered.

Overpayments to Province of Quebec.—In Quebec the final adjustments in respect of overpayments referred to in our 1962 Report, which related to the period from July 1, 1958 to December 31, 1961, are still under consideration. The department has agreed to accept Quebec welfare agencies as agents of the province, and their records of persons assisted as the province's records within the meaning of section 6 of the agreement.

The arrangement first reported in 1961 whereby the audit services branch of the office of the comptroller of the treasury has been participating with the provincial auditor of Quebec in a joint audit of the accounts received by the province from homes for special care and welfare agencies continues. The practice followed in other provinces whereby the provincial auditor's examination of claims and certification in accordance with the agreement precede separate examinations made on behalf of the federal government will, we understand, be followed now that the joint audit has been completed to December 31, 1961.

Work for Relief.—Although our examinations have not revealed further instances where recipients had been required to work in return for assistance given them, a number of municipalities continue to advocate this. The provinces have not acceded to these representations although Prince Edward Island provides in its provincial home for the Aged Act that inmates of the home who are capable of working may be required to work in and about the home.

Supplemental Allowances in British Columbia.—Reference was made in our 1961 and 1962 reports to the department having agreed that supplemental allowances normally excluded under section 4(2) of the act could be regarded as additional relief payments in accordance with section 4 (3) (b) of the act and section 8 of the agreement when the amounts are based on individual budgetary assessments of need in which basic expenditures as well as income are considered. In those reports we expressed doubt about the way in which British Columbia had made such budgetary assessments of need and in the 1962 report we mentioned that overpayments estimated at \$111,400 had been re-

covered. However, during the year under review the province objected to this estimate and it was agreed that a new calculation of the overpayments be made. At the year-end the recalculation of the overpayments had not been completed.

We also drew attention last year to the use in British Columbia of two different scales of maximum basic assistance, the more generous one being for those eligible for supplemental allowances. This discriminates against applicants not entitled to supplemental allowances, that is those under 65 and those over 65 who have not been residents of the province for three years. We expressed doubt as to the propriety of maintaining the three-year residence requirement and suggested that uniform standards of assistance should be applied if supplemental allowances are to be considered shareable under the Unemployment Assistance Act. The situation remains unchanged.

Inconsistencies in Comforts Allowance.—In an earlier report we expressed the opinion that sections 4 (2) (b) and 4 (3) (b) of the Unemployment Assistance Act, taken together, appear to require that the full amount of a recipient's income be offset against the calculated cost of meeting his needs to arrive at the amount of unemployment assistance that is shareable under the act. It is an established principle that unemployment assistance is to be based on need and in the case of a recipient with some income, is only intended to supply the additional amount required so that his income plus unemployment assistance will enable him to meet his needs.

The use of a portion of a recipient's income to meet his need for comforts has been accepted because this is, in effect, the same as providing a like amount for comforts in the unemployment assistance granted. However, our examinations have disclosed that in homes for special care in some provinces the amount of the comforts allowances to inmates seemed to depend not on the inmates' need but rather on whether or not they had some personal income. Thus, if an inmate were in receipt of old age assistance or old age security payments, he would be allowed \$15 per month, whereas if he were dependent entirely on unemployment assistance his comforts allowance would only be \$5 per month. The effect of this arbitrary practice is not only to discriminate on the basis of the economic status of the recipient but in some cases it leads to the building up of individual trust account balances from the unspent proceeds of the these allowances which may be used to cover expenses excluded from unemployment assistance costs by section 4 (2) (d) of the act. An additional effect, of course, is to increase the federal government's share of the cost of the unemployment assistance program.

Mothers' allowances.—The Unemployment Assistance Act and the statutory agreement form provide for the exclusion of recipients of mothers' allowances (provincial allowances designed to assist mothers whose families have been deprived of the wage earner). In last year's report we reviewed the mergers of mothers' allowances with general welfare assistance and the provision in the agreement for compensating deductions to be made when determining unemployment assistance costs. The artificial nature of some of these mergers was also drawn to attention.

In the current year the province of Ontario established a new class of assistance called assistance to dependent fathers comprising all the former mothers' allowance cases involving dependent fathers. These cases were then transferred from the mothers' allowance program to

general welfare assistance, the Province thus being able to recover a substantial portion of the cost from the federal government under the Unemployment Assistance Act. Although the merger of dependent fathers' cases with the general social assistance caseload has involved essentially only a change in name, the Department of National Health and Welfare considers the exclusion in the act and agreement applies only to assistance payments called "mothers' allowances" and has therefore been allowing the dependent fathers' cases. It is interesting to note that in over half of these cases, the assistance paid is only in respect of their wives and children. Among this group are fathers who are inmates of mental hospitals and tuberculosis sanatoria and who are thereby excluded from receipt of unemployment assistance by virtue of section 4(2)(a) of the Unemployment Assistance Act.

Educational costs.—Examinations in Alberta and Saskatchewan reveal that claims sometimes include the cost of tuition, books and living allowances for persons training as teachers, nurses, farmers and barbers, together with allowances for their dependents. In addition, regulations under Ontario's General Welfare Assistance Act provide for rehabilitation services, including vocational training the cost of which, it is understood, has been included in the province's unemployment assistance claims. A similar problem also arises in the province of Quebec in connection with assistance to children aged 18 to 21 who are undertaking studies. It is doubtful whether costs such as the above are within the scope of the Unemployment Assistance Act and agreement.

Interpretation of "unemployed".—In our 1961 report we noted that the word "unemployed" as used in the act was considered to include such persons as mental defectives and paraplegics when, even in its broadest sense, the term would normally be expected to include only persons, who have been, are or will be capable of employment.

A related question is to what extent may an applicant be employed and still be considered unemployed for purposes of the act. By and large, assistance to persons employed full time is excluded even though their earnings are insufficient to meet their needs. On the other hand a person who works only casually is considered to be unemployed and may be assisted under the act if his income is insufficient to meet his needs.

However, problems arise in determining whether persons engaged in certain types of employment, for example employees who regularly work half days, tax drivers, housekeepers, woodsmen and own account workers, are unemployed. In addition, there is a risk that unemployment assistance to such persons may be used to subsidize low wages or to tide over the proprietor of a new business until the enterprise becomes profitable. In our opinion a clarification of the term 'unemployment', possibly by definition in the act, is highly desirable.

Strengthening administrative control.—Last year we referred to the department's difficulties in the administration of the act and suggested that it assemble its own internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. This suggestion has been accepted and the necessary additional staff is being recruited. The department plans to co-ordinate the new staff with its examiners of categorical allowances to obtain a comprehensive continuous review of provincial welfare administration as it affects the federal-provincial agreements in the welfare field. This strengthening of the department's review of claims and control procedures should reduce its difficulties in administering this complex program.

In paragraph 74 of our 1961 Report it was suggested that because of the relationship between the Unemployment Assistance Act and other federal social assistance programs, consideration should be given to the need for over-all co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as to reduce the cost of administration. In our opinion steps along these lines should be taken without delay in view of the increasing size and complexity of welfare administration.

Mr. HENDERSON: Paragraph 71 deals with unemployment assistance and this was the subject of discussion last December when Dr. Willard, deputy minister of welfare, was a witness before the committee. I think it was in the fourth report of the 1963 committee that you expressed yourselves on the subject. Therefore, Mr. Chairman, I suggest there might not be much point at this time in going over this matter again.

You will recall, as the paragraph shows, on pages 42 and 43, that we have had a great deal to say about the ambiguities that exist in this legislation and the difficulties with which we are faced in trying to do a satisfactory audit. Dr. Willard confirmed the correctness of our remarks in this respect when he was before the committee. But, we are now awaiting the outcome of discussions with the provinces. Therefore, I suggest there is not much use going into this at this time.

The CHAIRMAN: Yes. The committee recommended that these anomalies be removed. We considered your views and the views expressed by Dr. Willard and our committee report was made. I see no useful purpose at this time in dealing with it further.

The next paragraph will be number 78.

78. *Payment made for houses the cost of which had previously been provided for through loans still outstanding.* An Eskimo Loan Fund was established by Appropriation Act No. 3, 1953 for the purpose of making loans to individual Eskimos or groups of Eskimos under conditions prescribed by the Treasury Board. By March 31, 1963 outstanding loans amounted to \$232,317 of which \$52,500 had been extended to a group of 15 Eskimos at Frobisher Bay, N.W.T.

The circumstances in the case of the Frobisher Bay Eskimo group are unusual. Early in 1962 this group incorporated as a co-operative for the express purpose of acquiring housing. Agreement was reached between the co-operative and the Department of Northern Affairs and National Resources that: (a) the Department would invite tenders for 15 prefabricated houses and place a contract after the Eskimos had signified approval; (b) payment would be made to the contractor by the co-operative for the total price, less \$15,000 for which the department agreed to assume responsibility; and (c) in order that the co-operative would have sufficient funds to pay the contractor and to meet shipping costs, the department would make a loan of \$3,500 from the Eskimo Loan Fund to each of the 15 Eskimos who, in turn, would endorse his cheque for deposit to the credit of the co-operative.

As agreed, the cheques, collectively amounting to \$52,500, were issued to the Eskimos from the Loan Fund and endorsed by them to the co-operative. At this point the department sought and obtained Treasury Board approval to charge the full cost of the houses to a departmental appropriation. In February 1963, the Department's Welfare and Industrial Division appropriation for "Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 95) was charged

with a payment of \$69,705, the f.o.b. Montreal cost of the houses. The loans were not, however, at the same time recalled by the department.

The loans had not been repaid as at March 31, 1963 and interest charges had raised the total outstanding to \$53,540. Subsequent to the year-end, authority was granted to waive interest on each of the \$3,500 loans until such time as each Eskimo occupied his house (it was estimated that the last of the 15 houses would be occupied by November 1, 1963). Less than \$800 had been repaid on these loans to September 15, 1963.

Mr. HENDERSON: Paragraph 78 has to do with payment made for houses the cost of which had been provided for previously through loans still outstanding.

This note outlines a highly unusual set of circumstances regarding loans to the Eskimos and, with your permission, I am going to ask Mr. Smith to speak about it, unless perhaps you have any questions to put first.

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): Mr. Chairman, perhaps it might assist the committee in disposing of this matter fairly rapidly if I were to state that the situation which existed at March 31, 1963, was remedied in the following December, 1963, by the refunding to the Eskimo loan fund the amount of \$52,500 plus interest, to which we referred in this paragraph.

The CHAIRMAN: In other words, the situation has been removed.

Mr. SMITH: Yes, in the interim.

The CHAIRMAN: This matter has been cleared up.

Mr. SMITH: Yes.

The CHAIRMAN: Are you satisfied to pass on, gentlemen?

Agreed.

Mr. HENDERSON: We dealt with paragraphs 90 and 91 when the deputy minister of veterans affairs was here on Tuesday with Dr. Crawford. We might now go on to paragraph 97 which is losses reported in the public accounts.

97. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the public officers guarantee account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the public accounts".

The statements of losses included in the public accounts for 1962-63 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the public accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the post office numbered 26 and amounted to \$136,116. Of these, 13 involving \$88,335 were recovered in full during the year, and partial recoveries of \$4,932 were obtained in other cases. Losses suffered by the Post Office Department numbered 141 and amounted to \$75,460. Of these, 107 to a total of \$44,270 were recovered in full and partial recoveries totalled \$12,007.

This is a standard paragraph in my reports each year, indicating the payments that have been made out of the public officers guarantee account. You will note here that losses in departments other than the post office numbered 26 and amounted to \$136,116. Of these, 13, involving \$88,335, were recovered in full during the year, and partial recoveries of \$4,932 were

obtained in other cases. Losses suffered by the post office department numbered 141, and amounted to \$75,460. Of these 107 to a total of \$44,270 were recovered in full and partial recoveries totalled \$12,007.

The CHAIRMAN: Is there any comment on this paragraph, gentlemen?

Mr. McMILLAN: We are not dealing with the post office losses, and so on, under this item?

Mr. HENDERSON: No; I will deal with that under the post office paragraph later on. There are a number of those cases and they are charged against the special fund which the post office carries.

We now come to paragraph 98.

98. *Non-productive payments.* Paragraph 71 of the Fifth Report 1961 of the public accounts committee reads:

"The committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit."

In accordance with the request contained in the foregoing observation, a listing is given, as appendix 1 to this report, of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of expenditures for the fiscal year 1962-63.

It is necessary to turn to appendix I of the report on page 148 where these are listed. You have dealt with all of these non-productive payments appearing in the appendix except six of them. The first is No. 1 having to do with the Indian affairs branch of the Department of Citizenship and Immigration. Then there are numbers 3 and 4 dealing with penitentiaries. Number 5 is in respect of the Unemployment Insurance Commission concerning the cancellation of a management consultants' survey. Number 6 involves the Department of Northern Affairs and National Resources and No. 34 is a board of transport commissioners' non-productive expense.

I do not know whether or not members would have any questions on these, Mr. Chairman.

The CHAIRMAN: I hope this will be as far as we will go at this time, but before we leave this, are there any questions to ask on these special items Mr. Henderson has placed before us? If not, we might adjourn at this time. On Tuesday we will have Mr. Anderson, the chairman of the Canadian Pension Commission and on Thursday of next week we will have Mr. Cromb of the war veterans allowance board.

If the members of the committee feel there is nothing in these particular items on which they wish to question Mr. Henderson, we might adjourn now.

Mr. SOUTHAM: In the process of auditing in the intervening period, March 31, 1963 to the present, has Mr. Henderson noticed that there has been a general improvement regarding these items?

Mr. HENDERSON: I shall have such cases in my 1964 report which is now in process of preparation.

The CHAIRMAN: Gentlemen, we will adjourn until 9.30 a.m. on Tuesday.

APPENDIX

Department of Health and Welfare

OTTAWA June 15, 1964

Mr. A. M. Henderson,
Auditor General,
Justice Building,
Ottawa, Ontario.

Dear Mr. Henderson:

I would like to inform you of the action taken by this Department with respect to Item 74 in your 1962-63 report to Parliament. This item dealt with the unauthorized use of a Departmental vehicle by a member of the staff of the Food and Drug Directorate while on educational leave. The following is a summary of the facts of this case and the action taken thereon:

By Treasury Board Minute dated November 22, 1962 (T.B. 602411) Mr. Gagne was authorized to attend a short course at the University of Montreal on Sanitation Hygiene. This minute authorized payment of a non-accountable allowance equivalent to full salary, tuition fees of \$250.00 and return transportation expenses for Mr. Gagné from Quebec to Montreal. This Minute was subsequently amended on April 3, 1963, at the request of the Department. The latter Minute authorized the payment of a subsistence allowance of \$175.00 per month for the 11 week portion of the course held in Montreal and actual living and transportation expenses, the total not to exceed \$165.00, for the two week portion of the course held at St. Hyacinthe, Quebec.

All Mr. Gagne's accounts were reduced to the above limits when final settlement was made. Mr. Gagne's accounts included costs of operating a departmental vehicle during this period. Mr. Gagne apparently assumed that for purposes of the orders concerning the use of departmental vehicles, attendance at courses could be taken as equivalent to being on duty. Senior officers in the Department had not realized that Mr. Gagne had made this interpretation.

It has definitely been established that the departmental vehicle was used exclusively by Mr. Gagne in connection with his attendance at this course during this period.

Since this matter was brought to the attention of the Department by the Auditor General's representative, the Chief Administrative Officer for the Food and Drug Directorate recommended that the following action should be taken by the Department and this action has been implemented:

1. The Department would not attempt to recover any monies from Mr. Gagne for the unauthorized use of the vehicle because he had not been adequately informed as to the conditions under which his attendance at University had been approved and his senior officials took no action to inform him of the fact that he was using the vehicle for an unauthorized purpose.
2. The Department would not request Treasury Board approval for Mr. Gagne's use of the vehicle because such use was not warranted.
3. That copies of all future Treasury Board Submissions for educational leave and Treasury Board Minutes authorizing such leave be sent to one person in the Directorate (the Chief Administrative

Officer) who will in turn be responsible for ensuring that they are complete, fully complied with and that the persons granted leave receive complete instructions and details as to the terms and conditions of such leave.

4. That every effort should be made to reduce the delays between the issuance of Treasury Board Minutes and their receipt by the line officers concerned.

In addition to the above, this matter has been thoroughly discussed with the line officers concerned and all other field officers. I am certain they will take every precaution to ensure that such misuse will not re-occur in the foreseeable future.

I trust the Committee will concur with the action taken by this Department.

Yours truly,

G. D. W. Cameron, M.D., D.P.H.,
Deputy Minister of Health.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 22

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, OCTOBER 27, 1964

WITNESSES:

Mr. T. D. Anderson, Chairman, Canadian Pension Commission; Mr. A. M. Henderson, Auditor General of Canada, and Mr. J. R. Douglas of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Vice Chairman: Mr. P. Tardif

and Messrs.

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Cardiff,
Choquette,
Côté (*Chicoutimi*),
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Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
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Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, October 27, 1964.
(36)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Vice Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Cameron (*High Park*) Cardiff, Choquette, Danforth, Fane, Forbes, Frenette, Harkness, Legault, Loiselle, McLean (*Charlotte*), McMillan, Pilon, Rock, Southam, Stefanson, Stenson, Tardif and Winch.—19.

In attendance: Mr. T. D. Anderson, Chairman, Canadian Pension Commission; Mr. A. M. Henderson, Auditor General of Canada and Messrs. J. R. Douglas and F. A. Dixon of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

On paragraphs 107 of the 1962 Report and 92 of the 1963 Report, *Awards under the Pension Act*, the Auditor General made a comprehensive statement relating to the application of this legislation, and was examined thereon, assisted by Mr. Douglas.

Mr. Anderson commented on Mr. Henderson's statement, was examined thereon and supplied additional information.

The examination of Mr. Anderson being concluded, the Vice Chairman thanked him and he was permitted to retire.

Mr. Henderson then reviewed paragraphs 98 to 106 inclusive of his 1963 Report, and was examined thereon.

The questioning of Mr. Henderson still continuing, at 11.15 a.m., the Committee adjourned until 9.30 a.m. on Thursday, October 29, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, October 27, 1964.

The VICE CHAIRMAN: Gentlemen, we have a quorum. As I know you are all busy I will ask Mr. Henderson to make a comment on paragraph 107 of the 1962 report, which is the paragraph under study at the present time. It is the same subject as paragraph 92 of the 1963 report, and that is why it was held until this time.

107. *Awards under the Pension Act.* Paragraph 72 of the 1960 report referred to (1) the audit difficulty in determining whether or not certain payments made under the Pension Act, particularly those in respect of discretionary and compassionate awards, conformed to the authorizing provisions, (2) certain administrative practices which it was thought warranted parliamentary attention, and (3) apparent inconsistencies in the act.

The standing committee on public accounts after studying these comments recommended in its fifth report, 1961 (paragraph 62):

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

After considering these recommendations the Chairman of the Pension Commission advised the audit office concerning recommendation (a) above, that when the commission rules there is an overpayment this is made a matter of record in the accounts and, if uncollectable, the amount is deleted therefrom only with appropriate statutory authority. However, no action has been taken to record and collect overpayments in the type of case referred to in the 1960 report (paragraph 72) as follows:

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the act (section 38(6)) was amended in 1961 to provide that the commission might deem any children residing with the "dependent parent" to be

contributing to his or her support not less than ten dollars a month, but the commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases were observed where this was done.

Concerning recommendation (c), the commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the act. It pointed out that the present section 40 was contained in the original act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were otherwise excluded. The commission is of the opinion that, as the act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, we have the Chairman of the Canadian Pension Commission, Mr. Anderson, with us this morning. It is the intention of the committee, I believe, to examine the two paragraphs which the chairman has mentioned. Because of the technical and somewhat involved character of the comments, I committed my opening remarks to paper, and I believe that some of the members have it. If it is your wish I thought perhaps I might just run through it, thereby enabling you to mark those sections on which you would like to make comments. Would that be agreeable?

The VICE CHAIRMAN: It is a good idea, go ahead.

Mr. HENDERSON: The Canadian Pension Commission is the successor body to the board of pension commissioners originally established in 1916 to deal solely with war pensions. In addition to administering the Pension Act concerning disability or death incurred on or attributable to military service with the Canadian forces since the commencement of world war I, the commission among other duties also administers the Civilian War Pensions and Allowances Act, parts I to X, covering groups specially engaged during world war II, including merchant seamen, auxiliary services personnel, firefighters who served in the United Kingdom, special constables with the R.C.M.P., overseas welfare workers and the like. The commission, with headquarters in the veterans affairs building, has personnel in Department of Veterans Affairs district offices in the principal cities across Canada and in London, England. Its staff establishment at March 31, 1963 was 380 employees of which it had 352 on strength at that date.

The commission has full and unrestricted power and authority and exclusive jurisdiction under the Pension Act to deal with and adjudicate upon all questions relating to the award, increase, decrease, suspension or cancellation of any pension under the act. In addition, section 5 of the act empowers the commission to "determine any question of interpretation of this act and the decision of the commission on any such question is final".

Before explaining the reasons underlying our comments on the application of this legislation, may I say that we in the audit office have a very real recognition of the problems faced by the commission in its administration of the Pension Act as well as the importance of its decisions to pensioners whose livelihood depends so heavily today on receipt of the awards. Nevertheless, in the discharge of my statutory responsibility, it is my duty to bring to the attention of the house any cases where, in my opinion, doubt exists as to whether legislation on the statute books is being applied in accordance with parliament's intent.

In my 1960 report attention was drawn to cases where, whenever instances of undisclosed income of an applicant were noted and drawn to the attention of the commission, the pension was simply adjusted currently and no overpayment was considered as having occurred. We also referred to difficulties encountered in our audit work in determining whether or not payments made under the Pension Act, particularly those in respect of discretionary and compassionate awards, conformed to the provisions of the Pension Act, and cited the following, among others, by way of illustration:

1. Pension awards were being made to applicants on the basis of their being in a "dependent condition" in instances where they were holding cash, securities and other assets in amounts which would have precluded them from receiving assistance under other legislation involving means tests, simply because no mention is made in the act of the treatment to be given when the applicant has assets.
2. Pension awards were also being made to dependent parents on the basis of an assignment of pay, often of small amount, made by a son now deceased, without taking into account the ability of surviving children to contribute to the parents' support, it simply being assumed that had the soldier survived, he alone would have borne the burden of support.
3. Although subsection (2) of section 40 appears to contemplate that a pension in respect of death of one member of the forces be limited to a single class of recipient such as a widow, children or parents, other sections of the act provide for payments in stated amounts to these classes and so death can result in payments being made concurrently to a widow (section 37), children (section 26) and parents (section 38).
4. Subsection (7) of section 38 of the act provides that the pension of a widowed mother shall not be reduced on account of her earnings from personal employment and, on the strength of this, pensions awarded to widowed mothers under section 38(3), which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, were being continued in payment even though they have been able to undertake full-time employment.
5. Section 25 empowers the commission to "grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious, but in which the commission has decided that the applicant is otherwise unqualified to receive such an award or supplementary award under this act". For many years, outstanding war service was the dominant factor in making compassionate awards but in recent years awards appear to have been made on a "well-deserving" basis without necessarily any military connotation and a number of cases were observed where additional pensions were paid in respect of wives whose marital status was not recognized under Canadian law.

In 1961 the public accounts committee, after studying these comments with the deputy chairman of the commission in attendance, made the following recommendations to the house in its fifth report 1961 (paragraph 62):

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;

- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

After considering these recommendations the Chairman of the Pension Commission advised the audit office on February 7, 1962, concerning the setting up of overpayments, that when the commission rules there is an overpayment this is made a matter of record in the accounts; but in the type of case referred to in our 1960 report involving undisclosed income the commission did not consider overpayments had occurred and therefore did not record any. However, overpayments in current cases of this type are now being recorded.

With respect to our comment (1) concerning liquid assets, we now note that persons with cash and securities in excess of \$5,000 are no longer considered as being in a dependent condition.

With respect to the recommendation regarding dependent parents (2), the chairman has pointed out that the act was amended in 1961 to provide that the commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than \$10 a month. He stated that the commission feels, however, that there is no obligation for them to take into account the ability of other children of the "dependent parent" to assist.

Concerning (3) the cases where one death results in more than one pension being paid concurrently, the chairman reported that the commission had carefully considered the legality of these cases and is of the opinion that such payments are legal and in accord with the act. I have not obtained independent legal opinion yet on this point.

No action was taken or views expressed on (4) or (5). Concerning the latter dealing with section 25, I should point out that when the act was amended in 1961 the particular group cited as an example was made eligible for pension as of right so this type of case is no longer of concern. What is still of concern is the interpretation of "specially meritorious" which has changed drastically from what it was when this section was first inserted in the act and for many years thereafter. As stated in my note, "specially meritorious" was then interpreted as relating to war or military service and without such service awards were not made. Presently many awards appear to be made on the basis that the case is "well deserving" on a generally compassionate or social welfare basis and I am not sure that this is parliament's intent. Strictly speaking the commission's power to make awards in such cases is not questioned because section 25 makes no reference to military service at all, let alone a requirement of specially meritorious service, but in view of the change in interpretation by the commission over the years it is thought the matter would be of interest to the members.

In my 1963 report we have drawn attention to two more cases which further illustrate the inconsistencies arising under this legislation. The first case related to a mother for whom a dependent parent award of \$50 monthly had been approved despite the fact that she had recently sold her home and turned over to her son-in-law \$19,500 as an interest-free loan with no repayment terms set forth. The second case related to a "widowed mother" who was awarded a dependent parent pension, which on her remarriage was discontinued. She was widowed 13 years later but was prohibited under the act from obtaining a reinstatement of her pension because the death of her husband did not occur within five years of the date of remarriage. She had

lost two sons in the services and was advised that she was now entitled to apply for pension in respect of the second son despite the fact that section 40(1) provides that no person shall be awarded more than one pension in respect of death. An award was made and although the recipient subsequently returned to employment, the award continues in effect at the rate of \$100 monthly.

In view of the recommendations made by the committee in 1961 and the type of problems mentioned which we continue to encounter in the course of our audit work, it would assist us—and, I am sure, the members of the commission—if we could learn whether or not the decisions taken appear to you to be in accord with the intent of parliament.

That, Mr. Chairman, is the basis of the comments that I have to make at this time, drawing on our experience in our audit work of the administration of the Canadian Pension Commission. Perhaps Mr. Anderson would like to speak on this.

The VICE CHAIRMAN: Yes, I was wondering whether it would not be in order to hear Mr. Anderson speak on this report of the Auditor General.

Mr. T. D. ANDERSON (*Chairman, Canadian Pension Commission*): Mr. Chairman and gentlemen, I think first of all I would like to make a general comment with regard to the attitude of the commission generally in respect of the type of case which is referred to in this particular instance. As you know the commission is given very broad discretionary powers to deal with claims, particularly under section 38 of the legislation. From our experience in attending as witnesses before the standing committee on veterans affairs we have become quite convinced that the government is anxious that we shall interpret in the broadest and most generous terms those sections in which we have this power of discretion. In a very brief way this sums up the attitude the commission has toward this particular type of claim. As I say, we are satisfied we are interpreting the legislation and making grants of this type in the manner required by parliament; that is, that we are doing what members of parliament would wish us to do under the terms of this legislation.

With respect to the special items, I would like to deal with these but not necessarily in the order in which Mr. Henderson has presented them to you. I have made a few brief notes on them here and I would like to point out some of the problems with which we are faced and some of the reasons for arriving at the decision at which we do arrive.

First, if I may, I should like to refer to the question of overpayments in cases where such have occurred. As Mr. Henderson indicates, where these overpayments do occur we now set them up and they are referred for disposal to the proper statutory authority. There may be the odd exception, but in any case my colleagues have instructions to make certain, in cases where overpayments do occur, that care is taken to set them up and refer them to the proper statutory authority for final disposal.

The next item to which I would like to refer is the question of payment of pension to a dependant parent, and the relation of that payment to any asset the dependant parent may have. In the first place, as Mr. Henderson pointed out in his report, we now have established a ceiling on the total assets which any individual dependant parent may have beyond which we will not pay a dependant parent pension. I think it should be pointed out that section 38 of the act provides that where a dependant parent is found to be in a dependant condition and where, in the opinion of the commission, that parent would have been taken care of by the deceased son or daughter, as the case may be, then a pension may be paid in an amount which will provide maintenance for the dependant parent.

In the first instance the parent must have a home in which to live, therefore, we exempt the value of the home from the assets because if she did not

have the home we would have to pay an amount which would provide for rentals. So, because we think this is a fair and equitable manner in which to deal with this particular problem, we grant an exemption on the value of the home.

In respect of the specific case to which reference is made here where the dependant parent sold the home and turned over the money to her son to buy a home, this case was dealt with in this manner because we considered the mother not only had a home but also her board in this home which she had, in effect, helped to purchase for her son. Had she had to live in rented accommodation or in her own home which she sold, the amount we would have had to pay would have been \$108 per month under section 38 of the act, because we would have had to pay for her board, taxes on her house, water rates, and so on. In effect, what happened, as a result of her selling her home and investing the money in her son's home, was that the actual amount we were required to pay to her was reduced to \$50 per month. Therefore, we look upon this as being a saving rather than an additional expense. I would go further and point out that this woman could have taken the \$19,000, had she so wished, and taken a trip around the world or she could have invested it in the stock market and lost all of it; having done so, she then would have been in a dependant condition and the commission could not avoid coming to the conclusion that the son would have maintained her, because he was during his period of service assigning to her quite a substantial amount of his pay. So, by and large, we consider this to be a very legitimate type of case and we feel, under the circumstances that this lady, in doing what she did, not only saved the country money but showed very good sense compared to what a lot of other people might have done with this money had they been given the same opportunity.

Mr. FORBES: Mr. Chairman, Mr. Anderson says that part of the duties of the commission is to save the government money. This is not my interpretation of the function of the commission. I understood its duties were to see that justice is done equitably to the dependants of soldiers.

Mr. ANDERSON: That is correct; these are the basic responsibilities.

Mr. FORBES: What business is it of yours whether the total assets of a dependant are \$5,000 or \$50,000 if the dependant is entitled to a pension as a result of a soldier's service; it should be paid to her or his dependants.

Mr. ANDERSON: I think we should clear this up. That dependant is not entitled to a pension because of the man's service; she is entitled to a pension only if in the opinion of the commission this soldier would have maintained her had he remained alive and only if she is in a dependant position. These are the two main requirements.

Mr. WINCH: Mr. Chairman, with all respect—

The VICE CHAIRMAN: Might we allow Mr. Anderson to finish?

Mr. WINCH: Yes. It was my understanding we were going to have complete statements and the questioning afterwards.

The VICE CHAIRMAN: That is the general idea. I think we will permit Mr. Anderson to finish and have the questioning afterwards.

Mr. ANDERSON: With regard to the matter of the dependant mother who lost two sons, this was considered at a general meeting of the commission and, for what we considered to be a number of very good reasons, it was agreed that where a mother lost two sons she should receive very special consideration. I would, again, call your attention to the fact that where in our opinion the deceased soldier would have maintained the parent had he been alive, this must be the basis on which we will decide whether a pension shall be paid. In this case, the widow was in receipt of a dependant parent's pension because of the death of her first son and she had met all the necessary require-

ments. She remarried and some 13 years later her husband died at which time she again fell into a dependant condition. I think it is reasonable to assume that the first son who would have maintained her prior to her marriage would have also maintained her after her marriage if and when she fell into a dependant condition again. However, we are barred from reinstating her under a special section of the act which prohibits it. There was however a second son, and incidentally this son also had made a contribution to her during the period of his service, and there was no question but that he would have maintained her had he been alive. Here was a woman who was in the position of having lost a second son who unquestionably would have maintained her and we therefore put her on pension on the basis that this son would have maintained her had he lived.

There is just one more point I would like to make before I bring my comments to a conclusion. There has been a suggestion that the commission should consider the ability of the other children to maintain this dependant parent; that is, the children other than the one who lost his life in the service. In the first place, we are charged with the responsibility of deciding whether or not the widow is in a dependant condition, and secondly, whether or not the deceased son or daughter would have supported the widow had she or he lived.

There is nothing in the act which requires us to consider whether or not the other children would or should support her. There is no section of the act that gives us authority to enforce such support; and there is no legislation anywhere, as far as I know, which would enforce the other children to maintain the parent. We are therefore faced with a situation in which the widow is in a dependant condition and she will remain in a dependant condition unless we consider that this son would have supported her and, therefore, pay a pension. I do not understand how we can do other than pay a pension in such circumstances.

That is all I want to say to conclude my statement, Mr. Chairman, but I would be glad to attempt to answer any questions which any member might like to put to me.

The CHAIRMAN: I omitted to say that Mr. Anderson is the chairman of the commission, as I am sure you all know.

Mr. Winch.

Mr. WINCH: I would like to direct a question to Mr. Henderson. I do not think it has happened very often over the years that Mr. Henderson has completely confused me, but I want to admit that he has succeeded in doing so this morning.

I would like to ask Mr. Henderson how he coincides the second paragraph on page one with the third paragraph on page one. In the second paragraph on page one Mr. Henderson makes the definite statement that:

The commission has full and unrestricted power and authority and exclusive jurisdiction under the Pension Act to deal with and adjudicate upon all questions relating to the award. . . . In addition, section 5 of the act empowers the commission to "determine any question of interpretation of this act and the decision of the commission on any such question is final".

In the succeeding paragraph Mr. Henderson says:

Nevertheless, in the discharge of my statutory responsibility, it is my duty to bring to the attention of the house any cases where, in my opinion, doubt exists as to whether legislation on the statute books is being applied in accordance with parliament's intent.

In view of Mr. Henderson's very definite contention that the commission has full and unrestricted power and authority and exclusive jurisdiction in determining the interpretation of the act, I think Mr. Henderson will under-

stand why I am confused to know why he then expresses a doubt as to the intent of parliament and the interpretation. At the moment I cannot put the two together. Would Mr. Henderson please expatiate on that?

Mr. HENDERSON: Mr. Chairman, may I first of all answer Mr. Winch by saying that I have not submitted any of the questions we have raised here for independent legal opinion. However, in regard to my reference to section 5 of the act in the second paragraph, if you will look at it in the act you will see that it is prefaced by the words "subject to the provisions of this act" the commission has full and unrestricted power and authority, and so on.

It has been the practice of my office in examining the transactions of an operation such as the Canadian Pension Commission to see whether or not the administration of that act conforms to the provisions of the legislation. That is one of the duties that I consider I have to perform.

I think Mr. Winch would agree that if I were to accept the proposition that they have exclusive, full and unrestricted power, there would be no point in my even doing an audit of the transactions flowing from the administration of this act. I do not think that is parliament's intention. If that were the intention, then I should not attempt to bring these cases before you.

There is no question, as Mr. Anderson himself has shown you, that he and his associates on the commission are not seeking to bring the best justice, in the generally accepted sense of the word, to all the cases which come before them. The points that I am raising are those cases where it seems to us anomalies exist or in which some departure is developing that is away from the intention of parliament when it enacted this legislation.

I am quite prepared to admit to you that our interpretation may be too rigid; it could be that the members of the committee feel that the Canadian Pensions Commission should be given this full and unrestricted power in every sense of the word, but I consider, as I say, that it is my duty to bring to your attention any cases wherein I may entertain doubts.

Do you not agree with that, Mr. Winch?

Mr. WINCH: I am not quite clear at the moment.

Mr. HARKNESS: Perhaps I could clear up Mr. Winch's difficulty by putting forward the opposite side of the coin.

Individual veterans, members of parliament on their behalf, and veterans' organizations are constantly questioning the interpretation placed by the commission on claims for pensions which are not allowed, as you are well aware. In other words, there is a great deal of questioning of the interpretation which the commission puts on the sections of the act and on their powers from the very opposite point of view—that they in many cases do not give the benefit of the doubt when it should be given, and thus do not award pensions when they should be awarded.

Mr. WINCH: I am not quite certain whether that clarifies the point or not.

I know in the last two months Mr. Anderson, on representations I have made and on review, has decided that persons who had been turned down were entitled to pensions.

Mr. HARKNESS: My whole point is that this power which is given to the commission is constantly questioned, chiefly from the opposite point of view. The question is generally whether or not they are using those powers according to the intent of parliament.

Mr. WINCH: Basically I would just love to get clarification on this.

We have had an explanation from Mr. Henderson. May I ask whether Mr. Anderson has any comment on this phase of the matter—paragraph two and paragraph three.

Just how far do you accept the full, unrestricted power, authority and exclusive jurisdiction?

Mr. ANDERSON: I feel that parliament meant exactly what they said when they inserted section 5 into the act. I think we have just exactly the power that is outlined there. On the other hand, I am not certain, frankly, of the relationship of the office of the Auditor General to our act and our operations, but I think it has been accepted through the years that the Auditor General is expected to comment on any expenses in any department or any board that in his opinion may be doubtful. This is a matter on which, as has been pointed out, there would appear to be some conflict.

Mr. WINCH: May I bring it to a head, then, by giving an example?

Let us turn to page two, paragraph five. The Auditor General has mentioned this matter not only on page two but also later on where we have, shall I say, the interpretation of "specially meritorious" and "well deserving". Without going into arguments on those, may I ask Mr. Anderson whether he understands that, because of a power which is outlined in paragraph 2 on page one, he has the authority to interpret "well deserving" in a manner similar to "specially meritorious"?

Mr. ANDERSON: Yes, I frankly think we have that power. However, I would like to call to your attention the exact wording of section 25 of the act in this particular aspect:

The commission may, on special application in that behalf, grant a compassionate pension, allowance or supplementary award in any case—

And I stress the words "in any case".

. . . that it considers to be specially meritorious.

My interpretation is that it is the case itself that must be specially meritorious and not the man's service.

Mr. WINCH: In other words, it is well deserving and therefore meritorious?

Mr. ANDERSON: Exactly.

Mr. CAMERON (*High Park*): Will you clarify that answer, Mr. Anderson? It seems to me to be slightly ambiguous.

Mr. ANDERSON: The reply I just gave?

Mr. CAMERON (*High Park*): Yes.

Mr. ANDERSON: All I said was that the actual wording that appears in the act is "in any case that it considers to be meritorious". I think the correct interpretation of that is that the case itself must be meritorious and not the service of the individual seeking the pension.

Mr. CAMERON (*High Park*): How do you define "meritorious"? I am sorry to interrupt, but that is a point in which I am very much interested.

Mr. ANDERSON: I think you have made a very good point and I would be happy to explain. Perhaps the best manner in which to do that would be to cite a specific case. I will not use any names but I will cite a case which I think is very much to the point. This is a type of case which is fairly common; we have a number of them.

A soldier during world war II marries an English or European girl. At the end of the war she refuses to return to Canada and she ultimately obtains a divorce in the British courts or in the courts of some European country. So far as Canadian law is concerned, he is not divorced; he is still married and therefore cannot marry again. He ultimately takes up common law union with another woman and there is a family. They live a respectable life and they get along fine. We have used this section of the act to pay an additional pension on behalf of that common law wife.

We considered it to be a meritorious claim because there is no way in which this man can get recourse.

Mr. CAMERON (*High Park*): May I reserve my right to go back to this question later on?

The VICE CHAIRMAN: Yes, indeed.

Mr. WINCH: In view of the reading of the section by Mr. Henderson and the interpretation he has placed on it, may I ask him whether he is basically challenging the pension commission's interpretation of that section, and that the word "meritorious" refers to the case, and if so, does he claim that there is any distinction between the terms "meritorious" and "well deserved"?

Mr. HENDERSON: I think it might be helpful if I could ask Mr. Douglas to answer that question.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): One of the main purposes of bringing this matter to your attention is that we thought it might be interesting if we drew to your attention the tremendous change in the interpretation of "specially meritorious" over the years by the commission itself. I would like to quote an opinion given by Mr. Justice Hyndman, who was then president of the appeal board, which we came across during our research into this matter. It reads as follows:

There is no doubt that the deceased ex-soldier had a very creditable military career but, unfortunately, it was not of such a nature as would fall within the expression in the section referred to, namely 'specially meritorious'.

It must be remembered that there were about 619,000 enlistments in the Canadian expeditionary forces and, of these, about 425,000 proceeded overseas. Some 60,000 died on service and there are at present about 80,000 disability pensioners. It will thus be seen that there are, allowing for deaths since the war, more than 200,000 ex-soldiers, most of whom saw service in an active theatre of war, and who are receiving no pension. Allowing for slackers and others whose service might not be said to be creditable, there are a very great number whose service was praiseworthy and meritorious. It will thus be seen that, if a loose interpretation of section 21 were permitted, it would almost do away with the necessity of proving a right to pension under section 11 of the act and would lead to universal pensions.

We have had many applications under section 21 in which the facts as to the merits of service and distress of the widow have been on a par with or even more distressful than in this case and, unfortunately, we have had to disallow such claims. This court has held, in connection with many of these cases, that unless there is something outstanding or conspicuous, as compared with the ordinary meritorious service, provisions of the section cannot be applied.

Realizing as I do the extreme financial needs of the applicant in this case, and whilst it would give me much pleasure to be able to accede to her request, nevertheless, in view of the law as interpreted by this court, it is with much regret that I am compelled to say that the application must be REFUSED.

Mr. WINCH: Do I take it from what you have read that because of an interpretation that was made many, many years ago, there is now a wrong interpretation being given; that the section applies to meritorious service, and not necessarily military service?

Mr. DOUGLAS: No, sir, I would say that the reason this was brought to attention was to illustrate the varying interpretation of the words "especially meritorious". At the outset it seemed to be something considered as outstanding in military service. It simply is a matter of drawing this to your attention. Now, there is a much broader interpretation given, and in fact we have noted cases

which one can consider as merely a matter of social welfare, such as when a person is in financial need, and the pension is awarded under this section.

Mr. WINCH: I am glad to note, speaking personally, the progressive thinking of the commission.

Mr. McMILLAN: Section 40, subsection (1) which Mr. Henderson refers to in his last page applies, and no person shall be awarded more than one pension in respect of death. My question is this: Would not the award of the second pension be made beyond the provisions of the act? I am not questioning the need for the second pension, but does it not go beyond the act, if section 40, subsection (1) is read in that way?

Mr. DOUGLAS: This is a very interesting question that we are raising. We do not know. This is one of the questions we want clarified. I might illustrate it in another way, using section 38 of the Pension Act. Under section 38, subsection (3) the individual must be incapacitated by mental or physical infirmity from earning a livelihood. This is a condition. Yet by using section 38, subsection (7), which in effect says that a pension awarded to a mother shall not be reduced on account of her earnings, pensions are being continued under section 38, subsection (3), where the person has returned to full time employment. But to us this seems to be ridiculous. If incapacitation is the one criterion for a person drawing a pension, it seems to me to be very difficult to understand how a pension can be continued when a person is holding down a full time job. These are things which have raised doubts in our minds.

Mr. McMILLAN: Should there not be an amendment made to the act?

Mr. DOUGLAS: This of course is what we have thought might usefully be considered to clarify the situation.

The VICE CHAIRMAN: Now, Mr. McLean.

Mr. FORBES: Is there any appeal from a decision of the board?

Mr. ANDERSON: You mean with respect to a claim under section 38, for a dependant parent?

Mr. FORBES: I mean any claim.

Mr. ANDERSON: Yes, there is.

Mr. FORBES: You say there is an appeal?

Mr. ANDERSON: Yes.

Mr. FORBES: To whom do you appeal?

Mr. ANDERSON: The appeal is made to a special appeal board of the commission, composed of three members.

Mr. FORBES: The late Harry Jones and I had a case before you people and we could not make head or tail out of it. We finally got a French pension, but you held back the Canadian pension and we still think you are wrong.

The VICE CHAIRMAN: If you would give Mr. McLean an opportunity to ask his questions, I feel sure that the matter you are referring to will be covered. I saw Mr. McLean before you spoke.

Mr. FORBES: I thought I asked for your permission and you nodded to go ahead. Are you bilingual and I do not understand?

The VICE CHAIRMAN: Mr. McLean.

Mr. McLEAN (*Charlotte*): The Auditor General says in section 25, dealing with the powers of the commission, that you may have a compassionate pension or a supplementary award which he says must be established on meritorious grounds, and Mr. Anderson has given us a definition of meritorious. I always thought that it was in connection with service in the field or something like that. I did not think it was in connection with married life. I have heard the case given by Mr. Anderson, and now I would like to give my case.

A man served in his teens in the first world war. He comes out of the lines of Passchendaele, where out of 146 men and four officers only 16 men came out. That night he was supposed to have a rest. But he had to go back in that night to help carry out the wounded. Then a howitzer went off near him, knocking out his hearing. He is deaf from then on. He lives a good life, and is an upright citizen. He asks for no pension, but he considers it to be meritorious service. He not only saved a man's life, but also put a machine gun out of action and so on, and he thought it to be meritorious service. He was not mixed up with married life at all. I believe that man's word should be accepted. This happened to him. But he cannot even get a hearing aid, while the man who is mixed up in married life gets a pension. I cannot see any sense to it. All he wants is a small pension so that he can get into a veteran's hospital.

He went to a veteran's hospital under the impression that he could get free service, but he was charged \$75. The provincial government pays the bill for his room, but the surgeon charges him \$75, and the pension commission will not even give him a hearing aid. I know the man and I believe his word. I know that if I made an affidavit in court they would accept my word, but if a veteran comes up and is willing to make an affidavit, the pension commission will not believe him, or anybody else. I think they should accept someone who comes forward and says that this man is of good character and has been of good character, and is leading the life of an upright citizen. I think they should take evidence along this line and not turn the man down.

I cannot accept the definition of "meritorious" which Mr. Anderson has given. I cannot see it at all.

Mr. ANDERSON: In the first instance I would not wish to comment on a claim or a case with which I am not familiar. We often find when we dig into these cases that there are a lot of problems and other matters in connection with them with which we are not familiar at the moment. Therefore, I would not wish to comment on any particular case without knowing more about it than I do about this one.

Also there is some confusion between section 25 and section 13. From what Mr. McLean has said I would assume that this man might be able to apply for a pension under section 13. I do not know if he applied under section 25. But I would judge that he is seeking entitlement to a pension on the grounds of disability, and not on compassionate grounds.

Mr. McLEAN (*Charlotte*): It says "special meritorious service". Do you not look into his service as such?

Mr. ANDERSON: Yes, but if he was not applying for a pension under section 25 we would not deal with it on that basis but, rather, on the basis of whether or not he received a disability during the period of his service.

Mr. McLEAN (*Charlotte*): Well, then, how is the ordinary person to know what to apply under? I am sure I would not know.

Mr. ANDERSON: Well, of course, if he is applying on the basis of a disability he goes to a pension advocate and he would be advised of the correct manner in which to proceed.

Mr. McLEAN (*Charlotte*): Yes, but in my experience one does not get anywhere.

The VICE CHAIRMAN: Would you proceed, Mr. Forbes.

Mr. FORBES: A case I have in mind concerns a Frenchman who came to Canada in 1912. He took up farming. He was a member of the French reservists' army. In 1914 he was called back to France and in 1918 he was killed. This man was entitled to two pensions, the French pension and the Canadian pension. His widow later was confined to a mental institution. This case was

taken to the Canadian pension board, which withheld both pensions. However, after two or three years of negotiations by the late Harry Jones and myself we finally succeeded in obtaining for her the French portion of the pension. But, to this day, the Canadian Pension Commission has withheld the Canadian portion because she is confined to a mental institution. In my opinion, the Canadian Pension Commission should not have that authority. This woman was entitled to the pension as a result of her husband's war service and, as such, I think she should be paid that pension through the administrator of mental persons' estates in the province of Manitoba. I know you are well aware of this case, Mr. Anderson, and I think it has been handled very unfairly. I think the commission is given far too much authority.

The VICE CHAIRMAN: Have you a question, Mr. Cameron.

Mr. FORBES: Mr. Anderson has not commented upon my remarks.

The VICE CHAIRMAN: Do you wish to answer Mr. Forbes?

Mr. ANDERSON: Yes, but only to say that under section 18 of the act the commission has authority to administer funds of persons who are in mental institutions, and that is what we have been doing.

Mr. FORBES: But in certain provinces there are officials to administer these pensions on behalf of persons confined to institutions.

Mr. ANDERSON: But in the case of disability or dependants pensions that authority is given to us by our own act.

Mr. CAMERON (*High Park*): But, you have eliminated meritorious service because—

Mr. ANDERSON: If I may interrupt, no, we have not eliminated it. This is a very important factor which we take into consideration when deciding these questions.

Mr. CAMERON (*High Park*): You really have enlarged it then because you said you considered meritorious service to be more or less synonymous with hardship. Let me illustrate what I am trying to get at. Let us take a man who, through no fault of his own, could not get married and had contracted a common law marriage. He made an allowance on that basis. I am using a fictitious case. This man was on active service and whether or not it was through his own fault he was not covered by section 13 (2). This man lost both legs and both arms through special meritorious service. He has undergone a most unfortunate experience and as a result of which he is unable to make a living? What do you do in this case? What is the reasoning of the commission in this respect?

Mr. ANDERSON: In the first place, if the man has any pension entitlement at all, even 5 per cent—

Mr. CAMERON (*High Park*): I am eliminating all reference to a pension entitlement. My case relates to a man who has no entitlement at all under section 13 (2). He is seeking relief under this word "meritorious". He has to qualify under that. This is a case of a man who is suffering extreme hardship.

Mr. ANDERSON: We have not eliminated as such the meritorious service aspect.

Mr. CAMERON (*High Park*): I can understand the meritorious service aspect of it in the case of a man who has given meritorious service and is in a position of hardship; under the act he would not have been entitled to a pension and you would have taken that into consideration when deciding if his hardship deserves relief action under section 25. However, I am interested in the thinking of the commissioners on this ground of hardship. What do you interpret as being a hardship? I gave you an illustration of a man who lost both arms and both legs and who was incapable of making a living. Do you do anything for this man?

Mr. ANDERSON: We would not pay him a pension on that basis only; we would have to consider other factors, such as his service and so on.

Mr. CAMERON (*High Park*): But, why not?

Mr. ANDERSON: Because under the Pension Act we do not consider section 25 to be designed so as to provide that every man who puts on a uniform will be given a pension if something happens to him after his war service is finished. This is not the purpose of the Pension Act.

Mr. HARKNESS: Am I not correct that such a man would come under the provisions of the War Veterans' Allowance Act?

Mr. CAMERON (*High Park*): But here is a man who cannot make a living and yet you do not consider that as meritorious service. It would appear to me that you do not give the word "meritorious" its full grammatical meaning.

Mr. ANDERSON: We do not pay pensions under section 25 on the basis of any one particular aspect of his claim; we have to consider all the aspects, his service disability, his status so far as finances and all other factors.

Mr. CAMERON (*High Park*): I do not see why you have to consider all these other outside things. They may be elements that enter into making a final decision but, in my opinion, the point concerns this hardship. Are meritorious and hardship synonymous? What would you do in the case I illustrated?

Mr. ANDERSON: I would take a look at it under section 25 and decide on the basis of all the aspects of his claim whether or not he is entitled to consideration.

Mr. CAMERON (*High Park*): But let us eliminate all the other aspects. I am referring simply to the hardship in this particular case. He lost both his arms and legs and he cannot make a living. He went overseas to serve his country; he comes back and he is not eligible under section 13 (2), and the only place he can make a claim is under section 25. Again, I am asking why it should not be considered a meritorious case?

Mr. ANDERSON: Of course, we would consider it. But, I could not commit the commission in any case of that type to pay a pension; it has to be decided by the commission.

Mr. CAMERON (*High Park*): I am having difficulty in finding out what the thinking of the commission is in this respect.

Mr. WINCH: In respect of the example given by Mr. Cameron could we ask whether or not you then would consider it under the War Veterans' Allowance Act, as suggested by Mr. Harkness.

Mr. ANDERSON: He might be entitled to that, in which case the question of pension under section 25 probably would not arise. If he had service only in Canada, with no pension entitlement, he would not of course be eligible under the War Veterans' Allowance Act.

Mr. CAMERON (*High Park*): Although the War Veterans' Allowance Act might help him it would not begin to compensate him for the hardship he has suffered under the illustration I have given. I am asking for a simple answer in respect of this man who has suffered to the extent that he has. As I say, I have mentioned a purely fictitious case. Why would it not be considered a hardship and, therefore, synonymous with a meritorious claim, and why should he not have been awarded a pension which he would have received if he had lost both arms and both legs in battle?

Mr. ANDERSON: It would be very seriously considered, yes.

Mr. CAMERON (*High Park*): But I cannot get an answer yes or no.

Mr. ANDERSON: You want me to say that I would give it to him.

Mr. CAMERON (*High Park*): Yes.

Mr. ANDERSON: I cannot say that because it is not within my prerogative to say so. I am not the commission; I am only the chairman and one member of the commission.

The VICE CHAIRMAN: Have you a question now, Mr. Harkness?

Mr. HARKNESS: I had a couple of questions to put. In respect of overpayments you stated you are now entering these up. Do you then attempt to collect these overpayments out of the allowances which have been given?

Mr. ANDERSON: In some cases we do, sir, if it is not going to work a hardship on the individual.

Mr. HARKNESS: That is my very point; if it is going to work a hardship on the individual you then do not subtract the \$20 or whatever it is a month?

Mr. ANDERSON: That is right; we do not.

The VICE CHAIRMAN: Then how do you collect this?

Mr. ANDERSON: It is referred to the proper statutory authorities and they proceed with it in whatever way they see fit.

Mr. HARKNESS: It is recovered in some cases from the veterans' estates, I suppose, and if not from there it is written off?

Mr. ANDERSON: Yes.

Mr. HARKNESS: Although, you do enter it as an overpayment you do not immediately begin to subtract the amount in question, no matter what the circumstances are?

Mr. ANDERSON: No.

Mr. HARKNESS: My other question relates to the ceiling on the assets of a dependant parent. Is there any limit on the value of a house as there is in the case of the war veterans' allowances people?

Mr. ANDERSON: No. We have not placed any specific limit on the value of the house but it is one of the factors we consider. We might try to encourage the individual, if he was living in an overly expensive house, to work out a means by which the house could be sold or live in a less costly establishment because in many cases the cost of operating a big expensive house is more than the act permits us to pay under our ceiling. But, we have no definite limit in this respect.

Mr. HARKNESS: In other words, you do not apply a limit as you do in the case of the War Veterans' Allowance Act?

Mr. ANDERSON: No.

The VICE CHAIRMAN: I know it is not normal for the Chairman to put questions and that is why I would rather be sitting on the other side of this table. But, you do find it quite in order for someone to transfer \$19,800 in assets to a son-in-law at no interest and then pay an additional pension.

Mr. ANDERSON: Well, she could have done many, many other things with it.

The VICE CHAIRMAN: I am not questioning that. I suspect there are a lot of things she could have done with it.

Mr. ANDERSON: She is receiving no income from it, as a result of which, she is in a dependant position.

Mr. HARKNESS: But, in these cases you do not pay the whole pension; you pay only a partial pension?

Mr. ANDERSON: Yes, that is right, because her son is providing her with room and board.

The VICE CHAIRMAN: Are you saying that the sons who die overseas are the sole support of their mothers?

Mr. ANDERSON: Not invariably, but unless there is evidence to the contrary we take that to be the case.

The VICE CHAIRMAN: Could you tell me how many sons who did not get killed overseas are supporting their mothers? Do you know?

Mr. ANDERSON: I do not know.

The VICE CHAIRMAN: Are there any other questions in this respect?

Mr. FORBES: Mr. Chairman, I would like to say one thing. I think there should be a change on the basis on which you decide a pension. The day of children assisting their parents is long past, and you may as well reconcile yourself to that fact. If these chaps are entitled to a pension as a result of war service, give it to them.

Now, by putting a ceiling on their property or a net worth statement you have created the same conditions that are referred to in this clause. This woman wants to draw a pension so she transfers her property to her son. I would say "forget about it". If they are eligible for a pension as a result of their war service, pay it to them and do not get people in the position in which you got this lady here because only a short time may pass before the son-in-law forgets about helping her. If they are a war charge, let us pay out the charge.

Mr. DANFORTH: Mr. Chairman, I would like to ask Mr. Henderson one or two questions strictly regarding the mechanics. You made the following statement here:

Nevertheless, in the discharge of my statutory responsibility, it is my duty to bring to the attention of the house any cases where, in my opinion, doubt exists as to whether legislation on the statute books is being applied in accordance with parliament's intent.

My question, Mr. Henderson, is this: You or your department in the discharge of its duty would not go into every pension case because there are thousands and thousands of them. My interest is whether you just pick cases at random or does the commission refer pensions of a particular type to your attention? What are the mechanics by which you go into these pensions?

Mr. HENDERSON: As you know, ours is a test audit. We select the cases. Perhaps it would help if Mr. Douglas could explain this to you because he is in charge of carrying it out.

Mr. DOUGLAS: Generally speaking, we do it on a sampling basis. For example, we will sometimes limit tests to various sections. We might do a test of section 25 cases, or a test of section 38, then a test of the war disability pensions under section 13. It is a matter of a test examination.

Mr. DANFORTH: Then, there could be other fields in which there might be a conflict of opinion between the two departments which could be brought out from the testing other than the prime examples shown here?

Mr. DOUGLAS: This is quite possible. These are simply examples.

Mr. CARDIFF: Mr. Chairman, I refrained from asking this question because of the fact that I did not have all the particulars with me. I expect them in the mail right now. A gentleman came to me on Saturday. I was home. He came with his wife. He is now 68 years old and he is a veteran of the first world war. There are very few of them left. He was getting a pension for quite some time. He was in active service and was wounded at different times. He had a full time job while he was able to do it, but then he got to the position where he was not able to continue his work. They cut his pension when he started working and they would not give it back to him because his wife had money. I think it is absolutely wrong. He is entitled to a pension because of his war service. They cut the pension off because he was making enough money to keep himself, and his wife had money. Because they had money, they would

not reinstate him. He is 68 years old and she is 70, or almost that age. They told her that she had to spend her money if he was to get a pension. She has spent it. They drive a car, and they were told that they should not have a car. Their son had given them a car, they did not buy it. The same with a television set. They were told they could not have a television set because that was something special. Somebody gave them a television set. This man is entitled to a pension because of his war service, and yet they cut it off because he was making enough money to make a living. I am going to receive all the information within a day or two. I told them to go home and put all this on paper and send it to me in a letter. The man agreed to do it. I have not received it yet, but I will have it tomorrow, I expect. I intend to fight for him.

Mr. HENDERSON: May I mention that at the meeting on Thursday Mr. Cromb, the chairman of the war veterans' allowance board will be attending the committee. I am wondering whether Mr. Anderson would not agree that perhaps this case is more of a war veterans' allowance case than yours, Mr. Anderson?

Mr. ANDERSON: All I would say is that if this man was in receipt of a disability pension and was cut off because he was working, somebody made a bad blunder somewhere. I would be glad to correct that blunder if you refer it to me.

Mr. CARDIFF: He went to London, and he went to different places. They all turned him down. I think it is ridiculous. I think it is plain ridiculous for the pension board to turn any soldier down who served in the first war. There are only a few of them left and for God's sake give them enough to live on until they die.

Mr. ANDERSON: There is no authority in our legislation to either reduce or cut off a man's disability pension under such circumstances. I am not talking about the war veterans' allowance or the pension under section 38; I am talking about the disability pension. We cannot cut off the disability pension because of a man obtaining employment.

Mr. CARDIFF: It may be under the war veterans' allowance.

Mr. ANDERSON: This would have to be dealt with by Mr. Cromb. This is not my responsibility.

The VICE CHAIRMAN: Are there any further questions? If there are no further questions we thank you, Mr. Anderson, for having appeared before the committee. I think you enlightened us on many questions concerning pensions.

Mr. HENDERSON: Mr. Chairman, may I ask Mr. Winch if he still entertains any reservations regarding my responsibility in carrying out a test audit of the transactions of this commission, in the light of his earlier question?

Mr. WINCH: I would say you have to carry on an audit but I am still not completely clear as to whether your authority goes as far as in the interpretation you have given. I think you have to watch where the money is being spent but I am still not completely clear on that.

The VICE CHAIRMAN: I do not think I should give my opinion on that but if the Auditor General is not going to look over some of these cases, then I would say this department should be eliminated from his jurisdiction.

I think we will ask Mr. Henderson to carry on. We were considering paragraph 98 in the 1963 report. If it meets with the approval of the members of this committee we will sit until 11:15.

Mr. HENDERSON: I think, Mr. Chairman, that at our last meeting we actually had just called paragraph 98, the non-productive payments. I do not know whether the members have any questions regarding them. There were six non-productive payments left over. I can refer to them very briefly. I do not know whether that would be your wish. Have they been studied?

The VICE CHAIRMAN: Have we not completed paragraph 98?

Mr. HENDERSON: You dealt with the majority of the non-productive payments. The ones that were left were a couple from the Department of Justice and also relating to the department of penitentiaries and the Department of Citizenship and Immigration.

The VICE CHAIRMAN: If the committee has any questions on paragraph 98 Mr. Henderson will answer them now.

Mr. HENDERSON: This is paragraph 98 in the 1963 report on page 65.

Mr. HARKNESS: Which are the ones which have not been dealt with?

Mr. HENDERSON: There were half a dozen left over. I can refer to them briefly. You have dealt with the non-productive payments in your report to the house; you might therefore not care to spend any more time on the list. For example, on page 148, in appendix 1, there was, No. 1, the abandonment of shared-cost school construction project in Southampton, Ontario. There is also No. 3 and No. 4 having to do with penitentiary locations which were discarded. The sum of \$10,000 was spent on the development of a water supply at the Belair forest reserve, a correctional work camp, that was not proceeded with.

Mr. Chairman, perhaps we could push ahead if there are no further questions.

Mr. SOUTHAM: They can be included under the recommendations which the committee might make.

Mr. HENDERSON: You have already delivered an opinion on them.

The VICE CHAIRMAN: If it meets with the committee's approval, we will go on to paragraph 99, summary of assets and liabilities.

SUMMARY OF ASSETS AND LIABILITIES

99. The statement of assets and liabilities as at March 31, 1963, with comparable figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the public accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this report.

Mr. HENDERSON: In paragraph 99 we move on to a summary of assets and liabilities as of March 31, 1963.

We then move on to paragraph 100 on page 66 where it gives the table listing the assets at that date by the main headings of the statements.

Assets

100. The following table lists the assets at March 31, 1963, by main headings in the statement of assets and liabilities, in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Current assets	\$ 784,348,000	\$ 1,246,016,000	\$ 820,217,000
Advances to the Exchange Fund Account	2,024,000,000	1,793,000,000	2,736,000,000
Sinking fund and other investments held for retirement of un-matured debt . .	17,018,000	19,432,000	22,312,000

	March 31, 1961	March 31, 1962	March 31, 1963
Loans to and investments in Crown corporations	3,614,188,000	3,985,330,000	4,468,119,000
Loans to national governments ...	1,378,196,000	1,339,797,000	1,210,777,000
Other loans and investments	1,035,651,000	993,863,000	1,110,655,000
Securities held in trust	30,043,000	25,837,000	26,016,000
Deferred charges .	733,702,000	727,826,000	936,644,000
Suspense accounts .	136,000	136,000	136,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total Assets .	9,712,106,000	10,226,061,000	11,425,754,000
Less—Reserve for losses on realization of assets .	546,384,000	546,384,000	546,384,000
Net Assets .. \$	\$ 9,165,722,000	\$ 9,679,677,000	\$ 10,879,370,000

Next we go to paragraph 101 in which we break down the first of those figures, the current assets figures which show the cash, and the departmental working capital advances and revolving funds.

101. *Current assets.* The balances included under this heading at March 31, 1963, with the comparable balances at the close of the two previous years, were:

	March 31, 1961	March 31, 1962	March 31, 1963
Cash	\$ 486,760,000	\$ 895,321,000	\$ 511,347,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account	90,198,000	132,783,000	139,043,000
Defence production revolving fund	15,651,000	27,297,000	39,068,000
Other	65,234,000	63,300,000	65,156,000
	171,083,000	223,380,000	243,267,000
Securities held for the securities investment account	101,454,000	94,608,000	33,480,000
Other current assets	25,051,000	32,707,000	32,177,000
	\$ 784,348,000	\$ 1,246,016,000	\$ 820,271,000

The \$139,043,000 balance of the agricultural commodities stabilization account at March 31, 1963 was \$6,260,000 greater than the corresponding amount at the end of the preceding year, the difference being more than accounted for by the increase of \$16,861,000 in the inventory of butter held by the agricultural stabilization board offset, in part, by a decrease of \$9,311,000 in the inventory of pork products.

The increase of \$11,771,000 in the defence production revolving fund was mainly accounted for by progress payments of \$8,136,000 made to various suppliers in connection with the production of CF-104G aircraft to be supplied to European nations under the mutual aid program.

The decrease of \$61,128,000 in the balance of the securities investment account was accounted for by (a) a decrease of \$50,458,000 in the temporary holding of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act, and (b) the sale of \$10,670,000 of the securities received by the Minister of Finance on February 21, 1962 on assignment from the Canadian Arsenals Limited pension fund, with the approval of the governor in council. As mentioned in last year's report (paragraph 118) the assignment arose upon the transfer to the public service superannuation account of the liability for the payment of pensions to pensioners and former contributors to the fund. Under the terms of this transfer, the Minister of Finance credited the public service superannuation account with the proceeds derived from the securities sold during the year. At March 31, 1963 there remained \$1,488,000 of the securities to be sold.

At the top of page 67 there are some comments regarding the items that are included in that tabulation. You will notice there that the decrease of \$61,128,000 in the balance of the securities investment account was accounted for by a decrease of \$50,458,000 in the temporary holding of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act, and also the sale of \$10,670,000 of the securities received by the Minister of Finance on assignment from the Canadian Arsenals Limited pension fund which was taken over and merged with the public service superannuation account.

Paragraph 102 has a comment regarding the advances to the exchange fund account.

102. *Advances to the Exchange Fund Account.* This account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the minister from time to time within the maximum (\$3,000,000,000 at March 31, 1963) authorized by the governor in council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The advances to the account at each year-end are included in the statement of assets and liabilities at their total, less repayments, with a parenthetical note giving the market value of the investments from the advances. Thus at March 31, 1963 the amount shown for "advances to the Exchange fund account" was \$2,736,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$2,757,046,000, indicating an unrecorded surplus of \$21,046,000. By comparison, at the close of the two previous years there were unrecorded deficiencies of \$33,310,000 at March 31, 1962 and \$154,042,000 at March 31, 1961.

A summary of the transactions in the account for its financial year ended December 31, 1962 is included in paragraph 175 of this report.

We have already dealt with that when Mr. Bryce was before the committee. You considered at that time the report that the minister made.

Paragraph 103 deals with a small item covering investments held for the sinking fund maintained with respect to Newfoundland loans which were assumed under the terms of union.

103. *Sinking fund and other investments held for retirement of un-matured debt.* This item represents the investments held for the sinking fund maintained with respect to Newfoundland loans which were assumed under the terms of union.

On the next page paragraph 104 gives the listing of the loans to and investments in crown corporations.

104. *Loans to and investments in crown corporations.* The following table lists these loans and investments at March 31, 1963, with the comparable balances at the close of the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Central Mortgage and Housing Corporation	\$ 1,510,711,000	\$ 1,701,029,000	\$ 1,802,806,000
Canadian National Railways	1,092,590,000	1,165,039,000	1,439,328,000
The St. Lawrence Seaway Authority	339,927,000	368,216,000	390,888,000
Farm Credit Corporation	155,754,000	209,971,000	268,968,000
National Harbours Board	172,770,000	178,743,000	192,579,000
Northern Ontario Pipe Line Crown Corporation	123,750,000	119,035,000	110,555,000
Atomic Energy of Canada Limited	60,930,000	65,827,000	53,258,000
Canadian Overseas Telecommunication Corporation	31,686,000	37,918,000	49,321,000
National Capital Commission	25,232,000	31,478,000	40,906,000
Export Credits Insurance Corporation	10,000,000	15,288,000	34,955,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Northern Canada Power Commission	26,463,000	26,158,000	19,003,000
Other balances	34,375,000	36,628,000	35,552,000
	<u>\$ 3,614,188,000</u>	<u>\$ 3,985,330,000</u>	<u>\$ 4,468,119,000</u>

The increase of \$102 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1963 was largely accounted for by advances of \$137 million, less repayments of \$69 million, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, together with advances of \$45 million, less repayments of \$7 million, in respect of federal-provincial projects.

The increase of \$274 million in the amount shown for Canadian National Railways was accounted for by advances of \$303 million under Canadian National Railways Financing and Guarantee Acts and by further investment of \$19 million in 4% preferred stock in the company pursuant to section 6 of the Canadian National Railways Capital Revision Act, R.S., c. 311, less a repayment of \$3 million by Trans-Canada Air Lines, and reductions of \$41 million and \$4 million as a result of charging to expenditure the temporary loans made to the Canadian National Railways and its subsidiaries, Trans-Canada Air Lines, to meet their 1962 "income deficits".

Further loans of \$7 million to the St. Lawrence seaway authority during the year under review, plus an additional \$16 million for deferred interest on loans, accounted for the increase of \$23 million during the year to bring the investment in the authority to \$390,888,000 at March 31, 1963 (see paragraph 158).

The \$110,555,000 of loans to the Northern Ontario Pipe Line Crown Corporation at March 31, 1963 were repaid in full by the corporation in May 1963 following the sale of the northern Ontario section of the all-Canadian natural gas pipe line.

This is where the advances, as they are needed, are charged up to the crown's investment in its corporations and agencies. As you will see, they continue to increase to the point where at March 31, 1963, the total was about \$4½ billion. Speaking broadly, you could say this represents the crown's investment in its government corporations.

The reason for some of the increases are explained in the ensuing paragraphs. You will notice, in the last point, that the loans to the Northern Ontario Pipe Line Crown Corporation, at the close of the year, were repaid in full by the corporation a couple of months later following the sale of the Northern Ontario section of the Canadian natural gas pipe line.

Paragraph 105 on page 69 is loans to national governments.

105. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1963 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Belgium	\$ 36,912,000	\$ 34,605,000	\$ 32,298,000
France	143,650,000	135,200,000	67,600,000
India	29,546,000	24,831,000	20,117,000
Netherlands	74,013,000	68,850,000	32,130,000
United Kingdom	1,091,544,000	1,074,476,000	1,057,045,000
Other countries	2,531,000	1,835,000	1,587,000
	<u>\$1,378,196,000</u>	<u>\$1,339,797,000</u>	<u>\$1,210,777,000</u>

The reductions totalling \$129 million during the year ended March 31, 1963 were the result of the continued orderly repayment of each of the loans as the instalments fell due, together with special repayments by the governments of France and the Netherlands.

These, for the most part, are in the process of orderly reduction. You will see we have \$1,210,777,000 outstanding at March 31, 1963.

Paragraph 106 deals with other loans and investments.

106. *Other loans and investments.* The balances comprising this asset item at March 31, 1963, with the comparable balances at the end of the two previous years, were:

	March 31, 1961	March 31, 1962	March 31, 1963
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 631,127,000	\$ 659,936,000	\$ 693,998,000
Veterans' Land Act advances	199,644,000	207,953,000	224,486,000
Less—Reserve for conditional benefits	33,552,000	30,598,000	28,467,000
	<u>166,092,000</u>	<u>177,355,000</u>	<u>196,019,000</u>
Loans to provincial governments	98,372,000	97,879,000	116,818,000
Balances receivable under agreements of sale of crown assets	12,094,000	10,622,000	8,303,000

	March 31, 1961	March 31, 1962	March 31, 1963
Temporary loans to old age security fund	17,283,000		
Loans to Unemployment Insurance Commission ...	67,000,000		
Other balances ..	43,683,000	48,071,000	53,838,000
	<u>\$ 1,035,651,000</u>	<u>\$ 993,863,000</u>	<u>\$ 1,110,655,000</u>

The following is a listing of the balances comprising the \$693,998,000 shown for the first item in the above table as at March 31, 1963:

Subscriptions to capital:		
International monetary fund		\$ 577,250,000
International bank for reconstruction and development		80,483,000
International Development Association		24,927,000
International Finance Corporation		3,522,000
		<u>686,182,000</u>
Working capital advances and loans		7,816,000
		<u>\$ 693,998,000</u>

During the year ended March 31, 1963, Canada's subscription to the international monetary fund was increased by \$13 million, through the issue of additional non-interest bearing notes, as a result of revaluation of the Canadian dollar portion of the subscription based on the rate of exchange for the United States dollar at January 31, 1963.

The \$41,679,000 of temporary loans to the old age security fund at March 31, 1963 represented the deficit resulting from transactions up to that date in the special account provided for by section 11 of the Old Age Security Act, R.S. 200. The following is a summary of the transactions relating to the fund during the past three years:

	1960-61	1961-62	1962-63
Collections of tax			
On sales	\$270,231,000	\$284,879,000	\$302,239,000
On personal incomes	229,400,000	258,950,000	273,650,000
On corporation incomes	103,500,000	100,125,000	115,250,000
	<u>603,131,000</u>	<u>643,954,000</u>	<u>691,139,000</u>
Payments of pensions under the act	592,413,000	625,107,000	734,382,000
	<u>592,413,000</u>	<u>625,107,000</u>	<u>734,382,000</u>
Surplus or (deficiency) during the year	10,718,000	18,847,000	(43,243,000)
Preceding year's balance brought forward	(28,001,000)	(17,283,000)	1,564,000
	<u>(28,001,000)</u>	<u>(17,283,000)</u>	<u>1,564,000</u>
Balance at credit or (debit) at year-end ..	\$ (17,283,000)	\$ 1,564,000	\$ (41,679,000)

The loans to the Unemployment Insurance Commission in 1960-61, on the security of government of Canada bonds, were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 181).

These include subscriptions which Canada has made to the working capital advances and loans to international organizations, loans to provincial

governments, advances under the Veterans' Land Act, and temporary loans to the old age security fund. You will notice the loans to the Unemployment Insurance Commission now are eliminated because they were advanced money under a special series of securities issued by the minister of finance in 1962. They no longer come under this heading.

The VICE CHAIRMAN: No one has expressed a desire to ask questions.

Mr. WINCH: Mr. Chairman, I have one question. If my memory serves me correctly, I believe a few years ago in the public accounts committee we had a discussion of the assets and some member of the committee raised the question in respect of the government's holdings and ownership in buildings and real estate. You will notice that in 1962 the amount was \$1,246, million and in 1963 it is down to \$820 million. We are spending from the federal treasury every year millions upon millions in new construction. I would like to ask whether or not current assets include real estate owned by the federal authority and if so, I would like to know whether there is a depreciation on that when it comes to assets. Could Mr. Henderson please explain that?

Mr. HENDERSON: No, this is basically because the form of accounting followed by the government is cash accounting as distinct from accrual accounting such as is found in private business and in the crown corporations. As you know, in the estimates each year provision is made for substantial construction of buildings, the very things Mr. Winch has described. Those are charged directly to expenditure in due course. It never has been the practice, under the accounting procedure followed, to capitalize any of what you might call the capital money that you are investing and consequently to provide for depreciation in the manner that is followed under the accrual accounting concept. That is why, in the statement of assets and liabilities which is reproduced in this report at page 168, you will see that capital assets are shown purely for the nominal figure of \$1. This practice has been followed down through the years. As a consequence they are written off to expenditure in the year in which the money is spent. You appropriate the money in the house and it ends up on the expenditure side on the statement of expenditure.

On the other hand,—and here is the anomaly of the situation—when there is an expenditure such as you were discussing in the case of the C.B.C., that will be capitalized on the books of the C.B.C. in the statement of assets, otherwise known as the balance sheet of the C.B.C. The expenditure will reflect the full cost of that capital investment and it will be depreciated. However, we do not do that in the government as such in respect of its departments. It never has been done.

Mr. WINCH: May I ask you as Auditor General what is the differentiation so far as audits and financial statements are concerned between the true picture of assets of crown corporations and the true picture of assets of the government?

Mr. HENDERSON: There is no difference in the auditing approaches other than the fact that one is written off in the total expenditure as it is spent while the other is capitalized and written off over a period of years under the accrual accounting. Obviously, there would be a more desirable and correct picture if all capital moneys spent by the federal government, in fact, were capitalized; but it would involve a tremendous change and a very large undertaking to switch over. As a matter of fact, the Glassco Commission has raised this question itself. I deal with it here in my report in my comments on the assets and liabilities. Glassco advocates a much wider adoption of accrual accounting. However, it has been conceded generally by our Canadian authorities—and they draw on the experience of the British government—that the capital money they are spending should remain charged up to the expenditure of the year rather than an attempt being made to capitalize it.

As you can see, we would have quite a picture today if we had capitalized, for example, right back from confederation the construction of the buildings here on parliament hill; we would have a very substantial asset on the books today. However, we do not do that; that is why the so-called balance sheet of Canada is described as a statement of assets and liabilities. It is a statement of those assets recorded on the books under the prevailing system and liabilities, such as the unmatured debt of Canada and the other items shown on the statement.

Mr. WINCH: Because this is of interest to me, may I ask whether there is available a separate record of the property the government owns?

Mr. HENDERSON: Yes; those records are available in the archives—a very substantial source of information to which most of us refer when we have to—and also in the Department of Public Works. The public accounts of Canada contain several schedules in which the history of some of these transactions is given right from the time of confederation. There are some schedules there which throw some interesting light on this; but the amount of research necessary to put those figures together retroactively today would be tremendous.

Mr. WINCH: That is not the point I have in mind. What I have in mind is I believe we have 22 departments in the federal government. A number of these purchase land and put up buildings, and some of them sell back and forth. I think occasions could arise in which one department no longer requires a property and some other department which is about to buy or build might use this property. In the interest of efficiency and economy, is there a central record of government lands and buildings available for easy reference by any department which may have in mind a change?

Mr. HENDERSON: Of course, there are very complete records with respect to the physical assets that we would have so that in deciding the merits of building A against building B and their usages, reference can be made to those records. However, they are not costed. Therefore, it would be a tremendous job, as I said earlier, to ascertain the cost.

Let me also point out this to you. It is because of the absence of any recording of the cost of those assets that it is so difficult for an accurate cost to be determined by the government—that is, to be a “true cost” in the business sense. They do not take into account depreciation; they do not have any of those steps at all in the cost. This is one of the accusations that business makes of government accounting.

Mr. WINCH: If a department no longer requires or wants certain land or buildings and they are for sale, is there not a record of the cost which they can check, the accretion over the years, and so on? Or do they just put it at the market value without any reference to cost and so on?

Mr. ANDERSON: If the cost is known or handy they will certainly take it into any element of cost calculations they are making. However, as you know from our work on the disposal of surplus assets, the cost may not be known although they know the physical quantities. If they have no further use for it they will declare it surplus and sell it for what they can get. That is a cash transaction right through.

The VICE CHAIRMAN: What about the valuations?

Mr. HENDERSON: I venture to suggest that the present day value of government buildings must be many times the amount originally paid for them.

Mr. SOUTHAM: Who is custodian of the titles of these properties, and where are they kept?

Mr. HENDERSON: They would all be kept in the respective departments. The Department of Public Works would be the senior department in retain-

ing these records. There is no question about the effectiveness or tidiness of this type of thing, but the trouble is that it is not costed in the orderly manner Mr. Winch seeks and which you would find in the case of business, and which we find in the case of crown corporations.

Mr. McLEAN (*Charlotte*): Mr. Henderson, in reference to the international monetary fund I see there is \$577,250,000 capital. We borrowed from the international monetary fund. Was that distinct from the capital we supplied, or were we borrowing our own money? We put up that capital; do we get any return on the capital we have put into the international monetary fund?

Mr. HENDERSON: My recollection is that we collect something. The borrowings from the fund would not appear here; that would appear in the operations of the Bank of Canada and in the exchange fund which the Bank of Canada maintains.

This figure here—and I think you were referring to paragraph 106—lists other loans and investments. It simply shows the capital subscriptions that we are making to these various bodies as a member.

Mr. McLEAN (*Charlotte*): That amount of \$577,250,000 is left there and then we borrow \$300 million from the fund. That has nothing to do with this?

Mr. HENDERSON: The exchange fund borrowed it. If I am not mistaken, I believe that all came into the operations of the exchange fund as distinct from the investment of capital you see here.

Mr. McLEAN (*Charlotte*): We go to the international monetary fund and we borrow \$300 million but we have on deposit, you may say, nearly \$600 million?

Mr. HENDERSON: I will get the precise answer to this because I think it should be looked at. I will give the information at the next meeting.

Mr. HARKNESS: There are a number of loans to and investments in crown corporations that do not appear here. Why does the Canadian Broadcasting Corporation not appear here, for example? The people of Canada have a considerable investment in the C.B.C. but it is not shown here at all.

Mr. HENDERSON: You may remember that it used to appear there in loans to the order of \$25 million or \$26 million, but these were forgiven or wiped out when the Broadcasting Act was introduced in 1958 and the C.B.C. was put on an annual appropriation basis both with respect to loans and capital.

Mr. HARKNESS: There was considerable investment. All the buildings and assets generally that are in the hands of the C.B.C. must surely appear somewhere in the accounts, and I would think this would be the place for them to appear.

Mr. HENDERSON: The equity account of the C.B.C. would, I believe, be contained in the "other balances" figure. That is not quite the figure you are seeking. It will reappear this coming year because the C.B.C. is now going back to the basis of loans for capital construction.

I think I can perhaps answer your question here. The crown's equity in the corporation at March 31, 1963, amounted to \$42 million, up from \$41 million at the close of the preceding year. That is the capital Canada has invested in the corporation, represented by its buildings, as you say.

Mr. HARKNESS: And equipment and so on?

Mr. HENDERSON: Yes.

Mr. HARKNESS: Why does it not appear as one of the investments in this list of crown corporations?

Mr. HENDERSON: I am under the impression that a portion of it is in the "other balances" figure. I believe it is included in the "other balances", but the figure I am giving you is from the C.B.C. balance sheet and they would not necessarily agree.

Mr. HARKNESS: When we have a compilation showing the loans to and investments in crown corporations—in other words, a compilation of the assets of the country—whatever assets we have in the Canadian Broadcasting Corporation would be shown in this list along with the other crown corporations?

Mr. HENDERSON: It would be better to spread them out. There is a statement in the public account showing the reconciliation of the two figures. It might be better if this schedule here were to reflect and explain all of them.

Mr. HARKNESS: I am wondering also about the Bank of Canada. We have a very large asset in the Bank of Canada but it does not appear in these loans to and investments in crown corporations.

Mr. HENDERSON: That too would be reflected in the "other balances" figure. The reconciliation between what the Bank of Canada would show and the actual investment itself could again be reflected in this equity statement in the public accounts.

Mr. HARKNESS: Would it not make for greater clarity and a better picture in the minds not only of the members of the committee but of the people of Canada generally if all our loans and investments in crown corporations were shown in one list?

Mr. HENDERSON: Yes, I think it would. With your permission I should like to see if we cannot show it that way in my next report. As a matter of fact, we are looking at this right now for 1963-64. You may remember that a breakdown was wanted of the other balances and so forth. I think it would be helpful if we were to elaborate them here.

Mr. HARKNESS: There are a number of other crown corporations. Northern Transportation, for example, is I think included under Atomic Energy. I do not know, but I would think there is a very considerable investment there.

Mr. HENDERSON: Yes, that is part of Eldorado. The capital the government has invested in crown corporations as such is small. Most of it is by way of advances.

Mr. HARKNESS: Nevertheless, there is a very considerable asset there which, again, does not appear.

Mr. HENDERSON: You are completely correct and I think it would be very useful to put that in. I should like to give consideration to it.

The VICE CHAIRMAN: Is there a reason, Mr. Henderson, for it not appearing this year?

Mr. HENDERSON: No, there is no reason, Mr. Chairman. This is a format which has been followed and which, thus far has proven to be sufficient without attempting to reproduce too much out of the public accounts. However, this link between the two for which Mr. Harkness is looking has a very definite place here and I should like to insert that. I am glad you have brought it up.

Mr. HARKNESS: In this same list there is reference to the Export Insurance Corporation. Does the \$34,900,000 odd that we now have invested in that represent loans to foreign countries or foreign buyers? What does it represent?

Mr. HENDERSON: This represents the advances made by the government to the Export Credits Insurance Corporation for working capital, you might say.

The status of the loans that it makes to the foreign governments under the different categories is shown in the accounts of the Export Credits Insurance Corporation, and you can see something of the size of those if you refer to paragraph 147 on page 103 where the whole picture of that corporation is set out.

The federal government is all the time making advances to them under the act which one could describe as working capital. The actual share capital is a fairly nominal figure.

The VICE CHAIRMAN: Thank you very much, Mr. Henderson. It is now 11.15 and I will entertain a motion to adjourn.

Mr. CAMERON (*High Park*): Before you entertain such a motion I would like to ask Mr. Henderson to give us a breakdown of the \$35 million.

Mr. HENDERSON: Indeed I would be pleased to do so. May I bring it to the next meeting?

The VICE CHAIRMAN: Next Thursday Mr. W. T. Cromb, Chairman of the War Veterans' Allowance Board, and the Auditor General will be our witnesses. We have now reached item No. 106.

Thank you, gentlemen, for coming here to assist us.

Mr. FORBES: Before you adjourn may I raise the matter of the timing of our meetings? On Tuesday and Thursday mornings we also have a meeting of the committee on agriculture and colonization. Some of us are members of both committees and are interested in both. Is there any chance that the date of this committee may be changed?

The VICE CHAIRMAN: Unfortunately we have some subcommittee meetings to consider. For example, we have one at four o'clock this afternoon and we have another on Friday. The witnesses have been lined up for some time. I would not like to take the responsibility of changing the time of any meeting, but you might take up the question when Mr. Baldwin returns.

Mr. WINCH: Why do we not do what we did previously? There was an arrangement whereby one committee met from 9.30 until 11.00 and the other met from 11.00 until 1.30. That arrangement worked out very well. Could that be discussed?

The VICE CHAIRMAN: I think it would be in order to discuss it.

Mr. FORBES: Could we not have our meetings on Fridays?

The VICE CHAIRMAN: We have a subcommittee meeting on Friday.

A week today our committee will probably sit in the morning and the afternoon. I will submit your suggestion.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 23

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, OCTOBER 29, 1964

WITNESSES:

Col. W. T. Cromb, Chairman, War Veterans Allowance Board; Mr. A. M. Henderson, Auditor General of Canada, and Mr. J. R. Douglas of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

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Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,

Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, October 29, 1964.
(37)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Vice Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Cameron (*High Park*), Cardiff, Fane, Francis, Frenette, Harkness, Leblanc, Legault, McLean (*Charlotte*), McMillan O'Keefe, Pilon, Rock, Rondeau, Stefanson, Stenson, Tardif and Winch.—(18).

In attendance: Col. W. T. Cromb, Chairman, War Veterans Allowance Board; Mr. A. M. Henderson, Auditor General of Canada; and Messrs. G. R. Long, J. R. Douglas and B. A. Dixon of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Vice Chairman, after introducing Col. Cromb, called Mr. Henderson.

On paragraphs 103 of the 1962 Report and 88 and 89 of the 1963 Report, *War Veterans Allowances*, and *Civilian war pensions and allowances*, Mr. Henderson made a statement related to the enactment of the legislation on this subject and was examined thereon, assisted by Mr. Douglas.

Col. Cromb commented on the Auditor General's statement and was examined thereon.

The questioning of Col. Cromb being concluded, the Vice Chairman thanked him and he was permitted to retire.

Mr. Henderson tabled a return of a schedule listing loans to and investments in crown corporations as at March 31, 1963. (*See Evidence*).

Mr. Henderson also tabled a return indicating Government of Canada equity in Crown Corporations as at March 31, 1963, which was ordered printed as an Appendix to the record of this day. (*See Appendix*).

The Auditor General then reviewed paragraphs 106 to 110 inclusive of his 1963 Report and was examined thereon.

The questioning of Mr. Henderson still continuing, at 11.15 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, November 3, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, October 29, 1964.

The VICE CHAIRMAN: We have a quorum, gentlemen.

First of all, on your behalf, I would like to extend a welcome to Mr. Cromb who is our witness this morning. Colonel Cromb is the Chairman of the war veterans' allowance board. We might start by having Mr. Henderson give us his introduction in respect of paragraph 103 in the 1962 report and paragraph 88 in the 1963 report; both paragraphs refer to the same subject.

103. *War Veterans Allowances.* The War Veterans' Allowance Act, R.S., c.340, sets out the rates of allowances payable to veterans, widows and orphans eligible for assistance and prescribes that allowances paid, together with other income of the recipient, shall not exceed established ceilings. It also provides that applicants may not qualify for an allowance if they own personal property in excess of \$1,250 if eligible for single rates, or \$2,500 if eligible for married rates. The act empowers the minister, with the approval of the governor in council, to make regulations which among other things define "income", "casual earnings" and "personal property" for purposes of the act. Attention is now drawn to two anomalies in the application of this legislation:

1. "Personal property" as defined in the regulations includes cash in hand or in bank, negotiable bonds and marketable securities, but mortgages and agreements for sale are not mentioned. As a result, the allowance is made available to some whose sizeable holdings in mortgages and agreements for sale would preclude their qualifying for assistance were their assets in another form, for example negotiable bonds or securities. In an extreme case, an allowance was awarded an applicant who sold his fruit farm for \$30,000, taking \$9,000 cash (most of which was reinvested in a new home) and retaining a \$21,000 mortgage, repayable as to principal and interest at the rate of \$1,200 per annum.
2. The regulations prescribe that, for one year from the date of sale or until any of the money is used for a purpose other than to purchase another residence, whichever is earlier, the proceeds from the sale of a recipient's or applicant's residence up to an amount of \$9,000 is not personal property, and over that amount is income in the amount of 5 per cent of the excess. The purpose is to give the recipient or applicant who sells his home a reasonable opportunity to buy a new home without having his allowance cancelled or denied because of excessive personal property. In some cases, however, the purchase of a new residence takes place within a comparatively short period and the recipient is, therefore, while in possession of residual cash and personal property in excess of the maximum permitted under the act, continued on allowances until the anniversary date of the sale of the former residence.

The War Veterans' Allowance Act and the supporting regulations provide for penalties by way of fine or imprisonment or both to any person who, for the purpose of obtaining an allowance, knowingly makes a false or misleading statement or fails to disclose any material

fact or who, subsequent to becoming a recipient, fails to report immediately any pertinent information which might have a bearing upon the amount of the award. On the basis of a test examination of files during the year, 57 cases, most involving undisclosed income, in which there were false statements or failure to disclose material facts, were referred to the war veterans allowance board. In one case the recipient, on two occasions, had failed to disclose material facts: on the first occasion the allowance was discontinued and an overpayment of \$1,077 established in 1954; and on the second occasion an overpayment of \$4,289 was established when it was disclosed in the audit that the veteran's wife had been employed almost continuously since shortly after the veteran again came on allowance in July 1957. In another case, a single veteran was granted the allowance in November 1961, along with a continuing monthly grant from the assistance fund, upon his statement that he was not working, that he had no prospects of employment and only \$50 in assets. In April 1962 the allowance was discontinued when the department discovered that the veteran was employed as a full-time federal civil servant with a salary of \$6,540 and had been so at time of application—in fact since April 1960.

Following the practice of recent years, no legal action was taken to invoke the penalties provided by the act in any of the cases noted because it was considered that such action was uneconomic and accomplished little. Unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue.

The legislation establishing war veterans allowances was predicated on the assumption that war veterans pre-age the general civilian population by some ten years. Thus, aside from providing assistance to those who because of physical or mental disabilities or economic hardships are unable to maintain themselves, its main purpose was to provide financial assistance to veterans of limited means at age 60 rather than at 70, the eligible age for an old age pension. In consequence, recipients on becoming eligible for the old age pension had their war veterans allowances adjusted downwards so that total annual income remained within the ceiling prescribed in the War Veterans Allowance Act.

There was a departure from this long-established principle when an amendment to the war veterans allowance regulations, approved by the governor in council, directed that from February 1, 1962, \$10 of the old age pension be considered as exempt income for purposes of the War Veterans' Allowance Act. This action was taken notwithstanding the fact that by amendment to the act, assented to on June 22, 1961, the maximum monthly allowances and the annual income ceilings of recipients had been increased by 20 per cent effective June 1, 1961. Consequently, this exemption of \$10 of old age pension had the effect of augmenting the income of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

88. *War Veterans Allowances.* In the 1962 report (paragraph 103) attention was directed to the application of the War Veterans' Allowance Act and regulations. We reported the following anomalies: (i) that mortgages receivable and agreements for sale were not considered as personal property, thus allowing awards of allowances to many applicants who would not qualify if their assets were in another form; and (ii) that proceeds from the sale of a recipient's home were not

considered to be personal property for a year after the date of sale, even when a new residence was purchased shortly after his former home was sold, thus allowing the continuation of payment of allowances in cases where the recipient was in possession of assets in excess of those permitted by the act. We reported also that action was seldom recommended by the war veterans allowance board to enforce the provisions of the act and regulations relating to penalties or imprisonment, or both, for making false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of an award. In this regard we pointed out that no legal action had been taken in 57 cases (there were 30 additional cases in 1962-63) referred to the board by this office. Our concluding comment in respect of this situation was: "unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue".

These comments are reiterated as the unsatisfactory situation continues. In fact, there has been an increase in the number of persons and amounts affected because of an amendment (1962, c. 11) to the Civilian War Pensions and Allowances Act which provides for payment of the same allowances to certain civilians.

Another problem encountered concerns income of children where children are involved in awards. The table of allowances (Schedule A of the act) sets out in column III thereof the maximum total annual incomes, including allowances, which the various classes of recipients are permitted to receive. The board has directed that income from any source that is received by a W.V.A. recipient for or on behalf of dependent children does not constitute part of the recipient's income, and that income of children is not to be considered a factor in making awards to any recipient, other than an orphan recipient. The directive stems from an opinion to this effect given by the director of legal services of the Department of Veterans Affairs based on the fact that where the spouse is recognized as the dependent (Classes 2 and 4), column III of the schedule shows the total permissive income followed by the words "total for veteran and spouse" whereas where the child is recognized as the dependent (Class 3) the amount appears without restrictive or qualifying wording; thus, for this class, it was concluded, no income other than that of the recipient was intended to apply. However, it is the audit office view that, since an increased allowance for maintenance is payable because of the child, income in respect of the child (excluding income exempted by the act) should be taken into account when determining the amount of war veterans allowance to be awarded.

Moreover, section 6 of the act specifically exempts family allowances, additional allowances payable under the Pension Act in respect of children, mothers' allowances and provincial and municipal relief to dependent children; therefore, by implication it would appear that all other income in respect of children is intended to be assessable.

On the basis of a clarification given to the board by the director of legal services as to the distinction between money paid to a recipient because that recipient has a child (income of the recipient) and money paid to a recipient on behalf of a child (income of the child) the board, when granting an allowance to an individual receiving unemployment assistance has on occasion exempted a portion of that income on the grounds that it represents income of his child. Similarly, instances have been noted where a portion of a workmen's compensation award to a

war veterans allowance recipient with a child has been exempted because it was considered by the board to be income of the child. The presence of dependent children is of course a factor governing the amount of an allowance given under the Unemployment Assistance Act or an award made under workmen's compensation legislation. However, it does not follow that a portion of the allowance or award can be considered income of the children. Indeed, in the case of social assistance, payments of assistance that can be regarded as income of children are not acceptable as shareable under the Unemployment Assistance Act. Obviously, it is illogical to regard the portion of an unemployment assistance payment to the head of a household, which relates to his dependent children, as income of the children for purposes of war veterans allowance and as income of the head of the household for purposes of unemployment assistance. Therefore, if in law this portion is income of children, it has been illegally shared by the federal government under the Unemployment Assistance Act; if not, its exemption as income of a recipient of war veterans allowance is wrong.

Last year we reported that by an amendment to the regulations, which declared that \$10 of the old age security pension (\$20 in the case of a married couple each receiving the pension) was to be considered exempt income, there was a departure from the long established principle that old age pensions and war veterans allowances were parallel payments and that the exemption, in effect, increased the amounts of allowances and annual income ceilings of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

The increase of \$10 in the old age pension which came into effect on October 1, 1963 has, like that granted on February 1, 1962, been declared by regulation to be exempt income for purposes of the War Veterans' Allowance Act, thus further augmenting the income of recipients thereunder who are over 70 years of age. An item is included in supplementary estimates (D), 1963-64 (Vote 45d—veterans affairs) which provides that, effective October 1, 1963, for purposes of the War Veterans' Allowance Act and part XI of the Civilian War Pensions and Allowances Act, the old age pension of \$75 per month shall be deemed to be \$55 per month. The effect of this item, if enacted, will be to give parliamentary sanction to the exemption of these increases.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. Again, I thought it would facilitate consideration of these paragraphs were I to give you an outline in the form of a written statement which you have before you so that you would be provided with a ready reference summarizing the substance of these two paragraphs.

The war veterans' allowance board administers the War Veterans' Allowance Act and since 1962, Part XI of the Civilian War Pensions and Allowances Act, under which similar benefits are available to certain groups of civilians, their widows and orphans, who had been engaged in hazardous occupations during world war I and world war II. The board is a statutory body reporting to parliament through the Minister of Veterans Affairs for the administration of this legislation.

In my reports to the house for 1962 and 1963 the comment was made that action was seldom recommended by the board to enforce the provisions of the act and its regulations relating to penalties or imprisonment or both for the making of false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of an award. In 1961-62, 57 cases of this type noted in the course of our test examinations were re-

ferred to the board and in 1962-63 a further 30. It should be noted that overpayments of war veterans allowances arising chiefly from concealment of income or personal assets have exceeded \$3 million in the past five fiscal years out of outlays for allowances totalling about \$355 million for this period. I might also mention that despite increases over the years in the income exemptions and the allowance for casual earnings the percentage of overpayments to total allowances paid has been increasing in the last three years.

Members of the committee may have noted a case in the press only last week where a veteran was charged with defrauding the crown in an amount in excess of \$14,000. The extent to which such prosecution may be proceeded with in the future is something which the Chairman may wish to comment upon. In recent years it has rarely been the practice to take legal action under the Criminal Code or under the War Veterans' Allowance Act because it was considered that such action was expensive and accomplished little. It seems to us that unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue.

In our audit of expenditure under this legislation we have come across a variety of instances causing us to doubt whether the real intent of the legislation is being carried out. In considering this it must be borne in mind that the act provides an allowance to needy veterans under certain circumstances of age and/or physical condition. The allowance and other assessable income of the veteran must not exceed the total specified in the schedules of the act. The following examples illustrate the type of application given to the act by the board in some of the cases we have questioned:

1. Section 8 of the act limits the amount of the personal property that a recipient may hold to \$1,250 if eligible for single rates or \$2,500 if eligible for married rates. However, the act empowers the minister, with the approval of the governor in council, to make regulations which, among other things, define personal property, and personal property as defined makes no mention of mortgages or agreements for sale. As a result, the allowances are made available to some whose sizeable holdings of mortgages or agreements for sale would preclude their qualifying were their assets in another form.
2. Proceeds from the sale of a recipient's home are not considered to be personal property for a year after date of sale, thus allowing continuance of the allowance in cases where a recipient is in possession of assets in excess of those permitted by the act.
3. In connection with income of children, where children are involved in awards: The table of allowances, schedule A of the acts, sets out in column 3 maximum total annual incomes including allowances which the various classes of recipients are permitted to receive. The board has directed that income from any source received by a recipient for or on behalf of dependant children does not constitute a part of the recipient's income and that income of children is not to be considered a factor in making awards to any recipient other than an orphan recipient.

This is inconsistent with the provisions of other welfare legislation and in our opinion is also inconsistent with the intent of the War Veterans' Allowance Act because, since an increased allowance is payable under the War Veterans' Allowance Act for maintenance because of the child, it seems only logical that income in respect of the child, excluding, of course, that exempted by the act, should be taken into account when determining the amount of war veterans allowance to be awarded.

The cases mentioned in paragraph 103 of my 1962 report on page 46 illustrate two anomalies existing in the application of this legislation, while a third case, involving a recipient who had failed to disclose material facts on two occasions, indicates the type of problems encountered.

That completes the remarks I have to make at this stage, Mr. Chairman.

The VICE CHAIRMAN: There are some questions which were asked by some members of the committee at the last meeting to which Mr. Henderson has the answers. Mr. Henderson is of the opinion, and I agree, that probably the answers to these questions best could be given when we reach another point in this morning's study.

The meeting is open for questions of the witness.

Mr. WINCH: Is there going to be a statement from Colonel Cromb first?

The VICE CHAIRMAN: Do you wish to make a statement first, Colonel Cromb?

Colonel W. T. CROMB (*Chairman, War Veterans' Allowance Board*): I might make a very brief statement and then answer questions, if you wish.

Mr. WINCH: I think it would be very advisable if we could have Colonel Cromb's statement on some of the matters raised by Mr. Henderson.

Mr. CROMB: I will be pleased to do that. The war veterans' allowance board is a statutory body which administers the War Veterans' Allowance Act and part XI of the Civilian War Pensions and Allowances Act. In the case of the war veterans' allowance recipients it is for the benefit of persons who by reason of age or infirmity are no longer able to make their way on the labour market. We endeavour to administer this act in line with the spirit of welfare legislation, which the War Veterans' Allowance Act is, and attempt to follow the interpretation act which states in part in section 15 that interpretations should be fair, large, and of liberal construction and interpretation. In that way, the spirit of the act, in the light of it being welfare legislation, governs the decisions which we make in connection with awards.

In referring to the paper which Mr. Henderson has placed before you with regard to penalties, if it is your wish I perhaps might explain how we work in connection with those cases, and then if there are questions arising out of that part of the report, I would be very pleased to endeavour to answer them.

In the past, a good many cases have been prosecuted under the Criminal Code on the advice of the Department of Justice rather than under section 20 of the War Veterans' Allowance Act. The War Veterans' Allowance Act does have penalties but they are very light. In many cases they consist of a fine of not less than \$15, and not more than \$100, or imprisonment for a term not exceeding three months, or both fine and imprisonment. However, the Department of Justice, which advises all departments of government in connection with legal matters, is not confined to the penalties outlined in the War Veterans' Allowance Act; they endeavour "to make the punishment fit the crime" by using the Criminal Code and also the civil code.

Experience with prosecutions has indicated that the courts of the land are very lenient for three reasons. First, the wrongdoer is a veteran; second, consideration is taken of the age of the wrongdoer and, thirdly, consideration is taken of the condition of health. The courts of the land are inclined to be lenient and our experience has been that the result of most prosecutions very frequently take the form of suspended sentences.

In respect of the suggestion that the War Veterans' Allowance Act should be amended to include stiffer penalties, I might mention the case of one court action which the Auditor General has brought up here, to indicate that the Department of Justice is not limited only to what is contained in the penalty section of the War Veterans' Allowance Act but does proceed through the Criminal Code to much stiffer penalties.

The case which is referred to here is the case of a veteran recipient who proceeded to make application and was awarded the allowance and at the same time secured employment and worked concurrent with receiving the allowance. By this means he was able, by fraudulent deceit, to build up a large overpayment. He appeared before the court in October, 1964. He pleaded guilty before the magistrate of the charge of defrauding the crown, but prior to the passing of the sentence he suggested to the magistrate that he now was in a position to make restitution. He stated he would commence making regular weekly payments of \$15 to start in the following week. He also suggested to the magistrate that he hoped that within a period of six months to come into some funds. His main excuse was that he had many medical bills which had been incurred by his wife and he had taken this means of getting as much money as he could. He received a suspended sentence of two years less a day, contingent upon the debtor continuing to make weekly payments.

Mr. HARKNESS: Was this the case involving an amount of \$14,000?

Mr. CROMB: Yes. There are two points involved in this. We do not know about the size of these overpayments until the damage is done; secondly, the Department of Justice does go beyond the penalties laid down in our act.

Frequently we take civil action to recover overpayments but if it is decided not to proceed in that manner, because of the expense and little hope of getting the money returned to the crown, if a man is still on the allowance, we make a deduction from his allowance toward that overpayment. In addition to that, we take mortgages on the property of a recipient which will not be executed until the recipient and/or his wife have died, unless the property is sold. This is a good system, because in respect of the recipients in the older age group, the crown is protected against a complete loss.

We also register judgments or executions to take care of overpayments which are outstanding, and those are kept in good standing by the legal services of the Department of Veterans Affairs.

I do not hold very much sympathy for the wrongdoer who is deliberately fraudulent. However, we do have a problem when a situation arises maybe a year or two years after the overpayment has been in progress; we do not know about it until that time and then we have to do the best we can in order to recover the overpayment. At the same time, if the man still is a recipient we have to see that he has enough to live on; in making overpayment recoveries we still have to ensure that he has enough income for sustenance and maintenance for himself and his wife.

Mr. CARDIFF: I had a gentleman come to me the other day. I cannot confirm anything that is before me. However, I told him to put his case on paper. I do not know the man, but he knew me; I never had had any contact with him. I will read to you, in part, what he had to say. His name is I. A. Hildebrand, 178 Regent Street, Goderich, Ontario. His age is 68 and his wife will be 70 next June. This is what he has to say: "I was cut off in my pension because my wife had some money left to her. They took all my unemployment insurance and also \$936 which was overdrawn. I was in need of hospital care. They took it away. My back is very bad and my arms. I cannot sleep at nights. I owe doctors' bills and I have no work and no money and have to depend on my family for my keep. Mr. King"—I do not know who he is—"told my wife to spend the money and that is exactly what she did. Mr. Gray said I could get it back if she left me the pension. My age is 68 and my wife will be 70 next June."

The VICE CHAIRMAN: Because we have great respect for you we have allowed you to bring this matter before the committee, but this actually is out of order because the purpose of the committee is not to bring forward individual cases but to ask questions. It is very difficult for the witness.

Mr. CARDIFF: I do not expect Colonel Cromb to give me an answer, because he has not had an opportunity to look into this. However, apparently this man is in a bad state.

Mr. CROMB: I would be very glad to look into this if you would give me the letter.

Mr. CARDIFF: I will give you the letter. Maybe you can read it better than I can.

Mr. CROMB: We have some people who are pretty good at that.

Mr. FRANCIS: Is it not true that veterans who are in receipt of the war veterans' allowance also are in receipt of medical care through government provision?

Mr. CROMB: That is right. War veterans' allowance recipients are entitled to complete medical care, glasses, teeth, the whole thing.

Mr. FRANCIS: Therefore, the plea in respect of medical expenses by a man who has been in receipt of war veterans' allowance for some period is a bit of a puzzle to me. In what circumstances would he incur heavy personal medical bills?

Mr. CROMB: I have not seen the file. It may be that these expenses are on behalf of the veterans' wife; they certainly would not be on his own behalf because he is entitled to complete medical treatment.

Mr. FRANCIS: Do you have any statistical summary of prosecutions or cases which have been referred for prosecution; is there any way in which we might obtain an over-all picture of the effectiveness of these penalties? Individual instances of suspended sentence, and so on, have been reported; but is there any statistical summary showing the number of cases which have been referred for prosecution and showing the general scope of the prosecutions?

Mr. CROMB: I do not have figures on that. Overpayments do arise, but there are not very many large ones.

Mr. FRANCIS: We are dealing with a small fraction of your case load?

Mr. CROMB: Yes.

Mr. FRANCIS: Perhaps we might have some indication of the number of cases which are referred for prosecution?

Mr. CROMB: I will endeavour to obtain that information.

Mr. FRANCIS: Is it your view that these penalties, as the Auditor General suggests, are inadequate?

Mr. CROMB: No, Mr. Chairman. The penalties in the act are in there merely as a deterrent and to show there are penalties for breaking the law; but so far as prosecutions are concerned, the Department of Justice takes the appropriate section of the Criminal Code or of the civil code.

Mr. FRANCIS: Would you indicate that it might be one per cent of the case load that would be involved?

Mr. CROMB: It would not be much more than one or 2 per cent at the very most.

Mr. FRANCIS: If we are dealing with such a small percentage of the case load, does Colonel Cromb still think a fine of \$15 is an adequate fine for this type of abuse?

Mr. CROMB: No, I do not think that is enough, but what I am trying to bring out is that when these cases are referred to the Department of Justice they do not follow our penalties at all; they take the Criminal Code and the civil code and act on the appropriate section which will produce a much more severe penalty than what is in here.

Mr. FRANCIS: Then why do we have this section in the legislation?

Mr. CROMB: It has been there for a long time. My understanding of it is that it is a deterrent to show them that if they do break the law they may be penalized by our act.

Mr. FRANCIS: Personally, I would support a recommendation by this committee in respect of the adequacy or inadequacy of the penalties in respect of fines.

With relation to the provision which the Auditor General has brought to our attention, having to do with mortgages and the case where a veteran sold his fruit farm for \$30,000, taking \$9,000 in cash and the balance in a mortgage—and this was possible because mortgages are not specifically mentioned as personal property—do you not think there is an anomaly here? I would like to hear Colonel Cromb's views on this.

Mr. CROMB: The practice of not considering mortgages as personal property has been in operation for many years. I might deal with the mortgage example which is contained in the Auditor General's report of 1962, and tell you just what occurred in this case. The War Veterans' Allowance Act and the regulations say that income shall include the net income or value of all income received, whether in cash or in kind, except for certain exemptions. In the use of the word income, we use the word incomings—all the incomings which a recipient may have on which to live. We have cases such as that of a widow who has to sell the old home when her husband dies. Although the example here is one of the most extreme in the size of the mortgage, the average mortgage which we come across is in the amount of \$4,500 or \$5,000 in which the widow perhaps will take \$1,000 and mortgage receivable payments of \$40 a month. If we were to count that as personal property, she would have no help under the War Veterans' Allowance Act; she would be limited to \$40 a month. What we do—and this has been done for many years—is we count mortgage receivable payments as income and supplement it by the war veterans' allowance up to the ceiling. In the case of a widow with no children she would get \$108 a month as a ceiling. If she had an income of \$40 a month from mortgage receivables, we would supplement that up to the ceiling of \$108. We do not treat income the same as it is treated by the Income Tax Act. Our act is not intended to accomplish the same thing as the Income Tax Act. Therefore, we use the word "incomings"—all moneys available to the recipient for maintenance, and if it is not enough we will supplement it up to the ceiling.

In the case of the example on page 46, the veteran was receiving mortgage receivable payments of \$100 a month and we assessed that. The rate at which he was put on was \$71.92 a month. He was a married man, so we took his \$100 mortgage receivable payment and it came to an income of \$174. He died on October 3, 1964, and his wife was given the married rate for the period following his death and now, at the moment, she is being placed on the rate of a widow, on single status, and we are paying her \$5.92 a month because this amount of \$100 is still coming to her.

Mr. FRANCIS: This is, after all, a welfare program and I find it hard, personally, to justify welfare payments to a person with assets of \$30,000, because it is so much out of line with the present ceilings imposed in respect of comparable programs such as those for disabled persons, blind persons, and so on. If this veteran sold his farm for \$30,000, he can get \$9,000 plus the principal and interest payments, or he could take \$12,000 in cash and small interest payments, or cut his principal and interest payments to the minimum, and thereby draw more from you and leave more in his estate. Does this not leave it open to the possibility of the crown being defrauded?

Mr. CROMB: If you take the case of a veteran who has sold his property on a mortgage basis and say he is not eligible for war veterans' allowance

because that is personal property, he could discount it and sell it at a considerable sacrifice to himself and then come on our allowance at the full rate in a fairly short time because we allow a recipient to reduce his personal property at the rate of \$250 a month. There is a personal property ceiling of \$2,500 and we will permit him normal living expenses and repairs to his home in reducing his personal property. If we force a veteran to sell his property at a great sacrifice, he can reduce his personal property and then come to us at the full rate. As a matter of fact, the way we do it by treating mortgage payments as income it is much less costly than it would be if the man sacrificed the property and came on to us at the full rate.

Mr. CAMERON (*High Park*): As administrator of the act you have to make the decisions in respect of prosecutions?

Mr. CROMB: We make the recommendations and after that it is taken over by the legal service of the Department of Veterans Affairs and discussed with the Department of Justice.

Mr. CAMERON (*High Park*): I suppose there are two principles involved; there are some infractions which do not warrant prosecution because they are innocent or small and can be relieved in another way, and some others which are borderline cases in which you may or may not recommend prosecution. Who makes the decision in these cases?

Mr. CROMB: We make a recommendation to our departmental legal service for transmission to the minister and the Department of Justice.

Mr. CAMERON (*High Park*): You make the recommendation to the legal branch of the Department of Veterans Affairs?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): Does that legal branch make a recommendation to the Department of Justice with regard to whether or not the case should be prosecuted?

Mr. CROMB: Yes, after going over the entire situation.

Mr. CAMERON (*High Park*): The same thing would apply to definite cases of fraud, concealment of income, and so on?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): That is how it is done.

Mr. CROMB: Under our act, whether the overpayment has been incurred through fraudulent action or by mistake, it makes no difference. Section 19 of our act states that if a recipient has received money to which he is not entitled it is recoverable.

Mr. CAMERON (*High Park*): In every case it is referred to the legal department, whether or not it is a minor case?

Mr. CROMB: If it is a small case we will just start recovering from the recipient.

Mr. CAMERON (*High Park*): When the legal branch makes a recommendation, does the Department of Justice accept that recommendation or does it exercise its discretion and say, no matter what you think about it, we think it should not be prosecuted, or should be?

Mr. CROMB: It exercises its discretion.

Mr. CAMERON (*High Park*): The Department of Justice has the final say in it?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): Mr. Francis referred to the case of the man who sold his farm, and in this case this man may be receiving very substantial principal payments.

Mr. CROMB: The principal and interest payments were in the amount of \$100.

Mr. CAMERON (*High Park*): If he was getting \$2,000 a year for a period of ten years, would that be taken into consideration?

Mr. CROMB: We just take into consideration the money which is coming to him on which he may be able to live.

Mr. CAMERON (*High Park*): Do you think that is equitable when you consider others who are not in that same position?

Mr. CROMB: This is an extreme case. The average mortgage is a very small one, \$4,500 or \$5,000 and even less. Since the personal property limit is \$2,500, you could have a case of a veteran not being able to receive war veterans' allowance and having only, perhaps, \$40 a month on which to live.

Mr. CAMERON (*High Park*): Who made the decision that that is the way it should be handled?

Mr. CROMB: The board. Section 23 of the War Veterans' Allowance Act gives fairly strong powers to the district authorities. The district authority has full and unrestricted power and authority, and exclusive jurisdiction, to deal with and adjudicate upon all matters and questions arising under this act, in the district in which the district authority is established. They have quite strong powers. The idea is to see that the man has sustenance and maintenance within the ceiling.

Mr. CAMERON (*High Park*): I suppose that section would be interpreted in the light of the contents of the act?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): In this particular circumstance do you feel you were within the intent of the act in allowing a man with a \$30,000 property to receive full benefit under the War Veterans' Allowance Act?

Mr. CROMB: Before he came to us all he had was \$100 a month; he was no longer able to work; he was elderly, and we just supplemented up to the ceiling. We would not allow a recipient to dispose of property in order to qualify. This is the intent of the War Veterans' Allowance Act in the case of recipients who have reached the degree of age or infirmity where they no longer are able to make their way in the labour market.

Mr. CAMERON (*High Park*): At first blush, to me at any rate, it seems to be very inequitable vis-à-vis other veterans who are not in that position. He has an asset which he can use and get income from and yet he is in receipt of the war veterans' allowance.

Mr. CROMB: He is not receiving the full war veterans' allowance.

Mr. CAMERON (*High Park*): Whatever it is.

Mr. CROMB: In the case of the widow the ceiling is \$108 and she is getting \$5.92.

Mr. CAMERON (*High Park*): In the meantime the \$21,000 is being conserved, I assume, for the benefit of someone's estate?

Mr. CROMB: It is coming in at the rate of \$100 a month.

Mr. CAMERON (*High Park*): That is income?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): It is not principal?

Mr. CROMB: I think it is principal and income, the whole thing.

Mr. McLEAN (*Charlotte*): How many cases do you have under administration?

Mr. CROMB: I do not have the figures. The cases under administration are cases of people who are not handling their money well.

Mr. McLEAN (*Charlotte*): I mean your entire administration.

Mr. HARKNESS: How many recipients?

Mr. CROMB: Approximately 83,000 recipients.

Mr. McLEAN (*Charlotte*): Of that 83,000 what percentage do you have any trouble with?

Mr. CROMB: I would say not more than 3 per cent.

Mr. McLEAN (*Charlotte*): Would it be that high?

Mr. CROMB: It is hardly that.

Mr. McLEAN (*Charlotte*): It has been claimed that the penalty is too small, but is it not true that if an overpayment is made to a veteran he is still in need when you try to get the money back?

Mr. CROMB: He is still in need, yes.

Mr. McLEAN (*Charlotte*): So, you are working a hardship on him?

Mr. CROMB: Not beyond his means.

Mr. McLEAN (*Charlotte*): If you tried to put him in jail and made the penalty greater you would be increasing the hardship of the veteran.

Mr. CROMB: That is true. I might give another example which is mentioned in the same report in connection with overpayment. This is on page 46: it is the case of a veteran who was receiving the allowance and working for the Department of Agriculture at the same time.

Mr. FRANCIS: At over \$6,000 a year.

Mr. CROMB: We did not spot that until after it was done. We would not do this if we knew. I can give you the answer in this case. It happened in 1962. Criminal proceedings were not undertaken but under the Financial Administration Act, section 95 (1), all the money was recovered at the rate of \$75 a month from his salary. The overpayment has been wiped out and that veteran now is under domiciliary care; he is back on the allowance under domiciliary care.

Mr. McLEAN (*Charlotte*): In his case there was no hardship?

Mr. CROMB: No.

Mr. McLEAN (*Charlotte*): Do you have an actual system of inspection by which you follow up the cases?

Mr. CROMB: Yes. Calls are made in the district by veterans' welfare officers of the Department of Veterans Affairs regularly. An annual statement is made by the recipient in respect of his condition being unchanged. We receive a report each year stating there is no change.

The VICE CHAIRMAN: Are these declarations made under oath?

Mr. CROMB: No; they are witnessed. We found out that the making of these declarations under oath caused a tremendous amount of work for the Veterans' welfare services branch by people who are not able to read very well. We have people who have language difficulties, and we have found it was quite satisfactory to have a witnessed statement.

Mr. McLEAN (*Charlotte*): The cases are constantly under review?

Mr. CROMB: Yes.

Mr. McLEAN (*Charlotte*): There are no awards for meritorious service?

Mr. CROMB: No; that comes under the Canadian Pension Commission.

Mr. HENDERSON: Mr. Chairman, Mr. Douglas has here the overpayments in the past fiscal year. It might serve to put this in better focus if he were to give the figures.

The VICE CHAIRMAN: Also, it would answer a question asked by Mr. Francis.

Mr. J. R. DOUGLAS (*Supervisor, Auditor General's Office*): In the fiscal year 1963-64 the total number of cases involving overpayments were 2,176, which is approximately 2.7 per cent of the case load, and the money involved was approximately \$750,000.

Mr. FRANCIS: Thank you.

Mr. CARDIFF: Mr. Cromb, when a returned veteran owns his own property, you do not consider that when you are considering an allowance, do you?

Mr. CROMB: A recipient is allowed to have an interest in real property of \$9,000 if it is his residence. If he has an interest in an amount more than that, we charge 5 per cent on the overage of the \$9,000 which he is entitled to.

Mr. CARDIFF: He is not paying rent, but he is paying taxes; is that allowed?

Mr. CROMB: No; that is his own expense under the War Veterans' Allowance Act. This is a categorical type of act; it is based on a means test and not on a needs test. It is quite true that a man who owns his own home is better off than a man who is paying rent; they both get the same allowance because it is on a means test basis rather than on a needs test basis.

Mr. STENSON: Going back to the fruit farmer again, was he forced to sell this property to be able to receive the war veterans's allowance?

Mr. CROMB: I do not know, because he had done this before he became a recipient.

Mr. STENSON: Had he held the property and your department figured it was worth \$30,000, would he have received the benefit without disposing of it?

Mr. CROMB: The decision was made on the district authority. I do not know when he sold it, but when he came to them this was the situation; all he had to live on was \$100 a month. On that basis they put him on the allowance and supplemented it to the ceiling.

Mr. STENSON: What does the statute say if a veteran has a farm or property worth \$30,000 or \$40,000 with no income from it?

Mr. CROMB: If it is not his home we can assess what we consider to be a fair and just income that he could receive from it. If he has a home and leaves it or rents it, we will assess the rest, less the expense he has, to keep it up; we will assess that. However, if he leaves that standing vacant and could do something with it, we can put on a value as to the income he should receive from it.

Mr. HARKNESS: If a veteran has a farm worth \$30,000 and applies for war veterans' allowance he is not eligible and you would not put him on war veterans' allowance under those circumstances, but if he sells that farm and has an income of only \$100 a month and applies, he then is eligible?

Mr. CROMB: Yes.

Mr. McMILLAN: The Auditor General has told us that the overpayments in the last year were \$750,000. What percentage of that would be recovered?

Mr. CROMB: I do not know exactly, but if the veteran is still a recipient every one of those overpayments will be recovered out of his allowance. The only time we cannot do much about it is when it is a small overpayment and he no longer is a recipient. When he comes back on again we pick it up; we do not let any of these just die.

Mr. McMILLAN: But you do take mortgages?

Mr. CROMB: Yes, and we take executions and judgments.

Mr. McMILLAN: You have no idea what percentage is recoverable?

Mr. CROMB: I would say that an attempt to recover portions of it are made in most cases. I am quite sure Mr. Douglas would agree with me that many

of those overpayments are small, and as time goes on they are recovered. Many overpayments occur when a man is working and does not let you know in time that he has been working; these amounts may be in the neighbourhood of \$100, a little less or a little more. Sums of that amount would be recovered from the allowance; but it takes some considerable time with the large amounts.

Mr. McMILLAN: You mentioned the case of a man who deprived the crown of \$14,000; that would be over a period of years. You say a check is made every year. How would that be missed?

Mr. CROMB: It is pretty hard to defeat somebody who is really clever in this sort of business. This was because of falsification of statements he made.

Mr. McMILLAN: Nobody was sent out to check?

Mr. CROMB: Yes. He was checked. I do not have his file here, but in this case he had been working for some time for the University of Toronto and had stated to welfare officers on two or three occasions that he was unemployed. It was not until a call had to be made to contact him that it was discovered he was not at home because he was at work. That is when the thing came out.

The VICE-CHAIRMAN: Was he lecturing at the University of Toronto?

Mr. CROMB: No.

Mr. HARKNESS: Is it not a fact that these overpayments fall in two general classes; first, there are those in which the man concerned has deliberately defrauded the government and has knowingly drawn war veterans' allowance when he knows he is not entitled to do it. On the other hand, the larger part of these overpayments is on account of veterans who have acted unknowingly, and who considered they were entitled to whatever earnings they were making in addition to drawing the war veterans' allowance. In some cases it has been due to unfamiliarity with the act and to a lack of knowledge in respect of exactly what their entitlement was. In other cases, it has been due to an inability on their part to maintain a sufficiently good record of their earnings in order to know their status with regard to their limitations.

The VICE-CHAIRMAN: Are you being charitable?

Mr. HARKNESS: I beg your pardon.

The VICE-CHAIRMAN: Are you being charitable? How could you think of things like that?

Mr. HARKNESS: I have mentioned these things because of my own experience in respect of these cases, and I am asking Mr. Cromb if such is not the situation. Am I not correct in assuming that the largest percentage of people have not set out to defraud the government but the situation has arisen because this group, in most cases, did not know what was happening.

Mr. CROMB: That is very true. I feel that we all understand that a very very large proportion of war veterans' allowance recipients play ball, are very honest and that the numbers who are fraudulent in their actions are very small. Many overpayments occur through lack of knowledge as to what they are supposed to do, and these may occur through, say, workmen's compensation coming into effect, as well as seasonal money coming in to a person who did not know about it and did not report it. Many things happen through a lack of knowledge on the part of the recipient. There are language barriers. Many of these recipients are aged and are quite incapable of sorting out certain aspects of this, even though they have been counselled. As I say, from time to time these things do occur. However, in my opinion, it is not a wilful act. The wilful acts are very small in number.

Mr. CARDIFF: Do you not think that this comes out because certain groups of people live beyond their means; they get into a little debt and they try

to recover by earning a little more money than is given to them. Do you not think that provides a reason in many of these cases?

Mr. CROMB: Yes, I am sure that is a common reason.

The VICE-CHAIRMAN: You would not be downgrading the veterans would you, because the veterans who come to me know the act better than Mr. Cromb or just as well, in any event.

Mr. CROMB: I would say they know it as well.

Mr. FRANCIS: In respect of Mr. Harkness' comment it would seem to me we are not really concerned with what would be in the category of administrative overpayments which will arise in any program where there is no attempt to defraud, but rather we are concerned with the very small minority of cases where there are misstatements and concealments. As you know, this happens under any program, but in the interests of those living within the spirit of the act I think we should make sure that appropriate penalties are applied against those who deliberately and consciously have violated the act. I cannot help but feel at this stage of the discussion that there are instances which give us some concern and I do think it would be wise to strengthen the penalty provisions in the act itself in order to deal with cases where deliberate representations of fraud were apparent.

Mr. HARKNESS: My only comment in connection with that is that Colonel Cromb has indicated there is no need to do this because these people can be proceeded against under the Criminal Code.

Mr. FRANCIS: In this case it would prove interesting to have the results of my previous question in respect of prosecutions.

The VICE-CHAIRMAN: Colonel Cromb has agreed to supply this information to us.

If there are no further questions, in the name of the committee, Colonel Cromb, I want to thank you for coming this morning. You have been a very good witness and have answered a lot of the questions which have been in the minds of the members of the committee for a very long time.

Mr. CROMB: Thank you very much.

The VICE-CHAIRMAN: Thank you for coming.

Gentlemen, at the time of our last meeting we had reached paragraph 106, other loans and investments, which is in your 1963 report at page 69.

Would you like to make a comment on that, Mr. Henderson?

Mr. HENDERSON: If you do not mind, Mr. Chairman, I have some information to furnish with regard to paragraph 106, in response to a question put by Mr. McLean. Also, I have information I undertook to furnish under paragraph 104 in response to questions from Mr. Cameron and Mr. Harkness. Could I take paragraph 104 first?

The VICE-CHAIRMAN: Yes.

Mr. HENDERSON: Mr. Harkness was inquiring as to the nature of the loans to and investments in crown corporations shown in the tabulation in paragraph 104 for the year ended March 31, 1963, with particular reference, I think, to capital stock as distinct from working capital and other advances, While Mr. Cameron asked for a breakdown of the other balances figure in the amount of \$35,552,000 shown in that tabulation.

I have here a schedule listing these loans and investments at March 31, 1963, which breaks it down.

The VICE-CHAIRMAN: Is it agreed by members of the committee that the document which is now being produced by the Auditor General will be printed in the evidence.

Agreed to.

Mr. HENDERSON: The table follows:

Loans to and investments in crown corporations. The following schedule lists these loans and investments at March 31, 1963.

	Capital Stock at cost	Advances	Total
Central Mortgage and Housing Corporation		\$1,802,806,907	\$1,802,806,097
Canadian National Railways	\$ 970,697,945	468,629,714	1,439,327,659
The St. Lawrence Seaway Authority ..		390,888,009	390,888,009
Farm Credit Corporation		268,968,099	268,968,099
National Harbours Board		192,579,474	192,579,474
Northern Ontario Pipe Line Crown Corporation		110,555,000	110,555,000
Atomic Energy of Canada Limited	28,760,996	24,497,324	53,258,320
Canadian Overseas Telecommunication Corporation		49,320,747	49,320,747
National Capital Commission		40,906,111	40,906,111
Export Credits Insurance Corporation ..	5,000,000	29,954,896	34,954,896
Polymer Corporation Limited	30,000,000		30,000,000
Northern Canada Power Commission ..		19,003,196	19,003,196
Canadian Commercial Corporation		9,500,000	9,500,000
Eldorado Mining and Refining Limited .	8,246,877		8,246,877
Canadian Arsenals Limited		7,500,000	7,500,000
Bank of Canada	5,920,000		5,920,000
Canadian Broadcasting Corporation ..		3,000,000	3,000,000
Canadian National Railways—re Yarmouth/Bar Harbour ferry		763,684	763,684
Canadian National (West Indies) Steamships Limited	976	324,024	325,000
Canadian Patents and Development Limited	296,199		296,199
	<u>\$1,048,922,993</u>	<u>\$3,419,196,375</u>	<u>\$4,468,119,368</u>

The breakdown I am furnishing at this time is in respect of the total figure of \$4,468,119,368. It shows the capital stock at original cost in one column; that is to say, the shares held by the crown. In the other column it shows the advances. Some of these advances are capital advances; others are working advances. I can deal with any questions which may come under that heading, as you look over the figures.

At the same time, Mr. Harkness raised the question about the crown's equity in its investment in crown corporations, and it might be helpful if I include in the record, with your permission, a copy of appendix number 12 from the public accounts 1962-63, which shows the government of Canada's equity in crown corporations at the close of the year. This is an involved statement, accountingwise, which can be explained. However, I would point out it causes explanatory footnotes, which you may have noted, when looking at this in the public accounts. It reconciles to the figure of \$4,468,119,368. If I might explain, in respect of this appendix, that the unrecorded government equity column includes the surpluses less the deficits, reserves and certain other balances shown on the financial statements of the crown corporations at their respective year's ended coincident with, or immediately prior to, the government's fiscal year end. On the other hand, it excludes those amounts which, although designated by certain crown corporations as proprietor's equity, have been financed by the government of Canada and charged to government expenditures, and have been fully expended in the acquisition of the crown corporation's capital assets.

My officers have already held discussions with respect to the composition of the amounts to be included in the unrecorded government equity listing with the end in view of having the appendix made more informative and factual.

The VICE-CHAIRMAN: It is agreed that this document should be made an appendix?

Some hon. MEMBERS: Agreed.

Mr. HARKNESS: In respect of the particular two cases which I mentioned at our last meeting, the Bank of Canada and the C.B.C., the equity shown is not the real equity of the taxpayers of Canada in these corporations; the equity shown for the C.B.C. is \$9 million but the actual equity is very much more than that because this figure does not include any other capital assets, lands, equipment and so on.

Mr. HENDERSON: Mr. Harkness is putting his finger on a point we have had under discussion with the officers of treasury for the past several years. In this case the government's equity in the C.B.C. consists of the working capital, which the Broadcasting Act, 1958, says the C.B.C. is to have. Actually, on the balance sheet of the C.B.C. the proprietor's equity, as they refer to it, is of the order of \$42 million. There are a number of factors which enter into this, which can be explained. If I might give a very simplified explanation at this time, it is that the government in this particular case has not taken into its investment figure money that it has voted and written off to expenditure over the years which, so far as the C.B.C. is concerned, they have credited to the government and which represents money invested in equipment, etc. These two figures have to be brought into balance or otherwise reconciled and the figure in the unrecorded equity column in our opinion requires some adjustment because it is not in keeping with the facts. We do not have very many cases like that.

Mr. HARKNESS: In order to present a true picture, which is needed, is a different method of recording the equity which exists under consideration?

Mr. HENDERSON: Yes, and we are hoping this can be straightened away in the fiscal year's accounts which we are completing now with the treasury officers—that is to say, at March 31, 1964—so there could be a truer reflection of the government's equity in each of its own creatures.

On the schedule that you will see covering the loans to and investments in crown corporations you will notice the government does not appear to have any capital stock invested in for example, Central Mortgage and Housing Corporation, the St. Lawrence Seaway Authority, Farm Credit Corporation, and the Canadian Overseas Telecommunication Corporation. This is because included in the advances column are advances which are considered to represent capital advances in lieu of subscriptions to capital stock as such. That is generally the way the legislation provided for it and that is how the money has been invested. At any time information is required in respect of any specific corporation this can be furnished. We have not shown a separate column for such cases because it is not possible to do it on this schedule.

Mr. HARKNESS: How would you propose to show all of these assets in the future so we could have a more or less complete picture of what, I will say, are the people's assets.

Mr. HENDERSON: I am making provision in my forthcoming report for the year ended March 31, 1964, to show under paragraph 104 a summary similar to the one I am handing you today with regard to the year previous rather than simply putting in the total figures on a three year comparative basis, and then underneath the schedule to explain the changes that have taken place in the year with regard to the holdings.

Do you feel that would provide sufficient explanation so far as my report is concerned?

Mr. HARKNESS: This still would not show what we would like to see in respect of the particular case we are mentioning, that of the C.B.C., and the \$40 million worth of assets covering land, equipment and so forth, which they hold.

Mr. HENDERSON: If it does not show it would be something upon which I would comment in order to explain the status of the considerations which are involved. If it is not possible to resolve it this year in our discussions with the treasury officials it may have to be carried forward, and this may prove to be a useful exercise.

Mr. HARKNESS: May I take the case of the Bank of Canada, in which the equity of the government is shown at \$30 million. The actual assets of the Bank of Canada are a very, very great deal in excess of that. I do not know what they run to.

Mr. HENDERSON: The majority of them are in the unrecorded government equity column.

Mr. HARKNESS: It is \$25 million.

Mr. HENDERSON: The capital is \$5,920,000.

Mr. HARKNESS: And, \$25 million in the unrecorded?

Mr. HENDERSON: Yes.

Mr. HARKNESS: But the total assets are greatly in excess of \$30 million?

Mr. HENDERSON: That is the point. Those are the things we have under discussion at this time.

Mr. HARKNESS: As I say, I do not know to what amount they run but it is probably over \$1 billion. But, they are only shown as \$30 million. So, in this case, we are getting a twisted picture.

Mr. FRANCIS: Would it not be a rather difficult business to do a valuation of the government's equity in the Bank of Canada?

Mr. HARKNESS: The Bank of Canada holds so many millions of dollars worth of gold, for one thing.

Mr. FRANCIS: And, as well, they have liabilities.

Mr. HARKNESS: And they have various other assets.

Mr. HENDERSON: The \$25 million you speak of carried and shown in the public accounts as unrecorded in the government accounts represents, I believe, the rest fund which the Bank of Canada carries and which, I assume, was created in its early days; whereas the government did invest \$5 million toward the original capital when it made its original investment, and the bank itself since has generated the \$25 million rest fund. Now, the parent company, in this situation, the government, has not taken up on its books or reflected the \$25 million accumulated profits or earnings which, in effect, have constituted that rest fund.

The manner in which that should be presented here is, as I say, the subject matter of our present study because it does not necessarily follow in the type of accounting followed that this \$25 million should, in fact, be recorded by the government of Canada on its books. The statement of assets and liabilities in the Public Accounts does not purport to be a consolidated balance sheet in the sense of a corporation and subsidiaries. This is an interesting point and well worthy of attention. But, it would seem to me if a presentation of the problem is made under this heading that that should be sufficient for the time being rather than attempting to press for its inclusion on the government's balance sheet. Before you can reach final decisions in matters of this kind considerable research into the history and the facts

which caused the figures to be allocated in the first place has to be undertaken. We have been fully aware of this for a number of years and we have been trying to bring it to a conclusion in the last two years.

The VICE-CHAIRMAN: Have you a question, Mr. Francis?

Mr. FRANCIS: I think the Auditor General has anticipated some of my questions. I think it would be very difficult for the Auditor General to attain an over-all consolidated balance sheet showing not only the assets but the liabilities of the various crown corporations. I could not think of a worse example than the Bank of Canada. While it is true they hold a tremendous range of assets they are responsible in some nominal sense for all the paper currency issued in Canada. To try to interpret what a balance sheet of the Bank of Canada would mean would be quite a study for this committee.

Mr. HENDERSON: The statement of assets and liabilities, which is the key statement in the accounts of the government of Canada, does not purport to be, as I said the other day, a balance sheet, and certainly not a consolidated one such as you see in the case of large corporations with subsidiaries. It consists of a listing of all those assets which it has been the policy and the practice of successive ministers of finance to designate as assets and those which they deem to be liabilities of the government of Canada. That is the way the statement has developed over the years. The balancing figure between the two sides as you see is the net debt. A number of things have been omitted. There are no accounts receivable. Capital assets are in there at the nominal value of \$1. So, as you can see, there is considerable research and work to be done before we could expect to arrive at the Utopian situation of having a consolidated balance sheet reflecting all of the assets of the departments and crown corporations of the government of Canada and all their liabilities.

Mr. CAMERON (*High Park*): Could you tell me who owns the buildings which the Bank of Canada occupy?

Mr. HENDERSON: I believe they are owned by the Bank of Canada and are carried as an asset at cost on the balance sheet of the Bank of Canada. As I have explained we do not consolidate it.

Mr. CAMERON (*High Park*): I was wondering whether the Department of Public Works built these buildings for them.

Mr. HENDERSON: If they did, then the money would have been written off to expenditure because parliament would vote that money to public works.

Mr. CAMERON (*High Park*): Then the Bank of Canada is in possession of an asset for which they have not paid?

Mr. HENDERSON: That would be right.

Mr. HARKNESS: But that is not true in the case of the Bank of Canada.

Mr. HENDERSON: The Bank of Canada balance sheet indicates bank premises at cost less accumulated depreciation at something in excess of \$10 million.

Mr. HARKNESS: And that would be included in the rest fund.

Mr. HENDERSON: The rest fund is a part of the capital of the Bank of Canada. The \$25 million rest fund has not found its way onto the books of the government of Canada, and all the government of Canada carries on its books is the original \$5 million it subscribed and paid for the stock in the Bank of Canada. This is an interesting point, but we can only go so far with these cases. As I have said the statement of assets and liabilities of Canada is not a consolidated presentation. If it were then all these items would be included.

The VICE-CHAIRMAN: Have you a question, Mr. Stenson.

Mr. STENSON: My question is along the same line we have been discussing in respect of the Bank of Canada. Could we go back to the C.B.C. You say the assets of the C.B.C. are \$45 million. Is that the total they have in assets?

Mr. HENDERSON: The capital of the C.B.C. in terms of the conventional balance sheet sense does not consist of capital stock, bonds or anything of that kind. It is described as proprietor's equity; in other words, the investment the owner has in the business. And, in the case of the C.B.C. that figure over the years has reached a total of \$42 million. Up to 1958, when the present Broadcasting Act was brought in, loans had been made to the C.B.C., which I think at that time were of the order of some \$22 million odd, so the C.B.C. showed this at that time as owing to the government of Canada. However, these loans were completely forgiven and written off under the Act.

Mr. STENSON: How much has been written off in the last five years?

Mr. HENDERSON: Nothing has been written off. They credit whatever capital moneys they spend to the proprietor's equity each year.

Mr. STENSON: Then, \$42 million is all the assets they have in buildings, equipment and so on?

Mr. HENDERSON: This is a net figure, that is the assets less liabilities.

Mr. McLEAN (*Charlotte*): In respect of the Bank of Canada and their buildings, is it also not in the rental business as well?

Mr. HENDERSON: I can only speak from memory here because I am not the auditor of the Bank of Canada.

Mr. McLEAN (*Charlotte*): But, if they are going into the rental business should you not look into it to see whether these buildings are paying, especially when they are competing with private enterprise?

Mr. HENDERSON: It has not been my practice to address myself to such questions in respect of crown corporations of which I am not the auditor. The Bank of Canada employs private auditors and I do not have any responsibility in that regard. Under the Financial Administration Act it may be perfectly proper for me to ask just such a question as you have posed but I have not addressed such questions to the Bank.

Mr. McLEAN (*Charlotte*): Well, it is my understanding they are erecting these buildings all across Canada; they are very expensive buildings and they may not be paying. I do not think they are, unless they are charging themselves a great deal of rent. It seems to me this should be looked into.

The VICE-CHAIRMAN: If it is not the responsibility of the Auditor General to look into it perhaps we should make recommendation to whoever is responsible for such administration.

Mr. FRANCIS: I believe in some instances the Bank of Canada has acquired property in anticipation of its own needs, and such property is under rental by it until such time as the bank carries out its own construction program on those properties.

The VICE-CHAIRMAN: Is some of the property rented to the public works department?

Mr. FRANCIS: In some cases it is rented to private enterprise.

Mr. HENDERSON: I know the building in Montreal. The industrial development bank will be in it, as well as some accounting and legal firms. It is on Victoria square.

The VICE-CHAIRMAN: Are there any further questions? If not, we will proceed to paragraph 106, other loans and investments.

Mr. HENDERSON: Paragraph 106 follows:

106. *Other loans and investments.* The balances comprising this asset item at March 31, 1963, with the comparable balances at the end of the two previous years, were:

	1961 March 31,	1962 March 31,	1963 March 31,
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 631,127,000	\$ 659,936,000	\$ 693,998,000
Veterans' Land Act advances	199,644,000	207,953,000	224,486,000
Less—reserve for conditional benefits	33,552,000	30,598,000	28,467,000
	166,092,000	177,355,000	196,019,000
Loans to provincial governments	98,372,000	97,879,000	116,818,000
Balances receivable under agreements of sale of crown assets	12,094,000	10,622,000	8,303,000
Temporary loans to old age security fund	17,283,000		41,679,000
Loans to Unemployment Insurance Commission	67,000,000		
Other balances	43,683,000	48,071,000	53,838,000
	<u>\$1,035,651,000</u>	<u>\$ 993,863,000</u>	<u>\$1,110,655,000</u>

The following is a listing of the balances comprising the \$693,998,000 shown for the first item in the above table as at March 31, 1963:

Subscriptions to capital:

International monetary fund	\$577,250,000
International bank for reconstruction and development ..	80,483,000
International development association	24,927,000
International finance corporation	3,522,000
	<u>686,182,000</u>
Working capital advances and loans	7,816,000
	<u>\$693,998,000</u>

During the year ended March 31, 1963, Canada's subscription to the international monetary fund was increased by \$13 million, through the issue of additional non-interest bearing notes, as a result of revaluation of the Canadian dollar portion of the subscription based on the rate of exchange for the United States dollar at January 31, 1963.

The \$41,679,000 of temporary loans to the old age security fund at March 31, 1963 represented the deficit resulting from transactions up to that date in the special account provided for by section 11 of the Old Age Security Act, R.S. 200. The following is a summary of the transactions relating to the Fund during the past three years:

STANDING COMMITTEE

	1960-61	1961-62	1962-63
Collections of tax			
On sales	\$270,231,000	\$284,879,000	\$302,239,000
On personal incomes	229,400,000	258,950,000	273,650,000
On corporation incomes .	103,500,000	100,125,000	115,250,000
	<u>603,131,000</u>	<u>643,954,000</u>	<u>691,139,000</u>
Payments of pensions under the Act	592,413,000	625,107,000	734,382,000
Surplus or (deficiency) during the year	10,718,000	18,847,000	(43,243,000)
Preceding year's balance brought forward	(28,001,000)	(17,283,000)	1,564,000
Balance at credit or (debit) at year-end	<u>\$ (17,283,000)</u>	<u>\$ 1,564,000</u>	<u>\$ (41,679,000)</u>

The loans to the Unemployment Insurance Commission in 1960-61, on the security of government of Canada bonds, were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 181).

The VICE-CHAIRMAN: Is my understanding correct that the document to which you have made reference will be printed as an appendix?

Mr. HENDERSON: Yes.

The VICE-CHAIRMAN: Did the members of the committee receive copies of that?

Mr. HENDERSON: I gave copies to the members who asked the question for their convenience when I came in and I would like to put them on the record, if I may.

The VICE-CHAIRMAN: Proceed.

Mr. HENDERSON: Mr. McLean asked a question in respect of a loan of \$300 million (U.S.) which Canada obtained from the international monetary fund in foreign currencies on June 27, 1962, and his question related to what interest was paid on that loan.

I can advise that under article V section 8 (a) of the Bretton Woods Agreements Act, Canada was called to pay a service charge which amounted to \$1,617,427, being at the rate of one half of one per cent. In addition, Canada was required to pay further charges amounting to \$1,041,020 in the fiscal year 1962-63, based on the average daily balance of Canadian currency held by the fund in excess of Canada's quota. These further charges pursuant to article V, section 8 (c) of the Bretton Woods Agreements Act, amounted to \$2,131,338 for the fiscal year ended March 31, 1964.

Mr. McLean's second question was in respect of what revenue Canada earns on its subscriptions to the international monetary fund, and he had reference to the figure of \$577,250,000 shown in the tabulation at the foot of page 69. In respect of that I would state that no revenue accrues to Canada on those subscriptions.

The VICE-CHAIRMAN: Are there any other questions with regard to paragraph 106?

Mr. McMILLAN: What amount of actual cash is put up with regard to these subscriptions?

Mr. HENDERSON: Some cash and some non-interest bearing notes, particulars of which are given in the public accounts. Mr. Long could give a reference to the page.

Mr. McMILLAN: Am I correct in assuming that there would be no interest because it is a subscription?

Mr. HENDERSON: There is generally no interest on these investments paid to any of the countries subscribing. I think it is just a service charge arrangement when trading in currencies.

The VICE-CHAIRMAN: If there are no further questions, paragraph 107 deals with securities held in trust.

107. *Securities held in trust.* The \$26,016,000 total of balances comprising this item in the statement is represented by securities held for the following accounts: contractors' securities, \$9,435,000; guarantee deposits in respect of oil and gas permits, \$6,515,000; guarantee deposits in respect of customs duties and excise taxes, \$4,226,000; securities held for pilots' pension funds, \$3,803,000; and other, \$2,037,000.

Mr. HENDERSON: This is just a reference to the composition of the figure of \$26 million which, as you will see, represents securities held by the Department of Finance under certain circumstances.

The VICE-CHAIRMAN: The next paragraph is number 108.

108. *Deferred charges.* The balances included under this heading at March 31, 1963, with the comparable balances at the close of the two previous years, were:

Unamortized portion of actuarial deficiencies—	March 31, 1961	March 31, 1962	March 31, 1963
Canadian forces superannuation account	\$326,300,000	\$326,300,000	\$524,849,000
public service superannuation account	276,661,000	276,661,000	276,661,000
Royal Canadian Mounted Police superannuation account		3,533,000	3,533,000
	602,961,000	606,494,000	805,043,000
Unamortized loan flotation costs	130,741,000	121,332,000	131,601,000
	<u>\$733,702,000</u>	<u>\$727,826,000</u>	<u>\$936,644,000</u>

The amounts appearing under the heading "unamortized portion of actuarial deficiencies" represent the balances of amounts set up in the accounts when bookkeeping entries were made for the purpose of increasing the balances at credit of the relative superannuation accounts, including an additional entry of \$198,549,000 in the Canadian forces superannuation account during the year under review. In paragraphs 124 and 125 the audit office view is again restated that these bookkeeping entries should not have been made and that, instead, the actuarial deficiencies should have simply been disclosed by means of a note to the statement of assets and liabilities.

The item "unamortized loan flotation costs" records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

STANDING COMMITTEE

Balance, April 1, 1962	\$121,332,000
Add:	
Costs incurred in issuing new loans during the year ...	50,751,000
Adjustments due to cancellations, exchanges, conversions and additional issues of existing loans	2,214,000
	<hr/>
	174,297,000
Deduct:	
Amortization charges included in 1962-63 Expenditure .	42,696,000
	<hr/>
Balance, March 31, 1963	\$131,601,000
	<hr/>

Mr. HENDERSON: Paragraph 108 deals with deferred charges, and here we see the composition of the unamortized portion of the actuarial advances which have existed over a number of years in the various superannuation accounts. I do not suppose it is necessary to take much time on this, Mr. Chairman, because we discussed this at rather considerable length when Mr. Bryce was a witness before the committee, and I outlined for the benefit of the members the statement made by the Minister of Finance in the house on March 6, last in respect of how he proposes to deal with this in the future, and I think generally the course of action proposed commended itself to you. You gave me an instruction to deal with the subject in my next report by outlining what steps had been taken. This is now under study.

The VICE-CHAIRMAN: The next paragraph is 109 and deals with suspense accounts.

109. *Suspense accounts.* The \$136,000 shown for this item on the assets side of the Statement represents the balance, unchanged during the year under review, of the cheque adjustment account, which reflects the total of the individual balances that remained unadjusted in the process of reconciling payments to the chartered banks for redemption of paid cheques with the relative amounts as subsequently determined. The balance includes amounts relating to the fiscal years 1942-43 to 1960-61.

Mr. HENDERSON: That is self explanatory.

The VICE-CHAIRMAN: Paragraph 110 deals with inactive loans and investments.

110. *Inactive loans and investments.* The \$94,824,000 shown for this item in the statement at March 31, 1963, unchanged from the two previous years, comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the government of China)	14,470,000
Loan to province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
	<hr/>
	\$94,824,000
	<hr/>

Mr. HENDERSON: This is a situation where these loans are carried on the books of Canada against the day when it might be possible to effect some form of collection. I think Mr. Bryce said a word about these when he was here.

Mr. HARKNESS: As you may recall, last year I brought up this question of a loan to the province of Saskatchewan in 1908 for the purchase of seed

grain and at that time I suggested there should be a settlement made in view of the length of time which had passed. I believe I stated it probably should be written off. Has any action been taken on that to date?

Mr. HENDERSON: I think not. But, I seem to recollect—and the minutes will correct me if I am wrong—that when Mr. Bryce was before the committee he explained that in accordance with their policy they are keeping this on the books in the hope that perhaps it might be possible to effect some collection.

The VICE-CHAIRMAN: Are these amounts questioned by the countries?

Mr. HARKNESS: No. This was a joint dominion-provincial scheme for people who purchased seed grain. As I recall it, all of these were written off sometime during the last year; in other words, I think we actually passed an act forgiving or writing off the debt of the individuals concerned. Of course, as you are well aware, most of these people have been dead for years.

The VICE-CHAIRMAN: Loans to China are mentioned here, and China is not dead.

Mr. HARKNESS: No. I am talking about the loans for the purchase of seed grain.

Mr. HENDERSON: I recall that Mr. Bryce did say that he was looking into this but I do not think we have the information at the moment. However, it is possible there might be some action taken on this by the time the public accounts ending March 31, 1964, are finalized.

Mr. STENSON: There are two loans here in respect of China, one in the amount of \$49,426,000 and the other in the amount of \$14,470,000. Are we not at the present time negotiating loans with China and, if so, has this debt ever been brought to their attention?

Mr. HENDERSON: I would think so. Mr. Bryce pointed out to the committee when he was here that it is not their policy to write off debts of this character so long as there is any possibility of recouping them. Perhaps if further loans are sought consideration would be given to loans such as these that have been outstanding for so long. I can assure you that in our experience the Department of Finance is never idle in bringing these matters forward at the appropriate time.

The VICE-CHAIRMAN: I presume that any new contracts which are made with these countries are made under different terms—or at least I would hope so.

Mr. HENDERSON: Well, we will have to cross that bridge when we come to it.

The VICE-CHAIRMAN: I will remember that when we cross that bridge.

Mr. McLEAN (*Charlotte*): Would this not be a loan to Chiang Kai-shek and not to modern China?

Mr. HENDERSON: I would assume it would be to the Nationalist regime.

Mr. STENSON: I do not feel the government of today would recognize those loans.

Mr. HENDERSON: I am not in a position to say that. From Canada's standpoint this money is still owing and I feel certain Canada can give a good account of herself in this respect.

Mr. HARKNESS: So far as the Ming Sung Industrial Corporation loan is concerned, to a large extent that represents ships which the Chinese are still operating. No doubt we would be paid for those.

The VICE-CHAIRMAN: Gentlemen, as it is now 11.15 the Chair will entertain a motion to adjourn.

Mr. CARDIFF: I so move.

APPENDIX

(Extract from PUBLIC ACCOUNTS, 1962-63—Appendix No. 12)

GOVERNMENT OF CANADA EQUITY IN CROWN CORPORATIONS
AS AT MARCH 31, 1963

Corporation	Recorded government equity \$	Unrecorded government equity \$	Total government equity \$
Agency—			
Atomic Energy of Canada Limited	53,258,320	2,902,714	¹ 56,161,034
Canadian Arsenals Limited	*9,750,000	30	9,750,030
Canadian Commercial Corporation	9,500,000	399,177	9,899,177
Canadian National (West Indies) Steam- ships Limited	325,000	142,537	467,537
Canadian Patents and Development Limited	296,199	523,561	819,760
Crown Assets Disposal Corporation		100,000	100,000
Defence Construction (1961) Limited		30	30
The National Battlefields Commission		17,243	17,243
National Capital Commission	40,906,111		40,906,111
National Harbours Board	192,579,474	217,052,274	² 409,631,748
Northern Canada Power Commission	19,003,196	2,705,642	² 21,708,838
Park Steamship Company Limited		5,287	5,287
	325,618,300	223,848,495	549,466,795
Proprietary—			
Canadian Broadcasting Corporation	3,000,000	6,000,000	9,000,000
Canadian National Railways	¹ 1,440,091,343	815,875,632	² 2,255,966,975
Canadian Overseas Telecommunication Corporation	49,320,747	8,599,652	² 57,920,399
Central Mortgage and Housing Corpora- tion	1,802,806,097	64,525,002	¹ 1,867,331,099
Cornwall International Bridge Company Limited		—1,112	—1,112
Eldorado Aviation Limited		227,683	227,683
Eldorado Mining and Refining Limited ..	8,246,877	43,681,986	² 51,928,863
Export Credits Insurance Corporation	34,954,896	7,895,599	² 42,850,495
Farm Credit Corporation	268,968,099	1,670,563	270,638,662
Northern Transportation Company Limited		6,007,316	6,007,316
Polymer Corporation Limited	30,000,000	52,564,839	¹⁰ 82,564,839
The St. Lawrence Seaway Authority	390,888,009	—34,591,516	356,296,493
Trans-Canada Air Lines		8,816,596	8,816,596
	4,028,276,068	981,272,240	5,009,548,308
Other—			
Bank of Canada	5,920,000	25,000,000	¹¹ 30,920,000
Industrial Development Bank		15,925,486	15,925,486
Northern Ontario Pipe Line Crown Cor- poration	110,555,000	483,101	111,038,101
	116,475,000	41,408,587	157,883,587
	4,470,369,368	1,246,529,322	5,716,898,690
Total per schedule E—"Loans to, and in- vestments in, Crown Corporations" ..	4,468,119,368		
*Advanced from defence production re- volving fund recorded in schedule B— "Departmental working capital ad- vances and revolving funds"	2,250,000		
	4,470,369,368		

Unrecorded government equity represents the surpluses (less deficits), reserves, etc., of the Crown Corporations based on the financial reports of the corporations at their respective years ended coincident with, or immediately prior to, the fiscal year ended March 31, 1963.

The Government of Canada equity in Crown Corporations, as computed, excludes those amounts, which, although designated by certain Crown corporations as proprietor's equity, have been financed by the Government of Canada and charged to government expenditures, and have been fully expended in the acquisition of the Crown corporation's capital assets.

¹Including accrued interest, \$450,231.

²Including non-active loans charged to Net Debt, \$119,084,493.

³Including accrued interest, \$6,713.

⁴Including advances to Trans-Canada Air Lines re income deficits, \$4,595,577 and loans with respect to Yarmouth—Bar Harbour ferry service, \$763,684.

⁵Including Canadian National Railways no par value capital stock and investment in Canadian Government Railways charged to Net Debt, \$800,875,632.

⁶Including accumulated tax reduction applicable to future years, \$973,851.

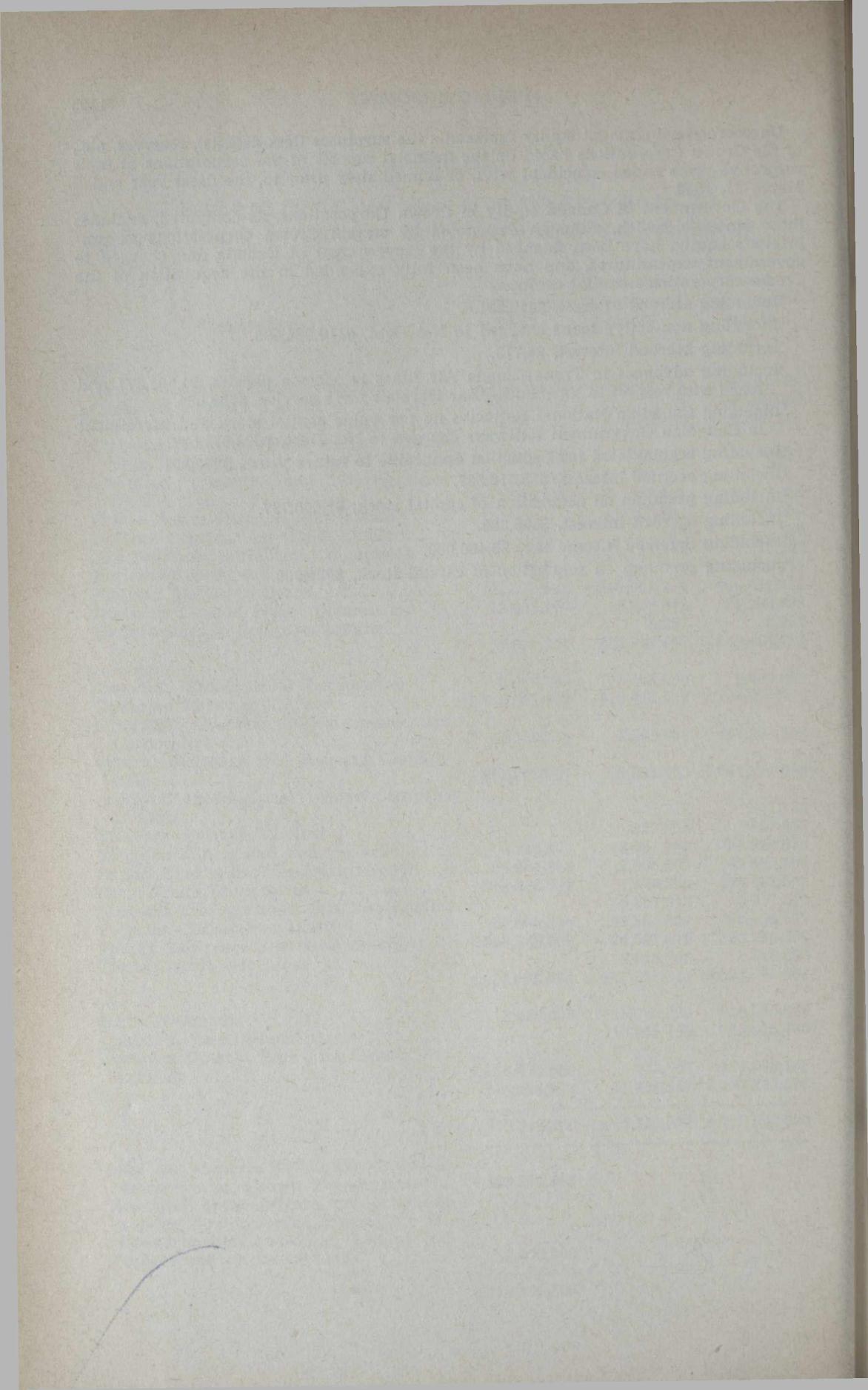
⁷Including accrued interest, \$13,512,537.

⁸Including premium on acquisition of capital stock, \$1,660,797.

⁹Including accrued interest, \$505,893.

¹⁰Including deferred income tax, \$3,460,000.

¹¹Including premium on acquisition of capital stock, \$920,000.



HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, NOVEMBER 3, 1964

WITNESSES:

From the Department of National Revenue: Mr. David Sim, Deputy Minister for Customs and Excise; Mr. R. C. Labarge, Assistant Deputy Minister for Excise; Mr. J. G. Howell, Assistant Deputy Minister for Operations; and Mr. A. R. Hind, Assistant Deputy Minister for Customs; and Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 3, 1964.

(38)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Danforth, Fane, Harkness, Leblanc, McMillan, O'Keefe, Nowlan, Regan, Rock, Southam, Stefanson, Stenson, Tardif, Wahn, Whelan and Winch. (19)

In attendance: From the Department of National Revenue: Mr. David Sim, Deputy Minister of National Revenue for Customs and Excise; Mr. R. C. Labarge, Assistant Deputy Minister for Excise; Mr. J. G. Howell, Assistant Deputy Minister for Operations; Mr. A. R. Hind, Assistant Deputy Minister for Customs; Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long and Crowley of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Chairman tabled a memorandum from Col. W. T. Cromb, Chairman of the War Veterans Allowance Board, dated October 29, 1964, relating to his appearance before the Committee on October 29, 1964. This memorandum was ordered printed as an Appendix to the record of this day. (*See Appendix "A"*).

The Chairman also tabled a return relating to criminal prosecutions of the Department of Veterans Affairs, which was ordered printed as an Appendix to the record of this day. (*See Appendix "B"*).

Mr. Baldwin introduced, Mr. Sim, who introduced his assistant deputy ministers, Messrs. R. C. Labarge, J. G. Howell and A. R. Hind.

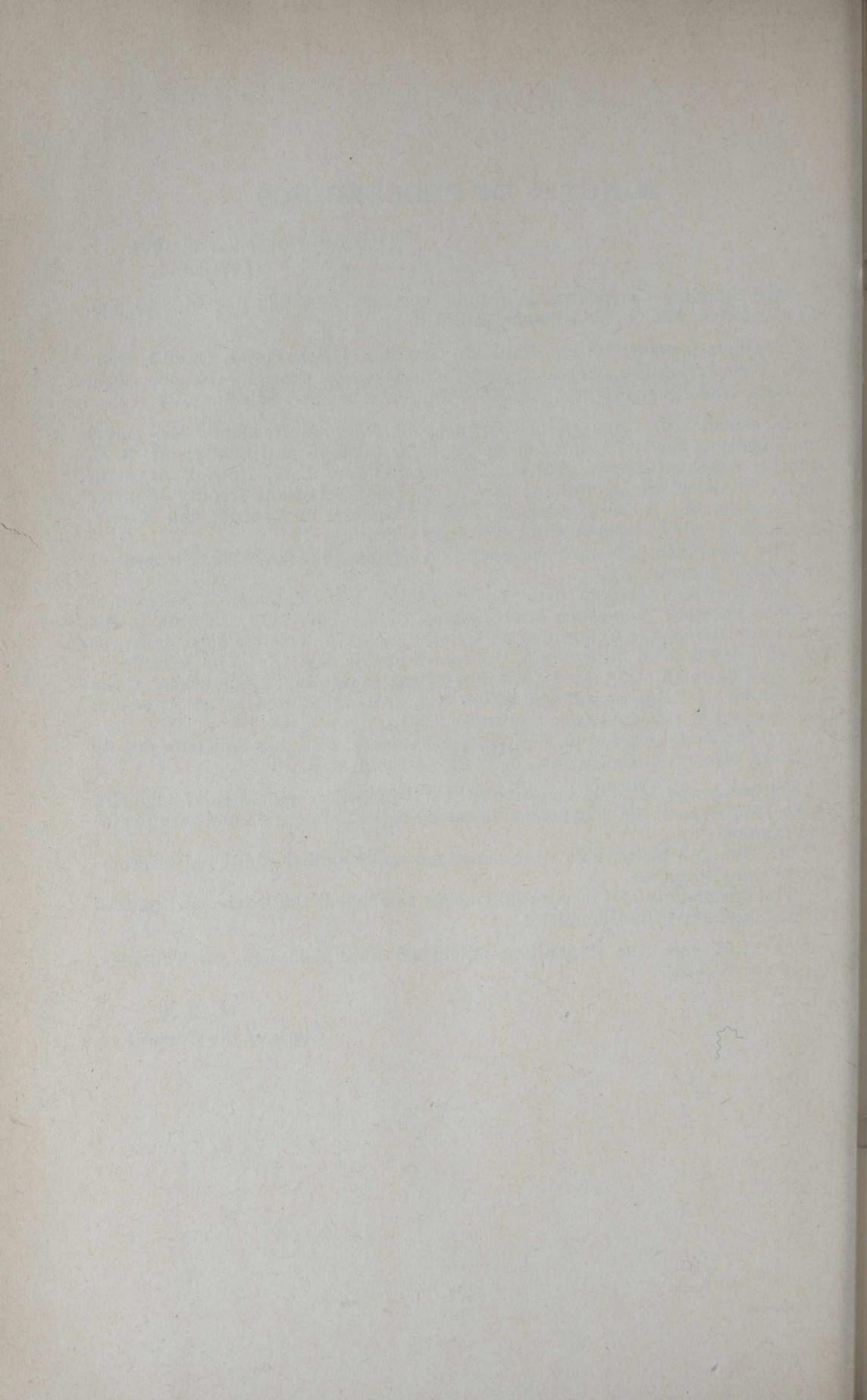
On paragraph 88 to 94 inclusive of the 1962 Report and 75 to 77 inclusive of the 1963 Report, Mr. Henderson reviewed these paragraphs and was examined thereon.

Mr. Sim and his officials were examined and supplied additional information to the Committee.

The questioning of the witnesses being concluded, the Chairman thanked them on behalf of the Committee.

At 11.15 a.m., the Committee adjourned until 9.30 a.m. on Thursday, November 5, 1964.

M. Slack,
Clerk of the Committee.



EVIDENCE

TUESDAY, November 3, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. Although Mr. Fane has stepped out temporarily, he assures me he is with us.

First, may I congratulate the committee on the excellent progress they made during the past week. I would like to extend personal thanks to Mr. Tardif as Vice Chairman for his courtesy and co-operation in presiding over two very excellent meetings which I understand you had.

A statement has been sent to me by Colonel Cromb, chairman of the war veterans' allowance board. As I understand the situation, he started on his statement, but questions commenced and before the meeting was concluded he did not have an opportunity to put the remainder of his statement on the record. For the purpose of convenience to members and others, I would ask for your agreement that his statement in toto now be put on the record as an appendix to our Minutes of Proceedings and Evidence for this day. Is that agreeable?

Agreed.

The CHAIRMAN: There is also a further letter from Colonel Cromb to which he attaches a letter addressed to himself by the director of legal services of the Department of Veterans Affairs. Apparently this is information which was requested at the last meeting. Is it agreeable that this also be placed on the record as an appendix to today's Minutes of Proceedings and Evidence?

Agreed.

The CHAIRMAN: Some of you will have noticed that on your cards giving notice of this meeting there is mention of a meeting at 3.30 p.m. This is in error. We had originally thought this would be desirable, but in the interval the Senate finance committee, having some indication that they require Mr. Henderson's presence before them, have asked him to appear this afternoon. For this reason we will not be having a meeting this afternoon. We will probably be free to go on until at least 12 o'clock today.

Mr. WINCH: The defence committee is meeting at 11.30.

The CHAIRMAN: Those who are free to stay can stay here in the hope that we can complete most of the proceedings. If not, then we can arrange, before we adjourn, to carry on probably on Wednesday.

Today we have with us the deputy minister of the Department of National Revenue, Mr. David Sim, and some of his officials. I do not think I need to say too much about Mr. Sim. He has been before many committees as well as before this committee. He has had a particularly long and distinguished record in the public service for almost 40 years, not only with this department but with the wartime prices and trade board during the war years. He has been a member of international delegations. He has had his service suitably recognized, and he has been one of the very top civil servants in this country. I am very pleased to introduce Mr. Sim to you. Later on, during the course of the proceedings, he will be calling upon some of his assistant deputies. While I am going to follow the usual procedure of calling first on Mr. Henderson for a general statement, before Mr. Sim starts to make his comments he might at that time introduce the officials whom he has brought with him.

You will notice on your card that there are a number of items going back to 1962 and 1963. I assume we might as well start on 1962 although some of these have been updated, I believe. You might like to start with the paragraphs dealing with the 1962 report.

The first paragraph is paragraph 88.

88. *Doubtful title to property in Newfoundland.* In paragraph 76 of last year's report reference was made to three crown-owned residences in Newfoundland which were taken over by the provincial government when they were vacated temporarily by customs and excise officers in January 1957 and October 1958. As previously mentioned, the Department of National Revenue was of the opinion that these residences were the property of Canada in accordance with sections 33 and 34 of the terms of union, but the province did not agree. The houses are still occupied by provincial officers.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, I might just say that not too many of the paragraphs have been updated and some of them since have been resolved, so that you will probably not wish to spend much time on those.

To take paragraph 88 first, which appears on page 39 of the 1962 report, this deals with doubtful title to property in Newfoundland. As you see, this paragraph refers to three crown-owned residences in Corner Brook, Newfoundland, ownership of which is still in doubt.

Following the union of Newfoundland with Canada, three residences in Corner Brook continued to be occupied by customs officials formerly in the employ of Newfoundland but who were transferred to the government of Canada following union. A fourth residence in the same locality occupied by a Newfoundland official was taken over in December 1956 by the Department of National Revenue through the issuance of an exchequer court writ of possession.

The department was of the opinion that all four residences were the property of Canada in accordance with sections 33 and 34 of the terms of union. However, when three of the residences, including the one which had been taken over by court order, became temporarily vacant in January 1957 and October 1958, officers of the provincial government took possession and the government of Canada has received no rental payments since these dates. The fourth residence continues to be under the control of the department and is occupied by an officer of the department who had been in the customs service of the province before union.

In the period since confederation and up to January 6, 1964, the total amount of rent collected from the four houses has been \$8,235. The department had expended \$15,733 for the upkeep of these residences to date and also has paid municipal taxes and water and sewage charges for the residences to the extent of \$1,705.

The department has had this matter under consideration by the Department of Justice. Perhaps Mr. Sim can bring the committee up to date in this regard.

The CHAIRMAN: Would you care to do that, Mr. Sim? We are now on paragraph 88 in the 1962 report. Possibly you might be good enough to introduce the officials who have come with you at this time so that committee members will recognize them, and if any questions come up which affects them particularly, please feel free to refer to them directly.

Mr. DAVID SIM (*Deputy Minister, Department of National Revenue*): I was hoping that you would call on me as soon as I listened to your very warm reception so that I could reply in appropriate terms. There is not quite the same warmth in the Auditor General's voice as I think I detected in the voice of the Chairman!

Just to indicate the importance we attach to this committee, I have fortified myself this morning by bringing with me the three assistant deputy ministers, and if it meets the convenience of the committee I will introduce each one of them in turn as they have the opportunity of helping the committee get at the facts of these individual cases.

The first paragraph dealing with the houses in Newfoundland will, appropriately enough, be dealt with by Mr. Howell.

Mr. Howell is a dividend to Canada from Newfoundland. We first met him when he represented Newfoundland in London at the meetings of GATT back in 1946-47 and appreciating that his was the sort of talent we should have in the federal service we were able to wean him away from the Newfoundland service.

Mr. Howell was educated at Dalhousie University, which I think will strike a friendly note in the hearts of some members of the committee. He entered the department of customs for Newfoundland in 1934, and in 1942 was appointed secretary, which is equivalent to a deputy minister. In 1945 he represented his then country at commonwealth meetings. We acquired him in 1949.

With no further introduction, I am going to ask Mr. Howell to explain to you why it is we have been unable to secure full possession of these houses under discussion.

Mr. J. G. HOWELL (*Assistant Deputy Minister for Operations, Department of National Revenue*): As the Auditor General has stated, there has been great doubt about these houses ever since April 1, 1949. This became paramount during the mid fifties, particularly when one of our officers vacated the house to give way to another officer coming in. At that moment one of the provincial officers entered the house, and we never could get him out afterwards.

This whole question was discussed and was under advisement by the Department of Justice for a considerable time. It was not until 1962, to be exact, that the whole situation changed in so far as we were concerned. At that time the deputy attorney general notified us that after having given considerable thought to the relevant matters which were available in the case, he came to the conclusion that Canada's chances of success were so slight that litigation would not be justified. He stated that the issue in any such litigation would be whether the buildings in question were at the date of union used primarily for service taken over by Canada within the meaning of term 33(j) of the terms of union.

At the very least, he stated, it would be necessary to establish that the nature of the service in question necessitated the provision of residences by the government, but there was nothing which in his opinion would satisfy a court that the nature of the customs service required the provision of a residence.

Subsequently, in July of this year, the solicitor for customs wrote to the deputy attorney general of Newfoundland advising him that as a result of the opinion given by the attorney general of Canada, the department was prepared to release to the government of Newfoundland all its right, title and interest, if any, in the four residences at Corner Brook and to execute a quit claim in respect thereof.

At the same time it was suggested that arrangements be made to provide for the continued occupancy of one of the Canadian customs officers at a rent payable commensurate with rents being paid by the occupants of the other residences—and that is to Newfoundland, of course.

Unfortunately, at this stage no reply has been received from the attorney general's office in Newfoundland, and that is where the question rests at the moment.

The CHAIRMAN: Are there any questions, on this item, which apparently still remains unresolved?

Mr. McMILLAN: Will we continue to pay taxes on them?

Mr. HOWELL: Only on the house occupied by the customs officer who is occupying one of these houses. The rental he pays is about three times that which the other officers pay.

Mr. LEBLANC: Mr. Chairman, what is the approximate value of the property?

Mr. HOWELL: Approximately \$60,000.

Mr. LEBLANC: Is that the value of each one or is that the value of the three?

Mr. HOWELL: That is the value of all four.

The CHAIRMAN: Are there any further questions?

There are apparently no further questions so I will ask Mr. Henderson to pass on to the next item, item 89.

89. *Release of goods under Customs Collector's permission.* Sub-section (1) of section 22 of the Customs Act, R.S., c.58, reads as follows:

"Unless the goods are to be warehoused in the manner by this act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unloading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer."

In addition, section 79 of the act reads:

"No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods."

Notwithstanding these statutory directions, it has been the practice of the department for many years to release perishable goods prior to the passing of a customs entry and payment of duty, providing the importer has posted a bond or security as a guarantee of payment of duty. The term "perishable goods" has gradually been extended and now includes a wide range of goods.

There seems little doubt that the practice being followed facilitates the clearing of goods through customs, and benefits both the department and the importer. However, sections 22 and 79 of the act quoted above appear specifically to prohibit what is being done and the act should be amended if the practice is to be continued.

Mr. HENDERSON: Paragraph 89, as you will see from page 39 of the 1962 report, deals with the release of goods under customs collectors permission.

We show here how section 22 of the Customs Act, which is quoted in the paragraph, is specific in requiring duties to be paid upon all goods entered inwards. Section 79, which is also quoted, is specific in prohibiting any deferment of payment of duties. Consequently, we in the audit office have taken the view here that the practice followed, however sensible and practical it may be so far as the entry of goods is concerned, should be made the subject of an amendment to the act and thereby remove any doubt as to the legality of the practice. I might mention that section 24 of the act, which is not referred

to or quoted in this paragraph, does contain a provision for sight entries, but to have invoked this would have required the importer to pay an amount of duty usually greater than the amount actually due, whereas under the collector's permission method the department is following here a deposit is made by the importer to cover all of his importations.

Mr. Chairman, I think that sums up the essence of this question.

The CHAIRMAN: Would you care to comment, Mr. Sim.

Mr. SIM: I am very grateful that the Auditor General used such terms as sensible and practicable in connection with his comment and I do not wish to say much more except to call upon Mr. Howell to elaborate.

Mr. HOWELL: Mr. Chairman, it seems abundantly clear from the Auditor General's remarks that whilst he feels that this practice is based on sound common sense and facilitates the clearance of goods, benefiting both the department and the importer, the practice is not strictly in accordance with existing legislation.

We in the department, whilst agreeing that the procedure is not specifically provided for, are of the opinion that sections 24 and 25 of the Customs Act give a legal base for the immediate release system in the same manner as for sight entries. In this connection I always like to refer to subsection (2) of section 2 of the Customs Act which states:

All the expressions and provisions of this act, or of any law relating to the customs, shall receive such fair and liberal construction and interpretation as will best ensure the protection of the revenue and the attainment of the purpose for which this act or such law was made, according to its true intent, meaning and spirit.

Under this system in force, which we incorporated several years ago as the result of the stepped up tempo of handling goods whereby importers no longer use large warehouses but, instead, inventory control, we have found ourselves in the position of having to deal with large quantities of goods over and over again.

Under the system in force the importer is required to present a pro forma entry, form C-9, together with security, the purpose of which is not primarily the deferment of the payment of duty, but rather to afford the opportunity for complete formal documentation to be presented under the protection of the security which may be in the form of cash, Dominion of Canada bonds, or guarantee company bonds.

The complete formal documentation must be produced to customs on the next business day following the release of the goods, thus liquidating the pro forma entry and release of the security. This has worked out both to the benefit of the department and the importer and in no case up to today have we had any difficulty in securing full payments under this system.

The CHAIRMAN: Thank you, Mr. Howell. Are there any questions or comments from any members of the committee in respect of this item? If not, have you, Mr. Henderson, any further comments you would like to make at this time?

Mr. HENDERSON: Well, there is no question, Mr. Chairman, that this is the most practical way of handling cases of this kind. I believe most of the cases occurring under this system are of a perishable nature. Am I not correct in this assumption?

Mr. HOWELL: Not necessarily. It did originate with perishable goods but in view of the fact that it was such a successful procedure we went into hard goods as well.

Mr. HENDERSON: The fact remains that this is one of several cases, which you will note, where it would seem desirable to amend the act to cover the practice, and that is the point I made in my note.

We are going to be dealing with three other cases, as you know, and I think the views of the committee on that point would certainly be very helpful to me and my officers.

The CHAIRMAN: Are there any questions or comments from any members of the committee in this connection?

Mr. CAMERON (*High Park*): Would Mr. Sim like to make any comment on the problem raised by the Auditor General whether or not in this case or the other cases amendments to the legislation or the regulations might cover the problem, and then everyone would be happy.

Mr. SIM: I think the point made by the Auditor General is well taken, Mr. Chairman. Sometimes what seems the sensible and practical thing to do must be done in advance with an intelligent appreciation or anticipation of what will follow by way of clear legislative authority. I think it would be appropriate for me to say now, because this point will arise in connection with two or three other items, that during the period under review and immediately antecedent there to a distinguished member of the committee who happened to be the minister of national revenue was encouraging us to streamline our methods and to get rid of a good deal of the red tape so to speak as part of the sort of forward move which we had at that time. I think the Auditor General is fulfilling his office when he draws attention to this and any other item where for sensible and practical reasons something has been done which we anticipated the house would in due course clothe with appropriate legal authority.

The CHAIRMAN: Thank you, Mr. Sim. Might we now pass on to the next paragraph?

Mr. HENDERSON: The next item, of course, is paragraph 90, and it deals with "Sales of goods unclaimed at customs".

90. *Sales of goods unclaimed at Customs.* Section 23 of the Customs Act, R.S., c.58, requires that unclaimed goods

"shall be sold by public auction to the highest bidder, and the proceeds thereof shall be applied first to the payment of duties and charges, and the surplus, if any, after discharging the vessel's lien, or other charges for transportation, shall be paid to the owner of the goods or to his lawful agent; but if the goods cannot be sold for a sum sufficient to pay the duties and charges, if offered for sale for home consumption, or the charges, if offered for sale for exportation, such goods shall not be sold, but shall be destroyed."

Sometimes the addition of storage charges to the duties and taxes causes the total payable to be in excess of the value of the goods and in such cases the department, instead of destroying the goods, has been following the practice of waiving all or part of the storage charges, in order that at least the duties may be recovered. The practice has undoubted merit from the revenue point of view but an amendment to section 23 of the act seems desirable if it is to be continued.

In this paragraph section 23 of the Customs Act is quoted, and as you will observe it is again specific in that if goods are left unclaimed at customs which cannot be sold for a sum sufficient to pay the duties and storage charges, the goods shall be destroyed. As the note explains, the practice followed by the department is to return as much revenue to the crown as possible, and in such cases the practice has been to waive all or part of whatever storage

charges are applicable, in order that the duties at least may be recovered. There is no doubt in our minds that this has been a sensible and proper course to follow. Otherwise, if the goods were to be destroyed, as the act requires, then no revenue would be returned to the crown. Consequently this is another case where an amendment to the act might be called for if the practice is to be legalized.

Mr. SIM: The distinction is quite clear between the collection of duties and the collection of other charges. I would appeal to the staunch presbyterians here as to whether or not we should really throw away something of value. It would be very much against my nature to destroy anything which would bring in revenue to the crown. So this is the course we have followed. We are always careful to get the duty, and if we cannot get the duty, the goods must be offered for sale in the hope of getting it, or destroyed. But at the same time when it comes to our storage charges for warehousing, we might sharpen our pencils again with the hope of being able to secure something out of these goods, rather than to destroy them.

Mr. HOWELL: I think that is well answered.

The CHAIRMAN: Are there any questions?

Mr. TARDIF: If the goods are of any value, would the Auditor General not think that somebody could make use of them?

Mr. SIM: That is the very point made by the Auditor General. The law compels us, if we cannot get the duty and the charges, to destroy the goods. He takes a proper position that in these cases while sometimes we get the duty, we cannot get all the charges. I cannot think of many cases where we have destroyed goods. It is very much against our disposition to destroy anything of value.

Mr. FANE: Are changes like that in the act made by the Department of National Revenue, by the customs department, or do they have to be made by parliament?

Mr. SIM: They would have to be made by parliament.

Mr. FANE: It seems stupid to me to have a rule like that.

Mr. SIM: There is merit in the law which requires us to collect the duty. After all, parliament in its wisdom has said that imported goods should not be laid down here in Canada at less than the rate of duty based on the fair market value. If we acquire ownership of goods because people have left them with us when they did not wish to pay the duty, and we do not collect those duties, we would be obviously allowing the goods to become competitive with Canadian manufacturers, if they should enter into consumption in this country. This has a bearing on the tariff which parliament said should be applied.

Mr. FANE: Do you ever get a considerable amount, or just a little package or something, to which this paragraph 90 would apply? I am thinking of a carload or something like that.

Mr. SIM: There is very little. The great bulk of our importations are made in the ordinary way and the the duty is paid.

Mr. FANE: It would only be a drop in the bucket?

Mr. STENSON: I wondered if the importers might use this, if the goods were to be sold less this duty, for dumping purposes?

Mr. SIM: There is a danger there, and the act is set up to provide against it. In other words, the act says to the customs officer that he must not let these goods get out of his possession without the payment of the duty. We do not feel that parliament is directly concerned about the payment of these charges, because these are made by regulations under the governor in council. They are

not provided for in the act. There is a little shadowy area here between something which is statutory and something which might be within the purview of the governor in council.

Mr. STENSON: If you had fresh fruit or vegetables in season here in Canada, would waiving this duty be a way of not protecting our own growers?

Mr. SIM: That is why I indicated that we would not under any circumstances allow goods to enter into consumption without the payment of duty, because it would be going against the will of parliament. But with the charges, we have been sharpening our pencils, and scraping a little bit off so we could get something for the goods rather than to see them destroyed. I really hate to destroy something which might be of some value.

Mr. SOUTHAM: While listening to the discussion of this item, and after looking at the recommendations as set forth by Mr. Henderson, I have come to the conclusion that they are based on the purpose, as the deputy minister pointed out, of getting possible amending sections to the act.

Mr. REGAN: Mr. Sim, I wonder whether it would not be possible in these instances to have the goods returned to the country of origin and disposed of at some profit to the crown. They certainly would not then be entering into competition with Canadian goods. Let us say that the goods came from the United States. Once they have reached Canadian customs, may they not be returned to the United States without having to pay American customs?

Mr. SIM: Oh, yes, they could be returned under the heading of United States goods returned without being advanced in value. But I would not like the committee to get the impression that we are dealing with a large volume of stuff. Indeed, if there was any substantial volume of goods on which we could not get the duty even, we would be faced with the prospect of destroying them. I think that to return them is a better alternative than to agree to their destruction. Actually that problem has not arisen because in the main, so far as I can recall, all goods have been properly cleared, and we have been able to get the duty and something towards the charges, prescribed by the governor in council.

With respect to the charges, for many years storage in the Queen's warehouses was at a rather nominal rate. Then we suddenly found that we were getting a lot of goods stored in our Queen's warehouses, so we increased our storage fees. But by doing something to bring our warehousing charges into line with good business practice, we have tended to create something of a problem for ourselves when we have to collect the duty plus these higher charges. This is really not a big item in our economy. It is a small matter. And if there should appear to be any increase, we would take note of what the Auditor General has suggested here concerning disposing of it. It might be better to have an enabling clause in the law to enable us to do this in a legalized way so that no question would be raised, as the Auditor General suggests.

Mr. WHELAN: Suppose something is seized at Windsor which has entered the country illegally. Would it be sold at Windsor or at Toronto?

Mr. SIM: I think our practice is to take such goods to a central marketing point where it is worth while to do so. I believe that goods from the Windsor area would be sent to Toronto.

Mr. WHELAN: They would not be put up for sale at Windsor?

Mr. SIM: No.

The CHAIRMAN: Thank you. I think we have had a good discussion of this matter. Now, let us turn to paragraph 91.

91. *Duties and taxes on surplus United States government property sold in Canada.* By international agreement United States government

property located in Canada which becomes surplus to requirements is disposed of by Crown Assets Disposal Corporation on behalf of the United States government. Much of this property came into Canada without payment of duties or taxes and therefore becomes subject to the applicable duties and taxes when sold in Canada. Because of the great variety of goods and materials, frequently located in remote areas, it is considered administratively impracticable to apply the customs tariff and the normal customs appraisal procedures to these sales. The Department of National Revenue accordingly annually establishes a composite rate (currently 15.25 per cent) which is applied to the proceeds of all sales of the United States government property by Crown Assets Disposal Corporation, the rate being based on the average rate of duty on all imports from the United States for the last completed year for which statistics are available.

The practice being followed seems to be a practical way to meet the problem but, as there is no statutory authority for the establishment of such a composite rate, even with the approval of the governor in council, authority should be provided by parliament if the practice is to be continued.

Mr. HENDERSON: This paragraph refers to duties and taxes on surplus United States government property sold in Canada. Again it describes the manner in which the department each year establishes a composite rate, which is applied to the proceeds of all sales of United States government property by Crown Assets Disposal Corporation, the rate being based on the average rate of duty on all imports from the United States for the last completed year for which statistics are available.

Here we have another case where the practice being followed seems to be the practical way in which to meet the problem. However, I have to point out to you that there is no statutory authority for establishing a composite rate like this. Again, if the practice is to be continued, it would seem to us that authority should be provided by parliament through an amendment to the Customs Act.

Mr. SIM: May I introduce at this time Mr. A. R. Hind, deputy minister of the Department of National Revenue for customs. Mr. Hind was born at St. Thomas, Ontario, and he attended the University of Western Ontario where he graduated with honours in business administration. He joined the department in 1929 where he served as investigator of values in Germany, elsewhere in Europe, and in the United Kingdom until 1938 when he was brought back. He has served on the Canadian delegation to GATT, and in 1959 he was appointed to his present position.

The CHAIRMAN: Now, Mr. Hind.

Mr. A. R. HIND (*Deputy Minister, Department of National Revenue, for customs*): Mr. Chairman and gentlemen, under the terms of note 140, which represents an agreement entered into by Canada and the United States, Crown Assets Disposal Corporation is authorized to sell surplus United States government goods located in Canada. These goods have been used generally in defence installations which are of mutual interest to the two countries. They are sold to the highest bidder, and under the agreement, the selling price is deemed to include duties and taxes. Crown Assets Disposal Corporation remits a certain percentage of this selling price to the Department of National Revenue as representing such duties and taxes.

The situation created by note 140 should not be confused with normal importations, where goods are presented to qualified customs officers, who have facilities for rating and valuing them in accordance with the customs statutes. In the case under review, the goods are often located in remote and inaccessible

areas, such as D.E.W. line sites and other places in Labrador, the far north, and so on. In addition, a great variety of goods is involved. This combination of circumstances makes it practically impossible to appraise in a normal way. To accomplish the latter would involve a great expenditure of money, which would seem to constitute a waste of public funds. Consequently, a composite rate, representing duties and taxes, using as a basis, the average rate of duty on imports from the United States for the last completed year for which statistics are available, has been established.

The Auditor General points out that while this practice seems to be a practical way to meet the problem, the fact remains that there is no statutory authority for the establishment of such a composite rate. In the circumstances, he suggests that parliament should provide such authority if the practice is to be continued.

The sale of surplus United States government goods in Canada is relatively limited, and is expected to diminish as time goes on. While technically, there does not appear to be any specific authority for departmental action, beyond the general responsibility imposed upon us by the Customs Act and the Customs Tariff Act, it is wondered if, in view of the peculiar nature of the problem and its very narrow coverage, discretion might not be left with the administration to develop a composite rate as has been the practice in the past.

The CHAIRMAN: Thank you, Mr. Hind. Are there any questions?

Mr. DANFORTH: I would like to ask if the 15.25 per cent rate is payable on the sale price of goods as they are disposed of, and not on the estimated value when they came into the country?

Mr. HIND: The 15.25 per cent is payable against the selling price of the goods.

Mr. DANFORTH: This is a diminishing problem at the present time, and there will probably be less and less goods for disposal.

Mr. HIND: Yes, sir.

Mr. LEBLANC: You say that the 15.25 rate is arrived at in what manner? Is it on the basis of the average rates?

Mr. HIND: Yes, sir. We develop the average rate of duty of all imports from the United States, both dutiable and free of import duties. This, plus the element of sales tax, gives us a composite rate of 15.25 per cent.

Mr. LEBLANC: Would that rate vary much?

Mr. HIND: Astonishingly enough, the rate does not vary within a very great margin. We have found that it remains reasonably static. It is true that there are changes in individual rates of duty from year to year. But we have found in general that the average has remained pretty constant.

The CHAIRMAN: Are there any further questions? If not, let us pass to paragraph 92.

92. *Determination of "sale price" for sales tax purposes.* In paragraph 59 of the 1960 report, reference was made to the requirement of section 30 of the Excise Tax Act that sales tax be calculated on the "sale price" of goods produced or imported into Canada, with certain stated exemptions, and it was noted that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price. We expressed the opinion that specific authority by parliament is required if the tax is to be computed on less than the sale price of the goods.

The public accounts committee considered the matter during its sittings in 1961 and included in its fifth report of that year (paragraph

56) the recommendation "that the existing method of valuation be provided with statutory sanction".

No action has yet been taken to provide the statutory authority thus recommended. However, the royal commission on taxation established on September 25, 1962 has terms of reference sufficiently broad to permit consideration of this matter.

Mr. HENDERSON: Paragraph 92 deals with a rather larger and more difficult problem, namely, the determination of "sale price" for sales tax purposes.

Section 30 of the Excise Tax Act requires sales tax to be calculated on the sale price of goods produced or imported into Canada with certain stated exceptions. In the report of the Auditor General for the fiscal year 1945-46 it was drawn to the attention of the house that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price.

No action appears to have resulted from this until 1955 when it will be recalled a sales tax committee was appointed to review and advise upon certain technical questions relating to the administration of the sales tax. The committee made its report on January 12, 1956 and in its report pointed out that "the act does not appear to authorize the minister to vary actual selling prices or to impute wholesale prices when they do not exist". It is apparent that without such authority and general rules as to determination of value there can be no useful right to appeal. The committee recommended that "the existing scheme of valuation be continued for the present with statutory sanction".

I brought this matter to the further attention of the house in my 1960 report. I pointed out that sale price is the amount charged to the buyer and there is no provision for deviation. On discussing this matter with the departmental officials, I was advised that they rely on the general authority given in section 38 of the Excise Tax Act which is the fairly standard one reading as follows:

The Minister of Finance or the Minister of National Revenue, as the case may be, may make such regulations as he deems necessary or advisable for carrying out the provisions of this act.

This led me to state that in my opinion specific authority by parliament is required if the tax is to be computed on less than the actual sale price of the goods. Your committee examined this matter during its 1961 session and in paragraph 56 of its fifth report 1961 made the recommendation "that the existing method of valuation be provided with statutory sanction".

There has been no action taken on the matter since although Mr. Sim may have some further information to give to the committee.

The CHAIRMAN: Now, Mr. Sim.

Mr. SIM: This gives me the opportunity of introducing my third colleague, Mr. R. C. Labarge, M.B.E., one of the few civil servants born in Ottawa. He was educated at the La Salle Académie here, McMaster University, Oxford University, and he served for a while in the wartime prices and trade board where I first met him, although I had known his father for many years, a distinguished citizen of Ottawa.

Mr. Labarge spent three years in the navy, and retired with the rank of lieutenant commander. He became private secretary to the Minister of National Revenue and in due course he was appointed to be general executive assistant. In 1957 he became assistant deputy minister of customs, and later in the same year, assistant deputy minister for excise. Mr. Labarge will lead off in this subject, and if there is anything more required, I should be glad to follow on.

Mr. R. C. LABARGE (*Assistant Deputy Minister, Department of National Revenue, for excise*): This again is hardly a recommendation that the department would disagree with, even if it had in mind that the present form of law is sufficient and adequate for its purposes. Our belief is that the more clarity and certainty there can be in legislation for both the taxpayer as well as for the department, the more we are all in favour of it. Historically, the practice is to equalize the value for tax purposes. Normally it is the actual sales price of the goods differential that is equalized as in this instance where the manufacturer sells to a wholesaler a certain product at a price, and he also sells the same product to a retailer, the selling price would be higher in the latter instance, and consequently the tax would be heavier. This was foreseen at the very beginning of our sales tax law, and in 1923 it was even the subject of a proposed amendment by Mr. H. H. Stevens. It was the feeling of the minister of finance at that time, and he gave it as his opinion to the house, that section 13, which is now covered in sections 31 and 38 of our act, was sufficient to authorize the department to carry out its equalization of the sale prices for tax purposes.

I can say, therefore, that for a long time before the question was raised in the committee, the department followed what it believed to be a legal position. There is no doubt that this equalization is a vital and essential part of the administration of a fair sales tax. The drafting of legislation, in my opinion, is not as simple as it might appear to be. It is simple to give authority to the minister to equalize or to arrive at a wholesale price. But I think Mr. Henderson has indicated that there is another feature to be attached to it, namely, the right of appeal. It is in this area where I have found lawyers and legal minds having some difficulty in devising a form of appeal which can only be based on a comparison with competitors. It calls, therefore, for the revealing by one competitor to another the conditions under which he makes his sales and discounts,—his pricing structure, and so on. All I can say is that there has been a considerable effort put into drafting this same law. It has not got to the house in the form of proposed legislation. The problem is now being studied very carefully by the royal commission on taxation, and I would not be surprised if there was hope that they would come up with a helpful suggestion for amendment.

The CHAIRMAN: Thank you, Mr. Labarge. Mr. Winch indicated some time ago to me that this was a matter in which he was considerably interested, and he asked if he could be given an opportunity to deal with and to make a comment on it. I see no reason why this should not be done, therefore, Mr. Winch.

Mr. WINCH: I appreciate your courtesy and the courtesy of this committee. This is a matter which has puzzled me for a considerable length of time, especially the attitude of the department, as I understand it, in the past, and which has now been confirmed by the previous speaker. The department takes the view that their action is legal. I am not in any way criticizing or condemning the principle or practice. But the point which I think is of major importance to the committee is whether or not there is any statutory authority, and if there is not, then should it not be provided. As a result of my investigation, I have found that this practice has been in vogue for a great many years, even long before 1945.

If we take the act as we have it at the present time, and as has been pointed out by the Auditor General, we find that under section 30, it is very specific that there shall be a levy imposed and collected of 8 per cent on the sale price of all goods. That is, there are two objectives outlined, but nowhere can I find under section 30 a statutory authority for the practice of deviating from the sale price of all goods, or of changing the meaning of sale price. So we find that the department has been following what is now section 38 where also, as was pointed out by the Auditor General, the minister of finance or of national revenue as the case may be, may make such regulations as he deems necessary or advisable to carry out the provisions of this act.

My studies have shown that many, many years ago a circular stated this was done under the authority of the act, and then it was changed. I do not know the exact year. But now the circular states—just to use an example, because it is a fairly recent one, 1959, and is signed by Mr. Sim—that the minister of national revenue has been pleased to establish the following regulation under the authority of section 38 of the Excise Tax Act. And then in the circular it says that manufacturers of furniture may account for the sales tax on their sales directed to the users, calculated on the sale price less a discount of 25 per cent. There has been a change in the numbering of the sections in what we refer to now as sections 30 and 38, but the wording is unchanged over the years.

Now, I find that although this practice still is followed, there have been two court opinions to the effect that there was not the authority to so interpret the word "regulation", and that the practice of the department was ultra vires of the statute. This goes back, so far as court opinions are concerned, to 1928, and appears in the Dominion Law Reports of 1929. There is the case of the *Attorney General of Canada v. Coleman Products Company*.

The CHAIRMAN: Could you give us the actual citation?

Mr. WINCH: It is 1929, 1 D.L.R. and you will find what I am referring to now at page 660. There is this comment dealing with the powers of the minister:

"The power of the minister to make such regulations as he deems necessary or advisable for carrying out the provisions of this part," does not authorize and empower him to declare what the term "sale price" means as used in section 19ccc. I am, therefore, of the opinion that regulation 6 does not enter into the consideration of this matter at all. I think it would be ultra vires of the minister to make any regulation that would vary or modify or affect the positive declaration of the statute itself. The regulations I take it are solely to point out the means by which the act is to be enforced, not to place an interpretation or construction upon the act itself.

There you have the opinion of the supreme court in this case in 1928.

Again, you also have a case in 1941. This is the case of *Rex v. Weir-Manufacturing Company Limited*.

The CHAIRMAN: Would you give the citation for that?

Mr. WINCH: It is in the county court in British Columbia and it is a judgment by Lennox, C.C.J. It must be in what you refer to as Dominion Law Reports, pages 802 and 803. Here is what was said there:

Section 99 of the act provides that the Minister of Finance—

I am giving that, although the section number is changed—

—or the Minister of National Revenue may make such regulations as he deems necessary or advisable "for carrying out the provisions of this act", but it was submitted, and I think properly, that this does not permit regulations which would alter the basis on which the 8 per cent tax is to be paid, namely, "the sale price". No doubt the department found that hardships arose out of a strict adherence to the provision of said section 86 (1) but, if so, that would be reason for altering or amending the act and not for bureaucratic dogmatism.

Then on page 802 in small type, on the same point and dealing with the sale price of all goods, it says:

The Minister of National Revenue was authorized by section 99 of the act to make regulations "for carrying out the provisions of the act",

but this did not give him authority to make regulations which would alter the basis on which the tax is to be assessed. The circular in question probably represented an ultra vires ruling by the minister.

Going back to 1929, on this question of the interpretation and use of the section called regulations, and the fact that both courts have expressed the opinion that the practice was ultra vires of the powers of the minister or the deputy minister, I believe, because surely these cases must have come to the attention of the department, we have the right to ask why, in 1964, we have not had presented to the house the necessary amendment to legalize what I understand is basically a good and required practice.

It was these points which I wanted to bring to your attention and ask why, after all this length of time, the question of legality, from the point of view of the department, still remains in respect of a practice which the courts have ruled is ultra vires.

The CHAIRMAN: Would you like to deal with this, Mr. Sim?

Mr. SIM: I think I should make it clear that this is not the sort of bureaucratic activity that bureaucrats welcome. This is the sort of job which is fastened on an unwilling public servant, requiring him to breathe life into the statute. In this case, from the inception of the tax, as was so thoroughly pointed out by Mr. Winch, there has been a provision that the tax would apply on the selling price of goods.

As pointed out by Mr. Labarge, if this were followed just in those terms, an inequality would exist and the tax really would have been unworkable, because you would have been collecting two or three different rates of taxation on the same kind of goods entering into consumption.

Of course, the question of whether or not it is legal is a problem for the lawyers. Mr. Winch and I both are in the happy position of being laymen, and we perhaps are not as well qualified to discuss the legal position as are others. I will not pretend to argue the legality of it, except to say that the matter of the finding of a cure for this has been the subject of intensive study by myself and by officers of the Department of Justice. The royal commission to which the Auditor General referred struggled with this problem and did not come up with much in the way of a solution. As I understood the solution proposed by Mr. Winch it is to put a blessing of some kind on the present practice.

Mr. WINCH: I fully recognize what would happen as a result of following this practice, but I think it is accepted that a department or an individual can do only what the statute authorizes. For the life of me, I cannot understand why when, as I already have pointed out, you have the judgment of the court on this, you have not asked for the statutory authority to clarify the situation and regularize it.

Mr. SIM: The committee should understand that right from the inception of the tax the minister of finance said the department would do the very thing we are speaking of. He said the Department of National Revenue has the authority to do it under the statute. Mr. Fielding, a man greatly respected in the maritime provinces, chose to believe this was what we had to do, and we followed that ever since. When a practice has been going on for a good many years, it acquires a certain amount of respect. I should say quickly that this is not the kind of job officials of a department welcome. Had it not been for the integrity of the people who had to do with this tax over the years, we might have had a very different story in respect of it. As it has worked out, it has been a very profitable tax. Today our collections are running in the order of \$1,700,000,000.

I do not want to suggest there is no substance to the argument made by Mr. Winch. The difficulty has been to try to find some solution which would be acceptable to everybody. It might not be good enough, perhaps, to provide a continuing statutory authority for what we are doing. There might be a body of opinion in the country which might say this is not the kind of responsibility which ought to be fastened onto the civil service and that it ought to be spelled out in a different fashion. I am extremely hopeful, as I think perhaps the Auditor General is, that out of the royal commission inquiry there will come something to help us so that we can come before parliament and, whatever argument there may be in respect of the legality or otherwise of the practice we have been following, our actions will be sanctified, or some other formula evolved to take the responsibility from the civil servants who have been carrying the load for so many years.

The CHAIRMAN: Are there any questions on this very interesting point? If not, may we proceed to paragraph 93.

93. *Reporting of remissions.* Section 22 of the Financial Administration Act empowers the governor in council, on the recommendation of the treasury board, "whenever he considers it in the public interest", to remit any "tax fee or penalty", and further provides, in subsection (8) that:

"A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the public accounts."

Since this act came into force in 1952 it has been the practice to report remissions with an annual total of \$1,000 or more in the form of a listing of names of recipients and annual amounts in the public accounts. This is a continuation of the practice previously followed by the Auditor General pursuant to the requirement contained in the Consolidated Revenue and Audit Act, 1931, that "the Auditor General shall call attention to every case in which . . . a refund or remission of any tax, duty or toll has been made on the authority of any act of parliament".

This was used as a precedent but we believe that subsection (8) of section 22 of the Financial Administration Act, quoted above, in calling for "a statement of each remission" (a "statement" was not called for by the earlier act) contemplates the inclusion of a comment giving the particulars with respect to each remission—as is presently done in the cases of remissions to charitable, educational or other non-profit organizations. We feel that explanatory statements are essential if parliament is to have a clear understanding of the nature of the remissions.

An illustration of the inadequacy of the present method of listing remissions is given in the following paragraph.

Mr. HENDERSON: Paragraph 93 in the 1952 report covers the subject of reporting of remissions, and the comments contained in this paragraph dealt with our concern as to the adequacy of the information appearing in the public accounts supporting remissions of duties and taxes, fees and penalties under section 22 of the Financial Administration Act.

Members of the committee may recall from an earlier discussion of this comment that I advised the committee that the department took steps effective with the public accounts for the fiscal year 1962-63 to provide more complete information with regard to each of the remissions made. Consequently, it can be regarded that this comment has been taken care of and therefore perhaps the members of the committee will not feel there is any point in discussing the matter again at this time.

I might add that Mr. Sim and his associates in the Department of National Revenue produced a greatly improved presentation in the public accounts last year, and you may have noticed this. We appreciate their co-operation on this point.

The CHAIRMAN: You have further reported this in paragraph 75 of the next year's report.

Mr. HENDERSON: Yes. I think we could pass that one also.

The next is paragraph 94 in the 1962 report.

94. *Remission of sales tax on oleomargarine.* At the time of the negotiations leading up to the entry of Newfoundland into confederation in 1949, the following undertaking was given to the Newfoundland delegation with respect to sales tax on oleomargarine:

"The Canadian government will be prepared to submit to parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada."

There has been no such legislation but the governor in council, on the recommendation of the treasury board, has followed the practice of remitting, under the authority provided by section 22 of the Financial Administration Act, the sales tax on all oleomargarine sold in the province of Newfoundland.

The remissions thus granted, when in excess of \$1,000 in a year for each manufacturer, are included in the public accounts' listing of remissions (Public Accounts, Volume II, section 37), referred to in the preceding paragraph, under the names of the manufacturers concerned, but there are no statements to indicate that the remissions are in respect of tax on sales of oleomargarine in Newfoundland. In other words, there is no indication that the discretionary authority provided the executive by the section referred to above has been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

This deals with remission of sales tax on oleomargarine.

This note in my 1962 report pointed out how remission was being made of the tax on sales of oleomargarine in Newfoundland, in other words there was no indication from the information provided in the public accounts that the discretionary authority provided the executive under section 22 of the Financial Administration Act was being used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

The subject matter here was discussed in the committee on June 11 of this year (see page 136 of the Evidence). Subsequent to this discussion, the committee when presenting its fourth report 1964 expressed its concern on learning that the undertaking given in 1949 (at the time of entry by Newfoundland into confederation) had not been carried out. In expressing itself on this subject under paragraph 23 of that report, the committee noted that instead of the undertaking having been carried out, the authority provided to the executive by section 22 of the Financial Administration Act had been used to render this tax, applicable elsewhere in Canada, completely inoperative in one province, and went on to say that it did not consider that section 22 of the Financial Administration Act should be used in this way.

As Mr. Sim is with us today, you may wish to take the opportunity to obtain his views on this procedure which is still continuing at the present time.

Mr. SIM: I will ask Mr. Labarge to lead off. If he needs any help I will be glad to come to his assistance.

Mr. LABARGE: In view of the fact that I interpreted this as being in respect of our department and a question of properly reporting a remission, so that

it could be clearly understood why it was made, I thought we had fulfilled our part in this. In respect of who should take the initiative for amending the Financial Administration Act, or the given authority, I was not expecting this would be a question raised of this department.

Mr. HENDERSON: Well, Mr. Chairman, I think the committee might wish to invite the representatives of the department to make some comment on their statement that they did not consider section 22 of the act should be used in this way. Admittedly this is something which is decided by the governor in council, perhaps, rather than by the department itself, but on the other hand, the department lives with this problem and, in fact, makes such recommendations to the governor in council. This was part of a general study we have been carrying out applicable to section 22.

Mr. SIM: We must not, of course, confuse the department with the governor in council. It seems to be a matter of policy for the government to decide whether it would be desirable to provide a statutory provision for this matter, or do it by order in council. There is no question about it, the tax must be remitted. We have a first class witness in Mr. Howell who had an active part in the confederation arrangements in Newfoundland. This is one of the terms of confederation of which Newfoundland made a very strong point. This just had to be done one way or the other. I do not think any question is raised in respect of the legality of doing it under the Financial Administration Act. Section 22 of the Financial Administration Act is very properly drawn in terms which gives the governor in council wide powers to do things. This is the policy which succeeding governments have followed; that is, doing it by order in council. I do not think it would be proper for me to comment on the appropriateness of the authority for taking this action.

The CHAIRMAN: Are there any questions on this item? As I understand it, Mr. Sim, your position is this is to be done and the only available instrument, whether it is the best instrument or not, is the utilization of section 22 of the Financial Administration Act, and from a departmental point of view you have no alternative.

Mr. SIM: It seemed to be such a small price to keep Newfoundland in confederation.

Mr. WHELAN: This means there is no tax on oleomargarine in Newfoundland?

Mr. SIM: Yes.

Mr. WHELAN: Oleomargarine is made in Canada and Canada is the only country which allows the importation of cheap fish oil from South America, mainly, to be used in the production of margarine. I know it is not allowed in the United States. In the United States the oil is refined after it is brought in. Of all the provinces which should want a tax on this cheap product which is coming in, Newfoundland should be the first, because it is a great fishing country. I understand this fish oil comes mainly from Peru, and one or two other coastal countries there. The people who produce it earn about \$40 a year in our money, which is strictly slave labour. This product is being brought in and used in the manufacture of margarine in Canada without any tariff on it, I understand.

Mr. SIM: Mr. Chairman, margarine is not produced entirely from fish oil.

Mr. WHELAN: No, but we use more of it in Canada.

Mr. SIM: I believe margarine is the alternative open for many low income families, especially those with many children. I think Mr. Howell who is responsible for this should say a word about it.

Mr. HOWELL: As a matter of interest, margarine was made in Newfoundland by two companies, each of which was known as a butter company. In my

home they used margarine for cooking and butter for table use. However, if you walked into a store in St. John's back in the 1930s and 1940s, you would have found margarine advertised as butter and a Canadian, New Zealand or Australian butter would be advertised as table butter. This is the whole distinction. As a matter of fact, the Newfoundland Butter Company had to change its name on April 31, 1949, for the very reason that it was not butter.

The point I would like to make is that oils for the manufacture of margarine in Newfoundland prior to confederation were imported and, of course, had to be entered through customs. There were various grades of margarine manufactured there and only in one of them, the cheapest grade known, was fish oil used; in all the others it was either peanut oil, soya bean oil, and so on. In only one was fish oil used. So, I doubt whether today very much fish oil is used in the manufacture of margarine in Newfoundland. Certainly if it was they would want to use their own after it had been properly refined.

In looking at the accounts here for 1962-63, I find that by far the most of the margarine in Newfoundland is produced by the Newfoundland Margarine Company of St. John's, which has about 85 per cent of the total consumption as against a balance of about 15 per cent from others such as Canada Packers, and so on.

Mr. WHELAN: In going through a brief presented by the soya bean growers, I see they state—and I am not speaking of Newfoundland particularly—that margarine manufacturers are using more imported fish oil than they ever did before.

Mr. REGAN: This may be a trend, because as I understand it, on the coast of Peru in recent years they have developed the art of catching these small fish which go by there in phenomenal quantities. The climate is such that no buildings are required and they have outside plants. Wages are extremely low. Without even leaving the shore it is possible to catch great quantities of these fish. As a consequence, the cost has gone down a great deal and I think more fish oil from the Peru area is being used in recent years for margarine. In addition, this has resulted in a serious situation in the fertilizer business and in the business of by-products of Canadian fishing.

The CHAIRMAN: I should point out, gentlemen, that this is an historical background to the introduction of the act of confederation in respect of this particular section, but it is not strictly speaking a subject for discussion by this committee.

Mr. DANFORTH: Mr. Chairman, I would be curious to know whether the figures are available which would give us some idea of the amount of money involved in this remission in any one year.

Mr. SIM: It is reported annually?

Mr. HOWELL: In the public accounts for 1962-63 it is \$388,820.

The CHAIRMAN: If there are no further questions, might we go on to the next paragraph?

Mr. HENDERSON: We will now turn to the 1963 report. The first paragraph there is paragraph 75 which deals with the reporting of remissions.

75. *Reporting of remissions.* In paragraph 93 of last year's report reference was made to the requirements of the Financial Administration Act with regard to the reporting of remissions. We expressed the opinion that section 22 of the act in calling for "a statement of each remission" contemplates the inclusion of a comment giving the particulars with respect to each remission—as was being done in the case of remissions to charitable, educational or other non-profit organizations.

As an illustration of the inadequacy of the method of listing remissions, reference was made last year in paragraph 94 to the sales tax on oleo-margarine which, by the use of the remission process, was being rendered inoperative in the province of Newfoundland without this being indicated in the listing of remissions included in the public accounts.

The Department of National Revenue took note of this observation in last year's report, and remissions granted in 1962-63 are being reported in greater detail than in previous years, with explanations enabling the reader to determine the manner in which the remission prerogative was exercised.

Mr. WINCH: Paragraph 75 is on the same subject as paragraph 92 in the 1962 report, and I have another question. Irrespective of the decision by the Department of Justice or of the Minister of Finance, even going back to Mr. Fielding, in respect of the legality of the interpretation of the regulations, there has been a review and a statement made by the Supreme Court of Ontario to the effect that the interpretation is ultra vires. Who makes the decision that your department shall carry on even though the courts have said it is ultra vires; how do you carry on without the introduction of an amending statute?

Mr. SIM: I can only answer that by saying great bodies move very slowly and legislation sometimes takes a long time.

Mr. WINCH: If you mean from 1929 to 1964, I will say it sure is a long time.

Mr. SIM: From 1923.

Mr. WINCH: I gather from you then that we may have a change by the turn of the century?

Mr. SIM: I am very hopeful that this royal commission some time before the end of the year will produce something.

Mr. WINCH: It would make the decision after it has been declared ultra vires by the courts?

Mr. SIM: This is a court decision but there are other decisions confirming the position of the department. We are involved in litigation all the time and we win cases which could be presented in answer to the statement you have made regarding one or two cases where the court felt there was some fault in the legislation. This would provide a field day for the lawyers in a matter where you and I might find ourselves out of our depths. I do not propose to get into this deep pool.

Mr. WINCH: When there are judgments or opinions by a court with which you do not agree, do you not as a rule appeal it to the supreme court; has this ever been referred to the Supreme Court of Canada?

Mr. SIM: I do not recall that this issue ever has gone as far as the Supreme Court of Canada. However, not only do we have respect for the courts, but we lean on them to help us carry on our work.

The CHAIRMAN: Can we put it this way, that there have been conflicting judgments of courts of equal jurisdiction, and that it has not been submitted to a court of authoritative decision by either, and certainly not to the Supreme Court of Canada.

Mr. SIM: Yes, and I do not take refuge by putting the blame on government. This is a matter in which the solution involves the difficulty of finding a proper answer to the question. I am very hopeful that continued study of this by members of this committee and members of the royal commission will produce some constructive suggestions for amendment of the statute which parliament would find acceptable. It would certainly be welcomed by the

administration which has to try to breathe life into this act, which has this cloud on it, not apparent at the initial stage. We have to pay respect to these judgments, and the suggestions made by the royal commission. I think this suggestion should not be sort of brushed under the table. I do not want to infer that there is not substance to the criticism. The difficulty is in finding a proper solution, and it is in that regard we look to people who might be competent to help us.

The CHAIRMAN: Gentlemen, we have two more paragraphs, paragraphs 76 and 77. We have some time yet. I hope we might be able to study these so that it would not be necessary to bring back Mr. Sim and his assistant deputy minister.

We might now turn to paragraph 76.

76. *Remission of customs duty surcharges.* With the object of increasing customs duties on various classes of imports by 5%, 10% or 15% ad valorem, the surcharge on imports order was established by order in council P.C. 1962-902 of June 24, 1962. This order withdrew, with respect to many tariff items, all rates of customs duties more favourable than those of the general tariff and at the same time, by relying on section 22 of the Financial Administration Act, it remitted all customs duties to the extent necessary to ensure that amounts of duty collected were not increased by more than 5%, 10% or 15% ad valorem as the case might be. Subsequently, as various tariff items were exempted from the surcharge, this was accomplished by further remissions of duties to the extent necessary.

In applying the terms of the order, the Department of National Revenue did not require customs officers to calculate the full duty payable and record the amount remitted in each case, nor did it require that the amount of the surcharge be calculated separately. From the practical point of view, the application of the surcharge was thus accomplished with a minimum of administrative cost. However, as no record was kept of the tariff changes provided for by section 1 of the surcharge on imports order, of the remissions provided for by section 2 of the order or of the surcharge as a separate amount on each entry, information is not available as to the total of the additional duties payable as a result of section 1 of the order, as to the amount of the duties remitted by section 2 or as to the exact amount of the surcharge collected.

Mr. HENDERSON: This deals with the remission of customs duty surcharges. The purpose of this paragraph in my 1963 report was to provide an explanation as to why the remissions made here were not reported as required by section 22 of the Financial Administration Act. Possibly members may recall that this was the subject of some discussion in the house on November 27, 1962 (see page 2055 of *Hansard*).

As you will have observed from the paragraphs, in applying the terms of the order the Department of National Revenue did not require its customs officers to calculate the full duty payable and record the amount remitted in each case, nor did it require that the amount of the surcharge be calculated separately. It might be helpful if I were to outline an example to illustrate what took place.

Let us suppose that a piece of equipment valued at \$10,000 was imported under tariff item 410a(1) and the rate of duty is 35 per cent under the general tariff but free under the British preferential and most favoured nation tariff. The regular import entry would show the duty to be 35 per cent, in other words \$3,500. If this equipment was in the class that was being surcharged 5 per cent, then there would be another document recording the remission of 30 per

cent or \$3,000. In actual practice, however, the entry shows that the item is free under tariff item 410a(1) and underneath is entered simply "tariff surcharge 5 per cent—\$500".

As a consequence of following this practice, the department does not have any record of the remissions granted or of the names of the importers receiving the remission. This approach seemed a reasonable one to take because the intention to levy a surcharge of 5 per cent, 10 per cent or 15 per cent was made clear and there seemed little point in calculating duties which there is no intention of collecting and then calculating the individual remissions to arrive at the net result.

As I explained, I noted this procedure in my report for the benefit of the members because there appeared to have been some misunderstanding at the time the practice was discovered on November the 27th, 1962.

Mr. SIM: Mr. Hind will say something about this.

Mr. HIND: Mr. Chairman and gentlemen, the observation in the Auditor General's report would seem to imply that there was an obligation on the Department of National Revenue during the life of the Surcharge Order to have import entries prepared in such a way that the additional duties assessed and the concurrent remission provided for in the Order could have been tabulated. While a difference of opinion may persist on this point, there has been considerable discussion as to whether or not this course of action was technically necessary. The Department took the view that the Order was one of a general character, requiring only a statement in the public accounts giving the nature of the remission and the authority therefor. Whatever differing view is taken, the Auditor General has been good enough to observe in his report that "from a practical point of view, the application of a surcharge was thus accomplished with a minimum of administrative cost". To have done otherwise, the cost to the department and the taxpayer would have been quite out of proportion to the usefulness of the information to which the report refers.

The period during which the Surcharge Order was in effect extended from June 25, 1962 to March 31, 1963, both dates inclusive. There have been very few requests for information as to the amount of surcharge collected, either during the currency of the Order or since, and it is not expected that there will be very many, if any, requests in the future.

The CHAIRMAN: Are there any questions on this? If not, could you go on, Mr. Henderson to paragraph 77, which reads:

77. *Remissions of sales tax in excess of compromise offers.* Included in the remissions reported in the public accounts for 1962-63 were two cases where exceptional circumstances were present.

One of these cases involved a licensee operating as a manufacturer of restaurant booths, tables, etc., as a jobber selling restaurant and hotel supplies and as a general contractor handling renovating jobs. In the ten year period from 1948 to 1958 audits on six occasions by five different excise tax auditors resulted in additional assessments totalling only \$2,593. On the last of these occasions, in July 1958, the licensee was informed that his records were inadequate and that proper cost records must be maintained. An audit of the transactions of the subsequent three year period resulted in an additional assessment of \$36,823, and the excise tax auditor again reported the records to be inadequate. The amount of the assessment was disputed and an alternative figure of \$8,108 was put forward by the licensee. An attempt was made to check this figure but, in the meantime, all the records had been destroyed by fire. The excise tax auditor nevertheless re-examined the assessment and revised it downward to \$18,088. The licensee offered

a compromise settlement of \$10,000 which was accepted and the governor in council remitted the balance of \$8,088 plus penalty of \$3,545. In the meantime a sales tax audit for the year ended April 30, 1962 resulted in a further assessment of \$7,330, with the auditor once more reporting that the records were inadequate. The licensee again disputed the assessment and offered \$4,500 in full settlement. Again, this offer was accepted, and the governor in council, in June 1963, remitted the balance of \$2,830 plus penalty of \$926. This remission will be reported in the public accounts for 1963-64.

In the second of the two cases referred to above, excise tax auditors examined the records of the licensee, a beverage manufacturer, on ten occasions during the period from 1941 to 1959 and additional assessments totalling only \$678 resulted. Two auditors alternated in the first nine of these examinations and a third auditor made the tenth. In 1962 a fourth auditor made an examination of the records for the period from April 1959 to April 1962 which resulted in an additional assessment of \$15,216 for this period. Because of this large additional assessment the records for the period from March 1955 to March 1959 were re-examined and a further assessment of \$23,089 for this period resulted (there was no re-examination of the records for the period August 1941 to February 1955). The licensee tendered a payment of \$15,000 as a compromise settlement of the \$38,305 total of these assessments and the governor in council remitted the balance of the tax of \$23,305 plus penalties of \$9,560. In the course of the investigation of the case the licensee took an affidavit to the effect that he had made payments to each of the first three excise tax auditors personally. Prior to the sales tax audit which resulted in the first of the large additional assessments, one of the auditors previously involved had resigned and another had retired. The third was suspended and subsequently dismissed. Charges were laid against the retired auditor but he died before the case could be heard.

Mr. HENDERSON: We now come to the last paragraph which is paragraph 77 entitled Remissions of sales tax in excess of compromise offers. There is little that I can add to the two cases dealt with under this paragraph.

In the first case, the sum of \$11,633 was reported in the public accounts as a remission on page 37.2 in 1962-63, while the balance of \$3,756 will be similarly reported in the public accounts for 1963-64. In the second case the remission of \$32,865 was reported at page 37.2 of the public accounts for 1962-63.

Possibly Mr. Sim might wish to say a word with regard to these.

Mr. SIM: Mr. Labarge will say a word or two on these.

Mr. LABARGE: Mr. Chairman, I think that the Auditor General has given the essential facts. I would like to start with the background of the difficulties. In this instance, this particular licensee is a renovator, remodeller of restaurants. He is licensed because he also has a small shop in which he does certain manufacturing for the purposes of putting his products into restaurants that he is going to remodel, redesign or rebuild. He has great difficulties in arriving at an accounting method which will keep track of the great variety of new material, old material, material manufactured by him, material bought and exempt, material bought and tax paid by him, and everything else he puts into his job. He has a great deal of difficulty in keeping the labour costs of an employee who shifts from one site back to the shop and from the shop back to the site. These difficulties are innumerable and so far practically insurmountable.

All these so-called compromise settlements are the result of the auditor going in and endeavouring to establish, by whatever reasonable means he can, in the absence of adequate records, what is the taxable value of this man's work. We do not interfere with the auditors. We treat them as professional, ethical people who go in and do their best according to their full experience and judgment. When they have finished an audit, they turn to the taxpayer and let him know what they propose in the way of assessment. At this point, if he has a further argument or debate as to the validity of the assessment or, if there are considerations that were not taken into account by the auditor, the taxpayer can appeal this right through the line, right to the director of audit. He can even do this in the office of the assistant deputy or the deputy minister.

There comes a point however when a definite figure must be set on which the department wishes to take its stand for collection purposes, and it passes this decision on to the collection office. As soon as the collection office endeavours to obtain this amount, the accounting arguments frequently go by the board. They turn into legal arguments as to what is the legal proof we have in case this man wishes to contest. Measurements are arrived at which are, in a sense, reasonable, for instance the amount of profit that a man makes compared to the amount which other people in the same business make. The question then arises as to what the department can collect from this person if the case were brought to court. At this point we do not always find that we have the kind of evidence we need. On the other hand, the case of the taxpayer is not much stronger, the purpose of the department is to collect revenue. In this case the department feels that it should do its utmost to collect what it thinks is a proper amount of tax under the circumstance. You arrive at a position of give and take, the arguments balance each other off, and finally, in many of these cases, the taxpayer says "All right". It may be that he is just trying to get us out of his hair, or maybe he feels we have arrived at what is a sensible figure. He agrees to the arguments raised and we agree to his, so that he offers an amount of tax.

Having established the tax figure approved the figures of the audit, we then find ourselves with a figure on the books which is higher than the compromise offer. We then seek that difference by way of remission by order in council because we believe in having the judgment of a third party, another independent group brought together for these circumstances. You might raise the question: why do you make the audit final at all? You might say "If you fellows were smart enough, you would not give yourselves these problems. Just keep the audit open and do not make it a final figure, and when you come to the end, adjust your audit". This is not what we want. We cannot have this kind of laxity amongst the professional people doing our accounting. We want them to state, to the best of their accounting ability and judgment, what they feel is the right amount, and from then on we discuss this in negotiation with the representatives of a firm's management and its lawyers to determine what is the maximum we can get. This case has been a particularly tiresome and cumbersome one for all of us. We have sent in an auditor on a much shorter audit period since this report was last made, and again on Monday, that is yesterday, I had another auditor sent there to provide me with information regarding the present situation. He said he is more than hopeful that the method they put in at our last session regarding these accounts would produce a situation where we will not have to continue going back for remissions.

The CHAIRMAN: Are there any questions on this? If not, I think we can call this a very good day's work, and on behalf of the committee we extend to Mr. Sim, Mr. Labarge, Mr. Howell and Mr. Hind our great appreciation of their presence. They have been very helpful to us. Their comments, in addition

to what has been said by Mr. Henderson, will be very useful when we come to make our recommendations on these matters. We are most appreciative that you have come here.

Mr. SIM: Thank you, Mr. Chairman. You have seen in evidence today the functioning of the Auditor General and the functioning of the department. Unfortunately, nobody criticized the Auditor General.

The CHAIRMAN: It happens from time to time.

Mr. SIM: It is a satisfaction to preside in a single fiscal year over a collection of two and a half billion dollars in this section of the Department of National Revenue and find so little in the way of real criticism. It is very gratifying indeed.

The CHAIRMAN: The committee is adjourned until 9.30 on Thursday.

APPENDIX "A"

WAR VETERANS' ALLOWANCE BOARD

OTTAWA 4, 29 Oct 64

Gerald W. Baldwin, Esq., M.P.,
Chairman, Public Accounts Committee,
Room 534C, Centre Block,
Parliament Buildings, Ottawa.

Dear Mr. Baldwin:

The purpose of this memorandum is to provide you with my comments on the observations made by the Auditor General in his report to the House of Commons for the fiscal year ended March 31, 1963 dealing with the War Veterans Allowance Act and Part XI of the Civilian War Pensions and Allowances Act.

The pertinent sections are 88 and 89, to be found on pages 56, 57 and 58.

The observations contained in the 1962 report are also covered in this memorandum.

1. *Mortgages Receivable and Agreements for Sale*

Section 88—Page 56

The practice of not considering mortgages as personal property or marketable securities has been in effect for many years. The great majority of mortgages receivable and agreements for sale are of modest sums; and, the decision to treat principal and interest payments received on account as income was designed to take care of the normal situation when the recipient has sold his residence for a low down payment with the balance payable over a period of some years. This practice was later expanded to take care of the sale of property in which the recipient has conducted a small business and had also resided.

Treating the proceeds of mortgages receivable and agreements for sale as income reduces the amount of the allowance payable to the recipient, generally, over a long period. If the recipient were forced to sell his security at a marked discount, he might be encouraged to reduce the remainder of his personal property to the required limit (quite legally); and would in all likelihood, in a year or two, come on at the full allowance.

Many widows have been forced to sell the family home on the death of the husband, receiving only a small down payment and small mortgage receivable payments. In most cases, the mortgage receivable payment is not sufficient for food, shelter and clothing. If it were not treated as income, the recipient would be forced to incur a substantial loss in selling and would eventually soon again become a recipient but at the full rate.

I think that the Regulations made pursuant to the Old Age Assistance Act, the Blind Persons Act and the Disabled Persons Act, whereby the amount received under a mortgage or agreement for sale may be considered as income, point up the correctness of the War Veterans Allowance Board's decision in respect of such incomings if it is remembered that an allowance under the War Veterans Allowance Act is akin to an allowance under those statutes since they are all subject to a means test and designed to provide a maintenance allowance to those needy persons who are otherwise eligible. It should be understood, of course, that mortgages and agreements for sale which have been bought as an investment are assessed as personal property.

2. Sale of Property used as a Residence

Section 88—Page 56

The twelve months freedom from assessment as personal property was made applicable to all, so that all persons selling their homes and relocating, would be treated uniformly. The immediate assessment of 5% of the cash sale price as income reduces the allowance, or it causes cancellation where sufficient other income is involved. In many cases the new home is not complete when purchased and further expenditures (possibly up to the total sale price) may be necessary.

Whether, after selling his residence, the recipient purchases a new residence early in the year or late in the year he is bound to have residual cash on hand and were it not for section 12 (2) of the regulations he would be off the allowance.

A year seems to meet the transition period of most cases and certainly those involving relocating outside Canada require the full year.

The granting of one year's grace has been in effect for a considerable time. Previous instructions required the recipient to state his intention in writing as to whether he was going to purchase a new home in which event he was given a year in which to complete the transaction. This method, however, fostered certain abuses and was changed, the statement of intention to repurchase being dropped. Paragraph 6 of W.V.A.B. Administrative Memorandum No. 3-1962 sums up the reason:

The reason for granting the year's grace 'regardless of whether he expressed his intention' to repurchase, was to make for equitable treatment of all recipients who plan to relocate, as it was found by experience that under the old Instructions, some recipients stated they meant to repurchase but never did so, while others did not state an intention but actually did repurchase and were placed at a disadvantage in comparison with the recipient who did not carry out his expressed intention.

In legislating for uniformity, it was considered that a year was a reasonable time in which a recipient could sell his residence, purchase a new residence and carry out repairs and improvements. In the case where a recipient might complete his transaction in a short period he still cannot expend any surplus from his original sale during that year except those permissible expenses, such as relocation expenses and repairs, additions to property, etc.

3. Penalties Under the Act

Section 88—Page 56

In the past a good number of cases have been prosecuted under the Criminal Code on the advice of the Department of Justice, rather than under section 20 of the War Veterans Allowance Act.

Experience with these prosecutions has indicated that the courts are inclined to be lenient, first, because the wrong-doer is a veteran; second, because of the age group of WVA recipients; and third, because of the general condition of the recipient's health. Other considerations which have been put forward as a defence in cases which have been prosecuted are the lack of formal education of recipients and the language difficulty of those of foreign extraction. Although convictions were handed down, sentences were usually suspended and thus legal action did not constitute a deterrent. If anything, it was the opinion that publicity of the Court's leniency in suspending sentence could have just the opposite effect. Furthermore, the Courts frown on any attempt to use criminal proceedings as a means of forcing payment of a civil debt.

4. *Income of Children*

Section 88—Pages 56 and 57

Sometime ago proposed amendments to the War Veterans Allowance Regulations were submitted to the Legislative Section of the Department of Justice. The amendments sought to exempt as income certain items, among them scholarships, bursaries and like awards payable to a child of a recipient as well as superannuation payments made under the Public Service Superannuation Act or superannuation or pension plans of a similar kind to a recipient on behalf of a child or children of that recipient.

After examination of the Act and discussion of the proposed amendments, the Director of Legal Services of the Department of Veterans Affairs following consultation with officials of the Department of Justice communicated the following to the War Veterans Allowance Board:

“While the Act in at least two of its sections (section 6(f) and (g) and section 12) seems to imply that the total annual income of a veteran or widow and the child or children with whom the veteran or widow resides must be considered in determining the amount of the allowance to be paid, section 3(2) of the Act very clearly provides that the allowance payable shall be the lesser of the monthly rate specified for a veteran, widow or orphan in column II of Schedule A or the monthly rate that will produce the total annual income (including allowance) specified for the veteran, widow or orphan in column III of the same schedule. Examination of Schedule A further discloses that while the maximum total annual income (including allowance) is fixed at \$2,088 for a veteran and spouse where the veteran and spouse reside together the same annual income is permitted to any of the persons described in class 3(a), (b), (c) and (d).

The legal effect of section 3 of the Act, when read in conjunction with Schedule A, is that the income only of each of the persons named in class 3 of column I of the schedule must be considered, disregarding the income of such person's child or children.

It should be noted also that there is a distinction between an amount of money paid to a recipient because that recipient has a child (mother's allowance) and an amount of money paid to a recipient on behalf of a child. The money paid in the circumstance first recited is that of the recipient while in the next recited circumstance, the money is that of the child.”

On another occasion, in answer to a request for further clarification of the distinction made between money paid to a recipient because he has a child and money paid to a recipient on behalf of a child, the Director of Legal Services wrote as follows:

“As one example I propose to use Mothers' Allowances. Moneys paid under this type of legislation are paid to the mother simply because she has a child or children to support where the mother's resources or income are inadequate to meet her responsibilities to her children. The allowance is paid to assist the mother to support her children. In the Ontario Act the beneficiary is defined as the person receiving the allowance. Furthermore, under the Ontario Act an allowance may be paid to a foster mother meeting the conditions of the Act who has resident with her one or more orphan children. Such allowances are properly the income of the beneficiary. Family Allowances and Children's Allowances paid under the Pension Act are of the same type.

The other example,—moneys paid to a recipient on behalf of a child might be illustrated by Indian Band Funds, concerning which you already have a ruling from the Department of Justice. Indian Band Funds are distributed on a per capita basis, and while paid to the head of the household for minor children, the funds are, according to the legal ruling, the income or money of the child and not that of the parent who receives it. The same reasoning would apply to annuities or allowances paid under the Public Service Superannuation Act. A widow and children receive specified proportions of the annuity or allowance, but if the children are minors the moneys are paid to the widow on behalf of the children and the Act deems the widow in such case to be the guardian of the estates of the children.

Scholarships or bursaries are the property of the child on whose behalf they are made or donated. A specified child only may make use of the bursary or scholarship. Again, moneys paid to a parent as guardian or trustee of a child are subject to very strict trust limitations not inherent in Mothers' Allowances, etc. The money belongs to the child and may be expended on behalf of that child alone. There is also the duty to account to the child in cases of guardian and trustee relationships. This duty is not found where the money is simply paid to assist a recipient to support, maintain, or care for a child or children."

The distinction between money paid because of a child and money paid on behalf or for a child has been the subject of lengthy discussion by the Board which sought legal advice in order to clarify the matter of income of children in relation to the War Veterans Allowance Act. Since subsection 2 of section 3 of the Act refers to the rates which shall be paid to only a veteran, a widow or an orphan, I believe that income paid to, or for dependent children, as a means of relieving wholly or partly the burden of their maintenance, is intended to be exempt income insofar as the recipient of War Veterans Allowance is concerned.

A veteran residing with spouse is paid a monthly rate of \$144.00. Whether he has no children or has a large number of them has no effect on the rate payable. However, should a municipality or a province decide to pay a monthly supplement which could augment the veteran's income to the income ceiling permitted by the statute administered by that province or municipality and predicated on the size of the family, then that supplement could be exempted as income to the veteran if the paying body states that it is for the children. And, it is not the concern of the War Veterans Allowance Board from what source the money emanates since the Board is governed by the statement from the province or the municipality that such money is, in effect, for the children. One example is the case of a veteran residing with spouse and seven dependent children who would be eligible for social assistance at the rate of \$255.00 a month. He is awarded War Veterans Allowance at \$144.00 a month and applies to the province for additional assistance because of the children. Should the province decide to grant assistance in a monthly amount representing the difference between \$255.00 and \$144.00 and states that it is for the children, the Board will disregard that amount by virtue of section 6 (1)(f) of the War Veterans Allowance Act. Similarly, when the Workmen's Compensation Board pays compensation to a veteran because of a loss of earning power and informs the Board that a certain portion is for one or more dependent children, only that portion payable for the veteran and his spouse is assessable. It must be remembered that the provinces and municipalities are administering welfare statutes which are much wider in scope since they are predicated on the numbers in a family unit, whereas the Board must be governed by its legislation

which restricts War Veterans Allowance payments to veterans, widows and orphans notwithstanding the number of children in the family unit.

5. *Partial Exemption of Old Age Security Pension as Income*

Section 88—Pages 57 and 58

The comments of the Auditor General on the exemptions to Old Age Security Pension in relation to recipients of War Veterans Allowance and Civilian War Allowances refer to a decision by the Government.

6. *Civilian War Pensions and Allowances*

Section 89—Page 58

When Civilian War Allowances were put into the legislation, the Department of National Health and Welfare did not have an opportunity to amend the legislation of the three benefit Acts of that Department to conform with the manner in which WVA recipients are statute barred in those acts referred to by the Auditor General.

As a temporary measure until legislative action may be taken by the Department of National Health and Welfare, it has been the policy of the War Veterans Allowance Board to assess any partial allowance of Old Age Assistance, Blind Persons Pension and Disabled Persons Pension paid to a recipient of Civilian War Allowances and thereby equate his position with that of a recipient of War Veterans Allowance in accordance with sections 69 and 70 (2) of Part XI of the Civilian War Pensions and Allowances Act.

Yours sincerely,

W. T. Cromb,
Chairman.

APPENDIX "B"

DEPARTMENT OF VETERANS AFFAIRS
LEGAL SERVICES

OTTAWA 4, Ontario, November 2, 1964.

W. T. Cromb, Esq.,
Chairman,
War Veterans Allowance Board.

Re: *Criminal Prosecutions—
Recipients of war veterans allowance—
for fraud or wilful misrepresentation.*

In compliance with your request I have reviewed the files of the Legal Section of this Department with respect to the above-named subject. During the past several years only two criminal prosecutions have been instituted, in one case under the penal section of the War Veterans Allowance Act and in the other under the fraud provisions of the Criminal Code. In the first-mentioned instance the accused was convicted and sentenced to thirty days on each of two counts, while in the second case the accused received suspended sentence.

The Legal Section has submitted for instructions as to criminal prosecution two or three cases of fraud, but the final decision was against prosecution. That decision possibly stems from the fact that for a time the Department of Veterans Affairs did persistently and consistently take criminal proceedings against veterans with respect to offences under the War Veterans Allowance Act and the War Service Grants Act. It was found, however, that the Courts across Canada were disposed to be lenient with veterans, particularly so in the case of fraud charges against recipients of war veterans allowance who almost invariably were aged, had served their country well in time of war, and were often suffering from disabilities due to the ageing processes. It was quite usual for the Court even though the offence charged carried a maximum penalty of several years in gaol, to grant suspended sentence in these instances. While the matter of sentence is one over which this Department has no jurisdiction and is one which is entirely in the discretion of the convicting judicial authority, a succession of suspended sentences is not deterrent to a repetition of fraud and wilful misrepresentation in connection with the receipt of war veterans allowances.

In view of the foregoing, the Legal Section of this Department has concentrated its efforts of late toward recovery in each case of the moneys due the Crown.

T. T. Taylor,
Director of Legal Services.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

Public Accounts, Volumes I, II and III (1963)
Report of the Auditor General to the House of Commons
1963

THURSDAY, NOVEMBER 5, 1964

WITNESSES:

Mr. N. Castonguay, Representation Commissioner; and Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
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Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, November 5, 1964.

(39)

The Standing Committee on Public Accounts met this day at 9.45 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Forbes, Frenette, Harkness, Leblanc, McMillan, Pilon, Regan, Rock, Southam, Stefanson, Stenson, Tardif, Tucker, Wahn and Winch. (20)

In attendance: Mr. Nelson Castonguay, Representation Commissioner; Mr. M. Fauvelle, Chief Examiner of Election Accounts; Mr. A. M. Henderson, Auditor General of Canada and Mr. S. E. Chapman, of the Auditor General's office.

The Committee resumed consideration of the 1963 Report of the Auditor General.

The Chairman introduced Mr. Castonguay and then called Mr. Henderson.

On paragraph 49 of the 1963 Report, *General election expenditures*, Mr. Henderson reviewed this paragraph and was briefly examined thereon.

Mr. Castonguay was examined on the financial aspects of the administration of the two general elections noted in the audit and supplied additional information to the committee.

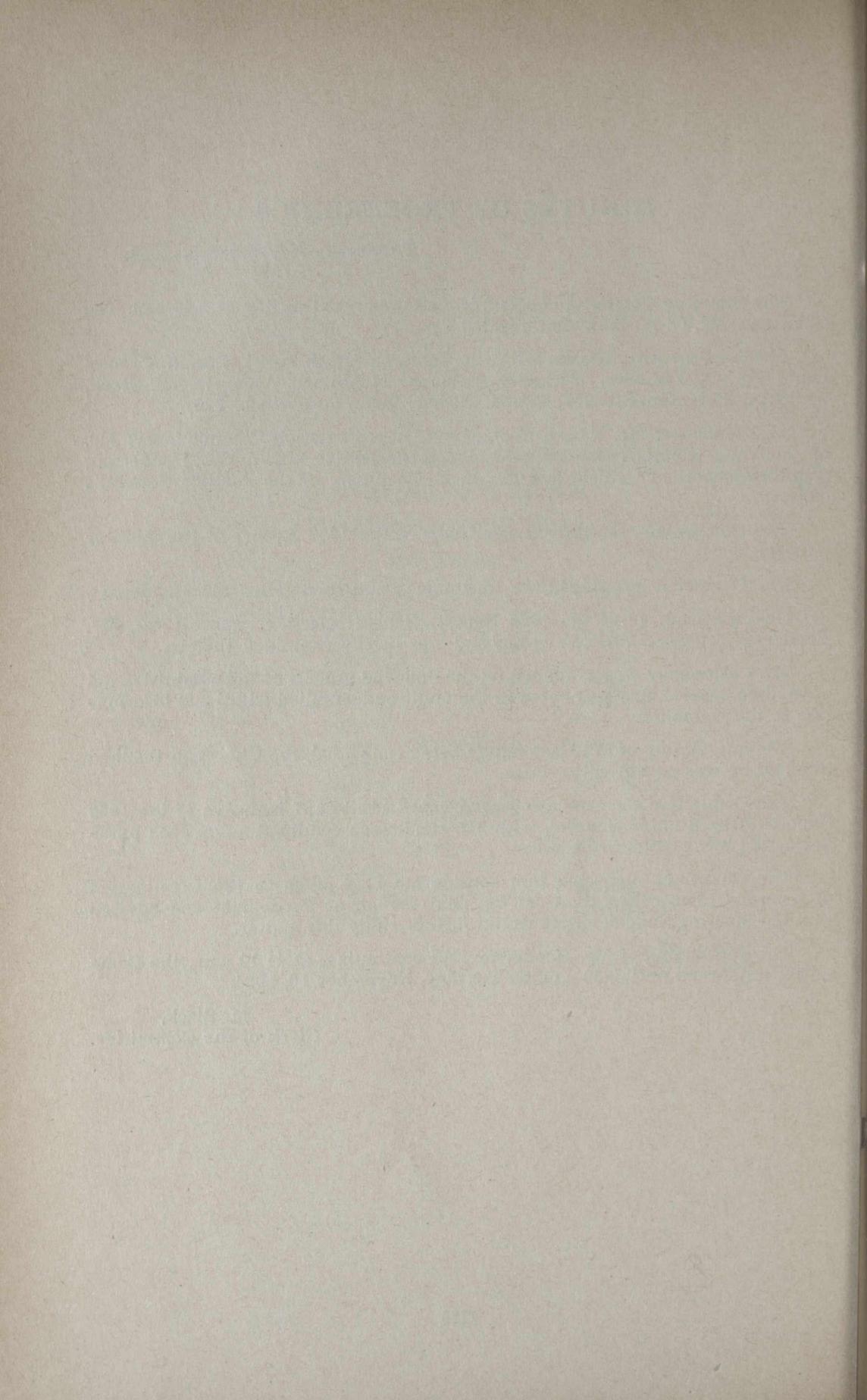
The questioning of Mr. Castonguay being concluded, the Chairman thanked him and he was permitted to retire.

The Committee then reviewed paragraphs 111 to 127 inclusive of the 1963 Report of the Auditor General, with Mr. Henderson commenting on each paragraph and being examined thereon.

The Chairman suggested that consideration be given to the examination of several Crown corporations at the next session of Parliament and advised that the Steering Subcommittee would further study this matter.

The questioning of Mr. Henderson still continuing, at 11.10 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, November 10, 1964.

M. Slack,
Clerk of the Committee.



EVIDENCE

THURSDAY, November 5, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I will call the meeting to order. Today we are going to deal with matters arising in paragraph 49 of the 1963 report. We are delighted to have with us Mr. Nelson Castonguay who, while he has not as yet appeared before this committee, at least since I have been here, has been before the privileges and elections committee on many occasions. Of course, as members, we see his name on a lot of documents. He is, as you all know, the representation commissioner under the statute which was passed and his duties will ultimately be settled by the terms of another statute now struggling to be born. For many years he was the Chief Electoral Officer, and the report which we are going to consider will refer to the duties which he carried out in that capacity. We are very pleased to have Mr. Castonguay with us in case members want to ask questions about this particular paragraph.

I think, gentlemen, I will follow the usual practice of asking Mr. Henderson to deal with this paragraph, to make his comments on it, and then the members will be free to ask any questions of Mr. Henderson or Mr. Castonguay on this particular paragraph, which follows:

49. *General election expenditures.* The 1962-63 accounts include expenditures of \$10,325,533 in respect of the general election held on June 18, 1962 and expenditures of \$1,137,813 towards the cost of the general election held on April 8, 1963. Up to the end of August 1963, expenditures on the two elections amounted to \$10,556,889 and \$12,225,517 respectively, with an estimated \$100,000 of accounts remaining to be approved for payment in connection with the 1963 election. The increase in the cost of the second election was due largely to upward revisions in the tariffs of fees authorized by the governor in council by orders in council P.C. 1963-188, P.C. 1963-189 and P.C. 1963-190 of February 6, 1963. The allowances payable to returning officers were increased by approximately 25%, with the minimum allowance for personal services remaining at \$1,500. There were similar increases in the allowances provided for other election officers, including deputy returning officers, poll clerks, enumerators and election clerks. Allowances for other services, travelling expenses, and printing were also increased, and the allowance for the rental of each ordinary polling station established in a building was increased from \$20 to \$24.

The following financial aspects of the administration of the two general elections were noted in the audit:

1. Advance Polls.—Under the provisions of the former Canada Elections Act, R.S. 1952, c. 23, the privilege of voting at an advance poll was restricted to persons whose occupations necessitated absence from their ordinary places of residence on polling day. It was also provided that if a total of less than 15 votes were cast at an advance poll, the Chief Electoral Officer should delete the name of that place from the authorized schedule of advance polls.

The Canada Elections Act, 1960, c. 39, extended the privilege of voting at an advance poll to any elector who has reason to believe that he will be absent from his polling division and unable to vote on the ordinary polling day, with a consequent increase in the number

of advance polls, but the provision regarding the disestablishment of an advance poll where less than 15 votes were cast was not incorporated in the 1960 act.

Less than 15 votes were cast at each of 586 of the 1,862 advance polls established for the 1962 election and no votes were cast at 35 of these polls. The cost of the 586 polls was estimated at \$76,000. There were 1,791 advance polls for voters in the 1963 election, of which 578 reported less than 15 votes each. No votes were cast at 26 of the advance polls, one vote was cast at each of 44 polls and two votes were cast at each of 34 polls.

2. Revision of Boundaries of Polling Divisions.—Section 11(1) of the Canada Elections Act provides that the polling divisions shall be those established for the last general election, unless the returning officer considers that a revision of the boundaries thereof is necessary. General revisions of boundaries were ordered by the Chief Electoral Officer in January 1961, in January 1962 and in July 1962, the cost in each case approximating \$150,000. Instances were noted where the descriptions of boundaries, after revision, were identical with the descriptions of the polling divisions given in the notice of grant of poll at the previous general election. It was explained that the main purpose in ordering the general revisions was to keep the election machinery in a state of preparedness.
3. Advances made to Election Officers.—It has been the practice over the years to make accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. In June 1958, when authority could not be found for the making of such advances, we suggested to the Chief Electoral Officer and to the comptroller of the treasury that, until such time as the Canada Elections Act might be amended, the claims should be paid by separate cheques issued from the office of the comptroller of the treasury at Ottawa, and sent direct to each person entitled to payment, as stipulated in paragraph (b) of subsection (3) of section 60 of the act.

The provisions of section 60 were re-enacted, without material change, in the Canada Elections Act, 1960, c. 39, and in April 1962 we again drew attention to the lack of authority for advances to election officers. During the ensuing 1962 election, some \$400,000 was advanced to election officers, the advances to individuals ranging from \$200 to \$10,000. It was noted that 32 of the 263 returning officers did not request or receive advances.

The Chief Electoral Officer, in his report to the Speaker of the House of Commons on the 1962 general election, recommended that the Canada Elections Act be amended to provide authority for the payment of an accountable advance to an election officer, limited to an amount deemed necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

Although the proposed amendment was not enacted, \$373,000 was advanced to returning officers for the payment of expenses in connection with the 1963 general election.

4. Rental of Furniture for Ordinary Polling Stations.—The elections fees tariff provides an allowance (\$20 in 1962; \$24 in 1963) for the rental of each ordinary polling station established in a building or part of a building, including fuel, light and furniture, and when a number of polling stations are centralized in a hall or municipal

building the allowance is paid for each polling station established therein. In the audit of the 1962 election accounts, additional expenditures were noted for the cartage and rental of furniture without a corresponding reduction in the amounts paid to the landlords.

When a new tariff of fees was authorized in February 1963 the item which provides for the necessary rental or purchase of screens or any material used for voting compartments in polling stations was extended to include the rental of furniture.

5. Printing of Ballot Papers.—As in the 1957 and 1958 general elections, the number of ballot papers printed in some electoral districts in 1962 and 1963 far exceeded the number of electors. An excess of more than 40% was noted in 20 districts in 1962 and in 28 districts in 1963. In one constituency with 18,000 electors, 26,400 ballot papers were printed in 1962 and 30,000 in 1963.
6. Travelling Allowances paid to Election Clerks.—There is provision in the tariff of fees for the payment of mileage to an election clerk when he is required to travel in connection with the conduct of an election. When it was observed in the audit of the 1962 election accounts that payments had been made to election clerks for travelling between their places of residence and the offices where they worked, attention was drawn to the general election instructions of returning officers which state that an election clerk must be an ordinary resident of the locality where the returning officer will open his office for the conduct of the election. Payments of this nature were discontinued, but no action was taken to recover the amounts already paid.
7. Employment of Constables.—The authority for the appointment of a constable at a polling station is section 48 (10) of the Canada Elections Act, which provides that:

“Any deputy returning officer may appoint a constable to maintain order in his polling station throughout polling day; this authority, however, shall not be exercised unless the services of such constable are deemed absolutely necessary; a constable may be appointed only when there is actual or threatened disorder, or when it is likely that a large number of electors will seek to vote at the same time; generally the appointment of one constable shall be made where more than one polling station is established in the same building or in adjoining buildings for a given polling division, to ensure the successive and prompt entrance of the electors into their proper polling station.”

Just prior to the 1962 election, the Chief Electoral Officer circularized the returning officers in 52 electoral districts regarding the employment of an excessive number of constables on election days in 1957 and 1958 (referred to in paragraph 101 of our 1958 report). As a result there were 2,183 fewer constables employed in 1962 than in 1958, although the number of polling stations had increased by 2,823. The reduction in the number of constables employed would have been greater had there not been included in the tariff of fees an additional item providing an allowance of \$6 for the services of a constable at an advance polling station. In some districts constables were employed at advance polling stations where few, if any, electors voted (in one district where only four electors voted in advance of polling day, constables were employed at each of the five advance polling stations). Constables were also employed at some revisal offices, and payments (at \$15 per day in 1962 and \$17 per day in 1963) were made to a number of women who acted as special constables in places where more than one polling station was located.

In a number of cases noted in the audit of the 1963 election accounts, a constable had been appointed at each polling station where two or more polling stations were established at the same location.

In two cases duplicate payments were made when two deputy returning officers each certified that the same person had acted as constable at his polling station.

8. Duplicate Charges.—For all personal services, a returning officer receives allowances based on (a) the number of names included in the preliminary lists of electors in urban areas, (b) the number of polling stations in rural areas, and (c) the number of advance polling stations established in the electoral district. Payments made to individual returning officers for personal services during the 1963 election ranged in amount from the prescribed minimum of \$1,500 to \$8,600. Cases were noted in the audit of the election accounts where payments at the rate of \$12 per day had been made to other persons, classed as election clerks and messengers, for selecting enumerators, deputy returning officers and polling stations. Normally these duties are considered to be part of the function of the returning officer.
9. Allowances paid to Special Election Officers.—The Canadian forces general elections fees tariff which was in force during the 1962 general election provided for payment of allowances to special returning officers and chief assistants, deputy special returning officers and scrutineers “for each day or part thereof necessary absence from place of residence”, and for payment of travelling and living expenses. In the audit of the accounts, cases were noted where the whole amount of the daily allowance had been paid for any portion of a day spent in travel (in some cases from 11 p.m. to midnight). The Chief Electoral Officer decided that, thenceforth, an officer who had departed from his home after six p.m. to take up his duties would not qualify for an allowance for that day, and that the availability of convenient transportation facilities to enable an officer to arrive at his place of duty on time would be taken into account. A number of accounts which had been approved for payment were recalled and reduced, and in other cases recovery was made from fees which became payable in respect of the 1963 election. The reference to part of a day was dropped when a new tariff of fees was approved in February 1963.

One special returning officer in 1962 was paid the prescribed allowance of \$30 per day for two days on which he had left his place of residence for Ottawa at 11.15 p.m. and for two days when he was at home. When the overpayment was collected from a subsequent account the officer claimed four days pay at \$30 per day for personal services after the closing of the election office. Payment was approved under Item 9 of the tariff of fees which states that, in any case where the allowances provided by the tariff of fees do not by reason of special circumstances constitute adequate remuneration, the Chief Electoral Officer may authorize the payment of such increased allowance as is deemed necessary to provide sufficient remuneration. It is our opinion that, in the case in question, the claim, when approved, should have been submitted to the governor in council for authorization under subsection (6) of section 60 of the Canada Elections Act which reads:

“Whenever it appears to the governor in council that the fees and allowances provided by the tariff are not sufficient

remuneration for the services required to be performed at any election, or that any claim for any necessary service performed, or for materials supplied for or at an election, is not covered by such tariff, he may authorize the payment of such sum or or additional sum for such services or materials supplied as is considered just and reasonable."

The Chief Electoral Officer, in his report to the Speaker of the House of Commons on the 1963 general election, suggested that section 60 of the Canada Elections Act be amended by adding thereto, immediately after the subsection quoted above, the following as subsection (6a):

"The Chief Electoral Officer may, in accordance with regulations made by the governor in council, in any case in which the fees and allowances provided for by the tariff are not sufficient remuneration for the services required to be performed at any election, or for any necessary service performed, authorize the payment of such sum or additional sum for such services as is considered just and reasonable."

The proposed amendment, if enacted, would provide statutory authority for payments of the kind heretofore made under Item 9 of the tariff of fees, the authority for which item has been in doubt.

Mr. HENDERSON (*Auditor General*): Mr. Chairman, this comment in my 1963 report deals with the expenditures made for the 1962 general election which cost \$10,567,000, and the 1963 election the cost of which stands today at \$12,466,000. As I have indicated, the increased cost of the 1963 election was due largely to the upward revisions in the tariffs of fees authorized by the governor in council whereby the allowances payable to returning officers were increased by approximately 25 per cent, with the minimum allowance for personal services remaining at \$1,500. There were similar increases in the allowances provided for other election officers, including deputy returning officers, poll clerks, enumerators and election clerks. It has been customary for us in the audit office to carry out a fairly detailed audit of general election expenditures, and the note here will give you some idea of the scope of that audit. In reviewing the cost of these two general elections I felt there were a number of financial aspects of the administration to which I should draw your attention. These have been summarized in the nine items beginning at page 21 and ending at page 24. I do not believe I have anything further to add, Mr. Chairman. We have our working papers here and we will be happy to answer any questions members may want to direct to me or to Mr. Chapman.

The CHAIRMAN: Thank you, Mr. Henderson. I spoke to Mr. Castonguay concerning his feelings on making a statement regarding any particular aspect of this. I understand that in his view the matters referred to under these nine headings are self-explanatory. He is prepared, of course, to answer any questions which may be asked by members of the committee.

Mr. FORBES: Mr. Chairman, under this first item you refer to allowances payable to returning officers being increased by approximately 25 per cent, with the minimum allowance for personal services remaining at \$1,500. Does this mean that any returning officer in any electoral district, regardless of the number of constituents, receives a minimum of \$1,500?

Mr. CASTONGUAY: That is correct. That is what it means.

Mr. FORBES: What would the average returning officer receive for his total services?

Mr. CASTONGUAY: Well, for our purposes, we consider the period of the election at about three months, and the average returning officer would receive between \$125 to \$150 a week for that period of time. That is the only fee he receives during the period of the election.

Mr. FORBES: But, according to my calculations, that does not add up. If you take \$125 a week it would amount to about \$600 a month or \$2,400 a year.

Mr. CASTONGUAY: The figure is \$1,800. Some constituencies are below that. The responsibility of a returning officer, whether he has a constituency of 30,000 or 60,000, reaches a point where he has the same responsibility, and we pay the returning officer on the basis of so much per name or so much per polling station. We have considered there should be a minimum for small rural constituencies because the returning officers have the same responsibility and, in some cases, greater problems in administering the electoral districts.

Mr. WINCH: I have a question, Mr. Chairman.

The CHAIRMAN: I believe Mr. Leblanc is next. Mr. Leblanc, are you on the same matter?

Mr. LEBLANC: I would like to put a question in respect of paragraph 49 and what we have been discussing.

The CHAIRMAN: Would you proceed.

Mr. LEBLANC: Mr. Henderson mentioned, in respect of the total of the expenses for the 1963 elections, a figure of \$12,466,000. Does that figure also include the salaries paid to the department or does that include only the returning officer and everything else with regard to the election?

Mr. CASTONGUAY: It has regard only to election expenses.

Mr. LEBLANC: So, your department as a department is not included in that?

Mr. CASTONGUAY: No, because all election expenses are paid out of the consolidated revenue fund, and in respect of my own office the estimates are voted by the house.

Mr. LEBLANC: So, they would not be included in that?

Mr. CASTONGUAY: No. As I said, only the election expenses would be included.

The CHAIRMAN: Would you proceed now, Mr. Winch.

Mr. WINCH: I wanted to ask, Mr. Chairman, if any payment is made to returning officers in between elections?

Mr. CASTONGUAY: What is done in between elections is that there is a provision in the tariff of fees for the revision of polling division arrangements and for storage of election supplies. These general revisions are ordered by me. I recently ordered one. The returning officers are paid on a tariff basis of \$1.25 for each polling division in respect of fees for revising their polling division arrangements, and they are paid \$1.25 for the storage of election supplies that are needed to launch the election. These supplies are the enumeration supplies.

In order to hold an election in the minimum period of 58 days two things have to be accomplished. There must be a revision of polling division arrangements, and while I have had all the supplies in Ottawa since the beginning of 1964 these enumeration supplies must be in the hands of the returning officers so that if an election is called and it is desirable to have it in the minimum period of 58 days from the day of dissolutionment to voting day these two things can be done. Now, the practice has been that I have delayed at previous elections. I delayed ordering supplies after the 1963 election because the committee on privileges and elections was charged with the study and review of the Canada Elections Act. This normally in-

volves a great deal of reprinting, so after the 1963 election I had no supplies. We normally order only a sufficient supply for one general election and subsequent by-elections. So, in 1963 I ordered the general election supplies. And then, in 1964, in view of the fact that the electoral boundaries readjustment act was before the house and the study of the Canada Elections Act by the committee on privileges and elections had not been completed I did not send the supplies to the constituencies. I just commenced this last week as well as ordering the revision of polling divisions.

Mr. WINCH: It is my understanding that other than the payment for the straight election period it is only paid once, and that is in respect of a certain amount for storage and a certain amount for revision.

Mr. CASTONGUAY: Yes.

Mr. WINCH: Based on the number of polls?

Mr. CASTONGUAY: Yes.

Mr. WINCH: In respect of my own riding then he would be paid approximately \$300 in between elections? Am I correct in this assumption?

Mr. CASTONGUAY: Yes, but it depends on the number of polling divisions there are.

Mr. WINCH: I have 137.

Mr. CASTONGUAY: Then that would be about it.

Mr. TARDIF: How long does the process of rearranging your polls in Canada take? I am trying to find out the date of the next election.

Mr. CASTONGUAY: I do not think you can find it out from there.

Mr. TARDIF: Is there any other method which you might suggest?

The CHAIRMAN: I have Dr. McMillan next, followed by Mr. Crouse.

Mr. McMILLAN: What are your feelings in respect of advance polls? I presume you can do nothing about closing down some of them without an amendment to the Canada Elections Act.

Mr. CASTONGUAY: You must remember that the whole concept of advance polls was changed unanimously in 1960. Prior to that only commercial travellers, transportation employees, members of the reserve forces, the Canadian forces and members of the R.C.M.P. were entitled to vote at these, and advance polls were established where these people normally would be. So, prior to 1960 there were not any more than 250 advance polls throughout the country. In 1960 this right or privilege of voting at advance polls was extended to anyone and, consequently, we have to provide the facilities. I informed the committee on privileges and elections at that time it would require a considerably greater number. My estimate then was around 2,000 advance polls in Canada instead of 250.

In 1960 we had approximately 1,800 advance polling stations in the country, 80 per cent of which were mandatory. In the whole of the electoral districts, so I am informed, there must be established one advance poll for each district. The returning officer is also obliged to establish an advance poll in every city, town or village of 1,000, in rural areas. This means that 80 per cent, or 1,500 to 1,800 of the advance polls are mandatory. The other 300 are not. In some electoral districts this formula does not apply, naturally, for example, as in the electoral districts for various sparsely settled areas. But the experience of the last two general elections has shown that in rural areas alone these facilities are essential. It was felt essential to provide relatively equal facilities for rural as well as for urban areas. And it would appear from the results of the advance polling that rural people are more interested in voting on general election day rather than at advance polls.

Mr. CROUSE: Could you tell us what would be the average cost per constituency in Canada for advance polls?

Mr. CASTONGUAY: The cost will differ. It is more expensive to run an election in a wholly urban area. I think in the last election the cost was in the neighbourhood of, roughly, \$1.24 per elector.

Mr. CROUSE: How much greater do you think it would be?

Mr. CASTONGUAY: For instance, you have two enumerators in each urban polling division, where you only have one in the rural. One way to estimate the cost would be to take the basis of 10 million electors, with the cost of \$12,400,000, which comes to about \$1.24 per elector. If you project that into the number of electors, this would represent the cost. But there are other costs to be considered, such as the taking of votes of members of the Canadian forces, which must be shared equally; and there are other costs which must be divided among the 263 constituencies. I think if you take \$1.24 per elector, you will get a fairly reasonable cost per constituent.

The CHAIRMAN: Are there any further questions? We have covered the general item.

Mr. ROCK: Is there any actual check made on whether the returning officer, when given these orders to revise the polls, has actually done the job? I ask this because I notice during election time when the returning officer has not done his job, we always have A, B, and C areas which have been extended.

Mr. CASTONGUAY: If you will notice my printed instructions contained in my general election book for returning officers, you will see that returning officers are instructed to consult with political organizations in their electoral districts to see if they have any general recommendations to make in order to improve the polling arrangements. When I order a revision, this is generally known by everybody and it seems to me that there is some criticism made because some polling division arrangements do not change at all. That does not mean to say that the returning officer has not been put to some work; he has had to study his polling division arrangements to see what changes have been made. I think if you judge the work a returning officer has done on polling division arrangements on the basis of whether there is any change in each and any of the polling set-ups, I think it would not be a fair assessment of his work.

Mr. WINCH: I have a point that has a bearing on costs.

May I ask Mr. Castonguay if there is any permissive power in the returning officer's operations?

I can give the best example from my own constituency. In my constituency I have an old people's home in which many of the inmates are bedridden. I have a senior citizens' housing development, and a great many of the people there never get out. I would say that I have roughly 2,000 people in those two areas.

In 1962 there was either a travelling poll or arrangements were made. In 1963 this was denied and there has not been a change in the act since 1960. Can you explain that situation to me?

Mr. CASTONGUAY: Yes I can.

Mr. WINCH: It is very important.

Mr. CASTONGUAY: This is not a question of costs. I believe that since I took over from my predecessor and prior to that there was a general desire on the part of old people's homes and institutions to have polling facilities within their premises and to have a polling division established exclusively for them.

Mr. WINCH: For travelling?

Mr. CASTONGUAY: Travelling has never been allowed. The act has been amended. In the constituencies travelling arrangements have not been allowed except for bedridden patients in chronic institutions.

Mr. WINCH: But not in old people's homes?

Mr. CASTONGUAY: People in old age homes are not bedridden because of some chronic disease. Where there is a certain number of people in an old people's home who are bedridden the provision in the act applies for one agent, deputy returning officer and poll clerk to move from bed to bed and take the votes of the bedridden patients.

What has developed over the years and in the last three elections is that these old people's homes have wanted their vote diluted into adjacent polling stations because their vote was identifiable as a group. I will leave it to your imagination why.

What we have done in religious institutions and old people's institutions, at the request of the people who administer these and at the request of the patients, is to take the old people's home and include it in an adjacent polling division, establishing the polling station in the old people's home or the institution or hospital or chronic institution so that the vote of the inmates or patients cannot be identified as a group. If there are 50 people in an old people's home they are put into a division with 200 others, perhaps, and it cannot be said that that home voted one way or the other.

This trend has been very very pleasant and the direction is completely in the other way. These people do not want these facilities for that reason.

Mr. WINCH: May I also ask a question on the same line, especially in reference to the advance poll. I believe the Vancouver General hospital is one of the largest hospitals in Canada, and you have there people in entirely different constituencies. You cannot have an advance poll in order to cover hospitals. In the Vancouver General hospital you may have around 2,000 patients who would lose their vote unless some arrangement were made.

Mr. CASTONGUAY: This has been studied by the committee on privileges and elections.

Mr. WINCH: Is this by act?

Mr. CASTONGUAY: It is by act but the problem is in an acute hospital with that number of patients, as you pointed out. There are people in such an institution from many many adjacent constituencies and even patients from outside.

Mr. WINCH: That is the reason why I bring it under the advance poll.

Mr. CASTONGUAY: The problem there is that the average stay of patients in these hospitals is ten days, so you may theoretically, from the date of dissolution to polling day, have six sets of patients going through the hospital and it is likely that 10 or 15 per cent of those are there on polling day and have been from the date of the writ.

Mr. WINCH: But you will have 2,000 patients in the hospital on polling day.

Mr. CASTONGUAY: Yes, but the only way the committee on privileges and elections think this can be handled is by a permanent list, absentee voting and postal voting. It cannot be handled under our present method of voting. I could go into details to explain this, but it does require a permanent list, absentee voting and postal voting. Where these facilities are provided in other commonwealth countries they have a permanent system of lists and absentee voting and postal votes.

Mr. WINCH: Therefore the reason it is not done is not that of costs but the present wording of the act?

Mr. CASTONGUAY: Because of the present electoral system.

Mr. SOUTHAM: I note under section 5 of this paragraph we are discussing on page 22 in connection with printing of ballot papers that the number of ballot papers printed in some electoral districts in 1962 and 1963 far exceeded the number of electors, and that an excess of more than 40 per cent was noted in 20 districts in 1962 and in 28 districts in 1963. The paragraph gives a specific instance of a constituency with 18,000 electors in which 26,400 ballot papers were printed in 1962 and 30,000 in 1963.

This does appear to be far in excess of what would be required. Who would be responsible for this overage, and has any action been taken to correct it?

Mr. CASTONGUAY: Yes, there has been action taken to correct it. In my printed instructions to returning officers we have a definite formula of the number of ballots to be printed.

You must remember that returning officers, competent as they are, are not trained in their position to the extent that they would like to be to discharge the services to the satisfaction of themselves and of the public. We give them a three day course in Ottawa and they have this book of some 300 pages which contains massive details. They are not trained in a way that a civil servant would be trained.

One reason why this may happen would be that some returning officers would have their ballots printed in books of 50. When they need say only, 160 ballots for a poll that means that they have to give them four books of 50; that is 200. There is also the other factor that a returning officer naturally in a sparsely settled area or in a rural area will tend to be generous in giving ballots to ballot boxes that are 50 or 100 miles away because, as you know, in the rural polling divisions there is an open list. If he sends the exact amount they may run short; the enumeration might have missed 40 electors. As you know, they may run short in the last hour and then it is a little too late to get a messenger to deliver ballot papers 100 miles away, and sometimes there are no roads and it is impossible to get there. The returning officers in polling stations somewhat distant from the office will tend to go beyond our requirements, and I do not blame them for doing it.

However, we have taken steps to ask them to be careful and to follow these instructions.

Mr. WINCH: Will you be going back to paragraph 3 or are you going through these seriatim?

The CHAIRMAN: I think we can deal with any as they come up.

Mr. WINCH: I would like to ask if Mr. Castonguay will comment on paragraph 3. I am not criticizing the practice because it may be absolutely necessary, but as a committee we are interested in a practice conforming to a statute and I notice in paragraph 3 the statement by the Auditor General that:

When authority could not be found for the making of such advances, we suggested to the chief electoral officer and to the comptroller of the treasury that, until such time as the Canada Elections Act might be amended, the claims should be paid by separate cheques issued from the office of the comptroller of the treasury at Ottawa, and sent direct to each person entitled to payment....

Then, in the penultimate paragraph you say:

The chief electoral officer, in his report to the Speaker of the House of Commons on the 1962 general election, recommended that the Canada Elections Act be amended to provide authority for the payment of an accountable advance to an election officer, limited to an amount deemed necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

Although the proposed amendment was not enacted, \$373,000 was advanced to returning officers for the payment of expenses in connection with the 1963 general election.

Mr. CASTONGUAY: The history of this particular provision hinges on the fact that this office of Chief Electoral Officer was created in 1920 and at that time and up to the 1949 election the Auditor General taxed and paid the accounts and did the audit of the accounts, and after the 1945 election he recommended in his report to parliament that standard, normal governmental accounting practices should be applied to the office of the Chief Electoral Officer, namely that the Chief Electoral Officer's office would tax the accounts, the Comptroller of the Treasury would do a pre-audit and pay the amounts and the Auditor General would then be able solely to do an audit.

It was only discovered in 1962 in the middle of the election by the Auditor General and the Comptroller of the Treasury that we had been advancing these cash advances to returning officers to defray their election expenses. These cash advances are absolutely necessary because I do not think any member of this committee would want the returning officer to finance the election out of his own funds.

As soon as this was discovered by the Comptroller of the Treasury and the Auditor General and myself it was agreed that we should continue this practice provided an amendment was put forward; and I put it in my report and the Auditor General put it in his. The committee on privileges and elections dealt with this and they approved and recommended to the House of Commons last year that this section C be amended. This amendment was prepared in conjunction with the Auditor General and the Comptroller of the Treasury.

We continued this practice in 1963 and I would hope that parliament would deal with this during this session before the next general election.

Mr. WINCH: Could you be liable for meeting a non-statutory claim?

Mr. CASTONGUAY: I am not sure about this. Perhaps the Auditor General would be able to answer that question.

Mr. HENDERSON: It is not contrary to the law, Mr. Winch, but it is the practical and sensible way to do it, and I think Mr. Castonguay's description of the background explains the reality of the situation.

I would join with him in hoping that the House of Commons will be able to deal with this.

Mr. WINCH: I think we should make a strong recommendation on this and other matters of a similar nature that have come to our attention for the protection of the civil servants.

Mr. STEFANSON: Mr. Winch was asking about people in hospital and whether there was any way in which they could vote.

I have a situation which is unique, I think, in that at certain times of the year the fishermen all go up to the lakes. If an election, for example, comes in June, then the fishermen are away. They still live within the constituency but they cannot vote because they are away fishing. Even when advance polls are set up in northern parts such as Grand Rapids they cannot vote at those polls because they have to vote at the advance polls in their own localities.

Am I correct in saying there is no way in which these people can vote except to establish a permanent voters list?

Mr. CASTONGUAY: This seems to be perhaps not the definite conclusion but at least my feeling and it seems to be the feeling of the committee on privileges and elections because the Representation Commissioner Act gives me the additional duty of making a study of permanent rolls and absentee votes and to report to parliament two years after a distribution has been completed.

Mr. WINCH: Two years after? So you cannot report now?

Mr. CASTONGUAY: Not now, no. I am asked in the act to do this; it is a statutory duty which is put on me.

Mr. WINCH: Until the House of Commons reports you cannot make a report?

Mr. CASTONGUAY: I have started my study on this even though I am only required to begin it after the completion of redistribution.

As you can well see, I have been involved in three different things. I am still Chief Electoral Officer; there is no new appointment there. I am still required under the Representation Commissioner Act to prepare alternative proposals for electoral plans in each province.

Mr. WINCH: But you can only report after—

Mr. CASTONGUAY: Two years after.

Mr. WINCH: If you have a brain wave or if you figure out something is advisable you still cannot make a recommendation to parliament?

Mr. CASTONGUAY: I do not think it is that simple, sir. It is generally agreed—and I cannot speak for the committee but it is the impression I gained from the committee—that it would take a permanent list.

We are unique; we are the only country that has no continuous electoral roll and prepares lists. These other commonwealth countries have all these other facilities. In the commonwealth of Australia, with six million electors, they have continuous electoral rolls and they have a staff of 325 civil servants to administer it and it requires 325.

May I also point out that in the county of Allegheny in Pennsylvania, which has received every award one can think of for good administration, for 700,000 electors they have a staff of 760. We have 203 constituencies and Australia has 122, and they require 325 people to deal with this. I would say offhand that it requires 1,000 civil servants to start off with.

May I point out to you in addition that the burden of registering is on the elector in Australia. They have compulsory registration. This reduces the cost. Here the responsibility of getting names is placed on the election officers, and this would have to increase the cost.

So this is a costly proposition, a very complex thing, and I could not do a study and make a recommendation in less than two years. I have had the good fortune of having an Australian loaned to my Representation Commissioner office to help make this study, and he has been with me since last May. He is a senior officer in the electoral office in Australia. We are progressing with this and I hope we will be able to report in less than two years, but I do not know.

I have to say that there is a proviso to that last statement I hope to be able to report in less than two years, but that is provided there is a new Chief Electoral Officer and no election in the interval and lots of provisions. It might take the full two years, depending on what I am required to do in the next two years.

Mr. STEFANSON: Then I am correct in assuming that there is no way in which these people can vote?

This is a very annoying situation because they are still within the constituency and they are 150 miles or more away; it is too far for them to come back to their own polls. I hope some step can be taken to correct this situation.

Mr. CASTONGUAY: During the last election you brought this to our attention and we did all we could to establish advance polls within the act.

Mr. STEFANSON: I have one other question relating to constables. I think constables are used very very little in our part of the country. To what extent are constables used?

Mr. CASTONGUAY: May I give you some background on constables?

I believe it was after the 1958 election that the Auditor General made some comment on the constables and the employment of constables in this committee,

and this was referred to the committee on privileges and elections. As you know now, the deputy returning officer appoints his constable and it was felt the only way this would effectively be dealt with was if the power to appoint constables was taken away from the deputy returning officer and given to the returning officer, and then you could have some control.

The committee studied this matter in 1960. There is just a short part dealing with it and perhaps I may read the excerpt. This is in the proceedings of the standing committee on privileges and elections, Minutes and Proceedings and Evidence No. 12, Thursday, May 19, 1960.

Mr. Bell (*Carleton*): I would like to raise a matter in connection with subsection (10). 48 (10):

48. (10) Any deputy returning officer may appoint a constable to maintain order in his polling station throughout polling day; this authority, however, shall not be exercised unless the services of such constable are deemed absolutely necessary; a constable may be appointed only when there is actual or threatened disorder, or when it is likely that a large number of electors will seek to vote at the same time; generally, the appointment of one constable shall be made where more than one polling station is established in the same building or in adjoining buildings for a given polling division, to ensure the successive and prompt entrance of the electors into their proper polling station; constables shall be appointed and sworn in on form No. 55, which shall be printed in the poll book; every deputy returning officer who has appointed a constable, shall state his reasons for making such appointment in the space provided for that purpose on the polling station account.

It is quite obvious from a return that was made in the house that in certain sections of the country there are abuses in relation to the appointment of constables and that constables are being appointed where there is in fact no need for them. It is simply a sitting member arranging to extend a little additional patronage to his political machine. I think that ought not to go on. I think we should have constables wherever they are necessary, but it should be a situation where it is considered that there is likely to be a breach of the peace at a polling sub-division.

Mr. CASTONGUAY: It may be of some interest to the committee to know that in the 1957 election there were 7,785 constables and 44,055 polling stations; in 1958 there were 9,019 constables and 44,595 polling stations.

Mr. BELL (*Carleton*): As I recollect, there were some constituencies where there was a constable in virtually every poll. I believe in Essex East and Westmorland they had them in every poll. The two ridings which stick in my mind are two ridings in which I do not think they are likely to require such supervision, or that there will be any breach of the peace.

Mr. MONTGOMERY: On that point, I think it has been the practice—and I know in my own constituency which I can speak for—that I think it has been the practice as long as I can remember that there will be a constable at every poll, provincially and federally. There are very few of these polls that ever have any trouble; but I think it is because there is a constable there. It may be quite an expense. I will admit after the election is over you can say: well, you did not do anything today, you got your money easy. But nevertheless, I do not know how you can cut any out. I would not like to see constables cut out, and I think it has got to be left to the deputy returning officer.

Mr. CARON: I think they have an officer in almost every poll, but he acts as a doorman to keep people out when a person is voting. When

one has voted, he comes out and lets the other one in, and if there is a passageway the constable sees that the people do not go any further than the door of the passageway. He is really useful.

Mr. MONTGOMERY: I think so.

Mr. AIKEN: I do not know about Barrie, but I think in Parry Sound-Muskoka there are not more than one or two constables attending. It is only in very exceptional cases, because it has been the custom for a good many years in these particular polls. I do not think they are required any more in the polls where they are appointed than in other polls where they are not.

Mr. BELL (*Carleton*): The practice in my riding has been to appoint only where you have several polls in the one building and he is used as a director of traffic. I think we may have had four or five or six in Carleton.

Mr. CASTONGUAY: Nine.

Mr. HODGSON: I know in Lindsay and Haliburton they appoint a policeman and if you come in and say your name is Brown, he directs you to this box or that box.

Mr. BELL (*Carleton*): It is perhaps something we should not do, but it seems to me the returning officer should have this discretion. I do not want to become treasury-minded in the situation, but it is a totally unnecessary expense in some constituencies. I think we should try to stamp it out. I think we should appoint constables where they are needed, but we should not tolerate conditions where certain districts are rolling up election costs which are totally unnecessary.

Mr. PICKERSGILL: I think it would be a very dangerous thing to start interfering with the local mores in a very turbulent constituency like Victoria-Carleton. It is obviously necessary to have a constable in that poll. We have not got that situation in Bonavista-Twillingate, but I certainly would not want to have the people of Victoria-Carleton run riot on election day.

Mr. MONTGOMERY: I think it is a matter which should be left to the deputy returning officers.

Mr. PICKERSGILL: I do not see how you can run it any other way. I do not kneel to anyone, even the parliamentary secretary of the Minister of Finance, in my desire to have the public purse.

The CHAIRMAN: Then is it the wish of all that we agree to the subsection as it stands?

Agreed.

Does that answer your question, sir?

Mr. STEFANSON: Yes, that answers it.

Mr. STENSON: Mr. Castonguay, have you ever made a study or given thought to people in hospitals?

Mr. CASTONGUAY: There was a private bill before the house this session. I do not want to appear to be repetitious, but it is still a question that this could only be done by a permanent list or absentee vote or postal vote. I could go into a great deal of detail on that but I do not think it is necessary.

We do look after the chronic institutions, the paraplegic places and other institutions for the treatment of chronic diseases, but for acute hospitals—and I have studied this with the hospital associations who have made representations to me. One hospital association withdrew their recommendation because they thought our act could not permit it. Then there is also this factor that while it is very difficult even under our present system of looking after chronic patients, some of the hospitals find it very disruptive to their patients. There

are two sides to this coin. So there is as much for as against this, and I think the only practical way to deal with it—and I am convinced of this—in acute hospitals is to provide for absentee or postal votes.

Mr. STENSON: There are two big hospitals in Peterborough and there is a lot of criticism because of our election act. These people are deprived of the vote.

Mr. CASTONGUAY: There would be more there than in urban areas because everyone in that hospital would be from the area. You would probably be looking at five or six constituencies.

I do not want to leave the impression with the committee that the standing committee on privileges and elections have not done anything because, certainly with advanced polls allowed to anyone absent, some of the patients who are going into hospital on a subsequent date to the advance polls have been taken care of.

Mr. STENSON: There is also the difficulty that they must take an oath that they will not be in the polling division on the day of the election. Sometimes they do not know when the hospital bed will be ready and they cannot take that oath. One man wanted to vote but he would not take the oath because he was not sure when the bed would be ready.

Mr. CASTONGUAY: There is a recommendation before that committee to allow people to vote at advanced polls for any reason. We have had the problems of polling day falling on religious holidays. In some faiths people are required to be at home on certain days. There is also the case you have brought up. There is a recommendation, which I am sure the committee is prepared to accept, that people be allowed to vote at advance polls for any reason.

Mr. FORBES: How many have you on your regular staff?

Mr. CASTONGUAY: Nineteen.

Mr. FORBES: During an election is this number increased?

Mr. CASTONGUAY: You must remember that there are 70,000 enumerators.

Mr. FORBES: I meant in your head office.

Mr. CASTONGUAY: It increases here, certainly. We have to tax over 200,000 accounts, so we would increase our staff by about 100 or more for a period ranging from one month to six months. The bulk of the temporary staff are taken on for a period of employment lasting about three weeks.

Mr. FORBES: Has the preparation of the new electoral boundaries increased your staff?

Mr. CASTONGUAY: This is a separate staff now. I have two offices now. I have my Chief Electoral Officer's office and I have my Representational Commissioner's office.

Mr. FORBES: How many staff have you on that?

Mr. CASTONGUAY: On that staff there are 15.

Mr. LEBLANC: My questions would be rather for the Auditor General, I think.

You say, Mr. Henderson, that instances were noted where the descriptions of boundaries after revision were identical. Do you have anything in mind when you mention that nothing has been done but the returning officers have been paid for revision and they did not do any revision?

Mr. HENDERSON: I do not think, Mr. Leblanc, I said they did not do any revision. The revisions were ordered at the three dates, and, as you see, the cost of each of the revisions was \$150,000. I then go on to say that instances were noted where the descriptions of boundaries after revision were identical to the descriptions of the polling divisions. I am not saying that the revisions were

not made, but it seemed a logical point at which to bring the matter to attention in view of the cost of those revisions. Perhaps Mr. Castonguay could elaborate on that.

Mr. CASTONGUAY: As I pointed out earlier, the mere fact that the polling division descriptions came back to us without any change does not imply that the returning officer had not had considerable work to do because, when I give my instruction, he is required to revise the polling division arrangements, he is required to consult political organizations in the district and to get suggestions and weigh them. He is required to study his polling division arrangements to see what changes are necessary. If there were a condition that you would only pay if a change were made, you would have changes for the sake of changes and this would be a very bad policy to follow. When these instructions go out, needless to say there are a lot of conjectures made and the returning officer has a lot of queries to answer. If a snap election takes place, then the returning officer is in a position to start work overnight. Some of them can just copy, but they are in a minority.

Mr. LEBLANC: I was worried because of the note that was put in there by the Auditor General. I knew that was a fact, that even if they do not make a change they have to revise it anyway, so they have to do some work on it. Some do not do any work at all.

Now, regarding No. 4, the rental of furniture for ordinary polling stations, the Auditor General says that in the audit of the 1962 election accounts, additional expenditures were noted for the cartage and rental of furniture without a corresponding reduction in the amounts paid to the landlords. Would that involve a large amount, or would it be only a small amount?

Mr. CASTONGUAY: I can answer this question. The problem arose in cities where they had voting compartments, such as Edmonton, Calgary, and Regina. They have voting compartments which are used at civic elections and they are the property of the civic government. It has been our policy that wherever these compartments are available we rent them from the city. I call this a package deal because the cities deliver them and call for them for a nominal fee of 50 cents. The arrangement is that they will not charge us for any repair of damages to these compartments. Prior to 1963 the tariff fee for the rental of space for polling stations included the polling screens. This is what the Auditor General referred to. The privileges and elections committee has approved cardboard voting compartments which we had made, and they will now be supplied from our office here in Ottawa to each constituency. They are very simple in design and they are made by the inmates of Kingston penitentiary. They cost around 54 cents a screen. They are a consumable item because the cost of getting that screen back and storing it would certainly offset the cost of the screen. The committee agreed on this and this takes care of that problem. The city has the responsibility of delivering them to each polling station and calling for them afterwards.

Mr. LEBLANC: I have another question, Mr. Chairman. In paragraph 7 on employment of constables, Mr. Henderson said "in two cases duplicate payments were made when two deputy returning officers each certified that the same person had acted as constable at his polling station". Did we get a refund for the duplicate payments?

Mr. CASTONGUAY: I did not do it for this reason. There is nothing specifically in the act that prevents a person from acting as a constable in polling stations. This is not an offence against the act. I do not tolerate this practice, but we have a pretty weak case for recovering this money. You have to say, of course, that it is not permissible under the act. The other thing is that you must remember that to carry out a general election you need the services and the co-operation of 200,000 people. Some of these people work for one day, some

of them work for six days. There are bound to be mistakes, and where there are errors of omission I prefer not to go to the expense of trying to recover these \$6 in a weak case—\$6 was the amount involved in both cases. It did not appear to me that I should take any action on this, and I did not take any action because I saw that this was not an error of commission; it was an error of omission, and I had a weak case in trying to recover the money. The deputy returning officers in both cases did this, I am sure, in good faith.

Mr. WINCH: Mr. Chairman, I would like to put a question which hinges on paragraph 4 concerning polling stations. In order to ask my question may I use the example of my own constituency in Vancouver East? This is a riding where without breaking any traffic laws or jumping any red lights I can go in my car from the north boundary to the south boundary in seven to eight minutes and from the east boundary to the west boundary in seven or eight minutes. However, I have 137 polling stations in my riding. In a few cases some of them are positively abominable. In some cases they are almost inaccessible. In every election that I have known I have had to jump into my car and hurry to the polling station because it was not providing any secrecy. My question regards both convenience and cost in a situation such as the one in my constituency. Why are there 137 stations set up instead of the system used in local elections? In the provincial elections school auditoriums and halls are used as centralized voting stations. That used to be the practice and I have never had any complaints about it. Could I ask for comments from the electoral officer?

Mr. CASTONGUAY: The act obliges the returning officer to establish a polling station for each polling division. Where the list of electors in a polling division exceeds 350, the returning officer is obliged by law to divide that poll and provide two polling stations.

Mr. WINCH: Can you not combine them in some instances?

Mr. CASTONGUAY: In some instances what we do find is the picture I am giving you. The second aspect is that I have noticed that suitable premises are becoming scarce. In many cities, for various reasons, the school board has co-operated with us. For instance, one province has put into its legislation that schools should be placed at our disposal. That appears in both the federal and the provincial legislation. The province of Quebec has co-operated and they have placed schools at our disposal. However, this presents a problem to the school board because they have some allocation in per diem attendance, and invariably when this happens the school board is forced to give a whole day for this purpose and this affects their grants in some areas.

In other provinces we have had the co-operation of school trustees and schools were placed at our disposal. The returning officer may place up to eight or nine polling divisions in a school. This practice has gradually come into the fore. The returning officer has the responsibility of selecting polling stations. It is his responsibility to find suitable premises. If he so wishes, he has the power to put ten polling stations within a premise. If it exceeds ten, he needs my approval. It is also within the power of the returning officer to centralize up to ten polling stations.

Mr. WINCH: I would like consideration given to this, both as regards expense and convenience.

There is one other reason. There are a few abominable and inaccessible polling stations and I would say they are there because political partners to a party in power got together. The sooner we get away from that thing, the better it is going to be.

Mr. SOUTHAM: Mr. Chairman, returning to the subject raised a little while ago by Mr. Forbes relating to minimum salaries paid to returning officers, I note that under paragraph 49, subparagraph 8, the Auditor General has, under the heading of duplicate charges, described that in the 1963 election payments made to returning officers varied from a minimum of \$1,500 to \$8,600.

He goes on to say "Cases were noted in the audit of the election account where payments at the rate of \$12 per day had been made to other persons, classed as election clerks and messengers, for selecting enumerators, deputy returning officers and polling stations. Normally these duties are considered to be part of the function of the returning officer". There is quite a wide variation between the two sums there. Are there any instances where you had such a wide variation?

Mr. CASTONGUAY: In all the general elections in which I have been involved appointments of returning officers have never been made on the day of the dissolution or even in the next two days following the day of dissolution. So that this man who gets this appointment cannot possibly run his electoral district in the same way that a returning officer who was appointed six months before can. The latter man has had the time to organize his district and make his comments. This happens in rural areas, not in urban areas. The returning officers in these particular circumstances cannot possibly get around to selecting enumerators. They have to have messengers. For a person such as this it becomes an organized chaos right up to polling day. He needs extra help and he needs messengers. Some returning officers' health at the time of an election is such that they cannot travel. I therefore authorize that in such cases. However, in most of these cases you will find that the returning officer has had to jump head first into the election.

Mr. SOUTHAM: Would these cases be exceptional?

Mr. CASTONGUAY: Yes, complete exceptions.

Mr. SOUTHAM: There is an interesting point here. I notice Mr. Henderson pointed out, under duplicate charges that there are cases of duplication of payments for services.

Mr. CASTONGUAY: This is where it would happen.

Mr. McMILLAN: I would like a question answered on subparagraph 8. I think you have already answered it in part. Is every effort made to collect where there have been duplicate charges?

Mr. CASTONGUAY: Yes. There was one returning officer at one election who appointed something like twenty deputy officers, and they were returning officers and poll clerks. This was inexcusable and I recovered \$500 from them.

Mr. McMILLAN: I see under subparagraph 6 a comment about election clerks living in their electoral district.

Mr. CASTONGUAY: This does not refer to the electoral district but to the same location as the one in which the returning officer resides. You see this in rural areas. For instance in the Northwest Territories the returning officer is responsible for 1,250,000 square miles, and we have to cover the four corners of that place. I therefore authorize the appointment of additional election clerks. In this instance the Auditor General points out that you may have two counties in a large electoral district and it may be advisable because of distances to have an election clerk in the other county from the returning officer. I therefore authorize it on that basis. Again let me say this is an exception. I do not encourage it because I think that in compact districts they should be in the same place.

Mr. McMILLAN: Are these clerks payable under the act?

Mr. CASTONGUAY: Yes, under the tariff of fees approved by the governor in council.

Mr. CARDIFF: Mr. Chairman, under subparagraph 5 I see that you have attributed almost double the number of ballots that is necessary for that particular poll or district. Why is that?

Mr. CASTONGUAY: I think I explained it.

The CHAIRMAN: That was brought up and it will appear in the minutes. It was dealt with specifically. Are there any other questions at this time? If not, I am sure the committee will want me to thank Mr. Castonguay for appearing here and for being very patient in his answers which he has given to us and which I think leave us more informed not only as to what are the problems in the Election Act but as to his problems as well. We thank him for his attendance and we appreciate his presence here.

Mr. WINCH: I hope I misinterpreted a statement a little while ago. I rather gathered an impression that in your two capacities, to do one job you have to get out of the other. I hope it is incorrect as I think all members would raise hell in the House of Commons if you did not carry on your excellent work as Chief Electoral Officer.

Mr. CASTONGUAY: There is a provision in the Representation Commissioner Act for hiring a new Chief Electoral Officer, but he is responsible to me in elections, and I am responsible to the house.

Mr. WINCH: I would like to be able in the future to pick up the telephone and call you if I have any problems.

Mr. CASTONGUAY: You can still call me.

The CHAIRMAN: Gentlemen, it is a quarter to eleven. Would you like to carry on with some of the paragraphs which we still have to deal with before we complete Mr. Henderson's report? We might now proceed for about a half an hour more.

Mr. HENDERSON: We completed paragraph 110, so now we will continue on page 70 and proceed with paragraph 111. It is headed liabilities. We have dealt with the assets on the statement of assets and liabilities, and we are now moving to the liabilities section. It reads as follows:

111. The following table lists the liabilities at March 31, 1963 by main headings in the statement of assets and liabilities in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Current and demand liabilities	\$ 1,147,561,000	\$ 1,234,081,000	\$ 1,631,338,000
Deposit and trust accounts ..	239,667,000	266,624,000	225,203,000
Annuity, insurance and pension accounts	3,955,510,000	4,245,942,000	4,747,017,000
Undisbursed balances of appropriations to special accounts	104,493,000	115,135,000	119,952,000
Deferred credits	79,073,000	94,991,000	107,739,000
Suspense accounts	8,618,000	5,305,000	6,055,000
Unmatured debt	16,067,915,000	16,945,736,000	17,961,836,000
	<u>\$ 21,602,837,000</u>	<u>\$ 22,907,814,000</u>	<u>\$ 24,799,140,000</u>

As you know, these sections are explanatory ones with respect to the different items appearing on the statement of assets and liabilities. With your permission I will go through them and you can stop me with any questions as we move along.

Paragraph 111 lists the liabilities at the close of the last fiscal year by the main headings in this statement.

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112. *Current and demand liabilities.* The balances comprising this item in the statement at March 31, 1963, in comparison with the corresponding balances at the close of the two previous years, were:

	March 31, 1961	March 31, 1962	March 31, 1963
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association	\$ 383,660,000	\$ 372,032,000	\$ 757,284,000
Accounts payable	221,396,000	280,711,000	267,364,000
Outstanding Treasury cheques	251,741,000	265,658,000	266,409,000
Interest accrued	154,016,000	174,601,000	196,974,000
Other balances	136,748,000	141,079,000	143,307,000
	<u>\$ 1,147,561,000</u>	<u>\$ 1,234,081,000</u>	<u>\$ 1,631,338,000</u>

Paragraph 112 breaks down the current and demand liabilities in the figures shown in the previous tabulation.

113. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1963 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Deposits by Crown corporations	\$ 19,400,000	\$ 24,175,000	\$ 30,004,000
Indian trust funds	28,516,000	28,523,000	28,877,000
Post Office Savings Bank ...	28,513,000	27,365,000	25,880,000
Contractors' holdbacks	15,365,000	17,793,000	17,724,000
Korean operations pool	16,117,000	16,117,000	16,117,000
Contractors' security deposits	21,804,000	18,003,000	13,025,000
Canadian Pension Commission (Administration trust fund)	10,980,000	12,087,000	13,024,000
Guarantee deposits	13,758,000	10,403,000	12,505,000
Instalment purchase of bonds by public service employees	11,845,000	12,416,000	12,297,000
Other balances	73,369,000	99,742,000	55,750,000
	<u>\$ 239,667,000</u>	<u>\$ 266,624,000</u>	<u>\$ 225,203,000</u>

The accounts of the Korean operations pool are maintained by the Australian government and record the expenditures incurred by the commonwealth countries which had participated in the Korean war, and the apportionment of these expenditures among the countries according to their respective shares. The balance of the account, as shown in the above table, represents the amount available towards settling the remainder of Canada's share of the expenditures when all other participating governments have submitted their billings to the pool and a final accounting is made.

The \$55,750,000 shown for "other balances" at March 31, 1963 represents the total of 82 balances, including: National Harbours Board special accounts, \$7,855,000; Canadian National Railways income deficit account, \$7,635,000; veterans' trust funds, \$7,276,000; army benevolent fund, \$6,013,000; United States of America, \$5,902,000; deferred pay of armed forces personnel, \$3,196,000; common school funds, \$2,678,000; and national research council special fund, \$2,013,000.

Paragraph 113 lists the deposit and trust accounts which are carried on the statement, and there is some explanatory data at the top of page 73 regarding some of these.

114. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1963, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1961	March 31, 1962	March 31, 1963
Government annuities	\$ 1,199,123,000	\$ 1,235,305,000	\$ 1,264,436,000
Public service superannuation account	1,468,848,000	1,586,929,000	1,724,116,000
Canadian forces superannua- tion account	1,155,333,000	1,279,239,000	1,605,797,000
Other balances	132,206,000	144,469,000	152,668,000
	<u>\$ 3,955,510,000</u>	<u>\$ 4,245,942,000</u>	<u>\$ 4,747,017,000</u>

The following is a summary of the transactions in the *government annuities account* during the year under review:

Balance, April 1, 1962		\$ 1,235,305,000
Add:		
Premiums received	\$ 37,532,000	
Interest credits	47,415,000	
		<u>84,947,000</u>
		1,320,252,000
Deduct:		
Vested annuity and commuted value pay- ments and refunds	55,399,000	
Transfer to Revenue of the excess over Fund valuation	417,000	
		<u>55,816,000</u>
Balance, March 31, 1963		\$ 1,264,436,000

A summary of the transactions in the *public service superannuation account* during the year ended March 31, 1963 is as follows:

Balance, April 1, 1962		\$ 1,586,929,000
Add:		
Contributions by participants	\$ 68,401,000	
Contributions by government	53,966,000	
Interest credits	66,362,000	
Other credits	274,000	
		<u>189,003,000</u>
		1,775,932,000
Deduct:		
Annuity payments	43,586,000	
Withdrawals of contributions	7,564,000	
Other charges	666,000	
		<u>51,816,000</u>
Balance, March 31, 1963		\$ 1,724,116,000

A comment is made in paragraph 124 regarding the composition of the balance at credit of this Account.

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The following is a summary of the transactions in the *Canadian forces superannuation* account during the year ended March 31, 1963:

Balance, April 1, 1962		\$ 1,279,239,000
Add:		
Contributions by participants	\$ 34,458,000	
Contributions by government	58,103,000	
Interest credits	53,085,000	
Actuarial adjustment (contra, "deferred charges" account)	198,549,000	
Other credits	314,000	
		<u>344,509,000</u>
		1,623,748,000
Deduct:		
Annuity payments	9,915,000	
Gratuities and withdrawal allowances	7,968,000	
Other charges	68,000	
		<u>17,951,000</u>
Balance, March 31, 1963		\$ <u>1,605,797,000</u>

A comment is made in paragraph 125 regarding the actuarial adjustment in this Account during the year and the composition of the balance at credit of the Account at the year-end.

Included in the \$152,668,000 shown for "other balances" at March 31, 1963 in the table given above with respect to the item "annuity, insurance and pension accounts", is the \$14,636,000 uninvested portion of the unemployment insurance fund on deposit with the receiver general. A summary of the transactions in the fund during the year under review, in comparison with the corresponding amounts for the two previous fiscal years, is given in paragraph 181.

Paragraph 114 shows the composition of the liability figures shown for annuity, insurance and pension accounts, which you will recognize. This is followed by a summary of the changes during the year. You will see them set out on page 73 and page 74, that is to say the money that is taken in and the payments that are made out of the various superannuation accounts.

115. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the statement of assets and liabilities, compared with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Colombo Plan Fund	\$ 67,533,000	\$ 77,626,000	\$ 85,325,000
Railway Grade Crossing Fund	34,050,000	33,754,000	26,703,000
National Capital Fund	2,810,000	3,660,000	6,776,000
National Centennial Fund ..			1,000,000
Other	100,000	95,000	148,000
	<u>\$ 104,493,000</u>	<u>\$ 115,135,000</u>	<u>\$ 119,952,000</u>

During the year ended March 31, 1963 an amount of \$41,500,000, provided by Department of External Affairs vote 55, was credited to the account for the Colombo plan, while expenditures totalling \$33,800,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$5,833,000, provided under section 265 of the Railway Act, c. 234, R.S., and Department of Transport vote 212, were

credited to the account for the railway grade crossing fund during 1962-63, while expenditures totalling \$12,884,000 were incurred in aiding in the cost of installing protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1963 an amount of \$8,616,000, provided by Department of Public Works vote 220, was credited to the account for the national capital fund, while amounts totalling \$5,500,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the governor in council.

A comment regarding the \$1,000,000 at the credit of the national centennial fund at March 31, 1963 is made in paragraph 151 of this Report.

Paragraph 115 is a listing of the undisbursed balances of appropriations to special accounts, and there is an explanation given regarding these. You will notice there the national centennial fund, appearing for the first time at March 31, 1963. I deal with that further on in the report.

116. *Deferred credits.* The following is an analysis of this item at the close of the 1962-63 fiscal year and the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Deferred interest on loans to The St. Lawrence Seaway Authority	\$ 19,427,000	\$ 33,716,000	\$ 49,388,000
Deferred interest on loans made under the United Kingdom Financial Agree- ment Act, 1946	44,174,000	44,174,000	44,174,000
Credits arising from the re- cording of agreements of sale of crown assets	9,955,000	8,772,000	6,743,000
Equity in agency account of Crown Assets Disposal Cor- poration	4,929,000	7,242,000	5,884,000
Other balances	588,000	1,087,000	1,550,000
	<u>\$ 79,073,000</u>	<u>\$ 94,991,000</u>	<u>\$ 107,739,000</u>

The only significant change during the year was the increase of \$15,672,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. This deferred interest is payable by the Authority over a 46-year period commencing in 1964, along with repayments of principal (see paragraph 158).

Paragraph 116 gives an analysis of the item headed deferred credits. As I say, the only significant change during the year was the increase of \$15,672,000 in the deferred interest on loans to the St. Lawrence Seaway Authority. This deferred interest is payable by the authority over a 46-year period commencing in 1964, along with repayments of the main portion of the debt, in other words they did not have the money to pay the interest so the interest was deferred, and to that extent capitalized with the principal amount of the debt.

We deal of course with the St. Lawrence Seaway further on in the report under the heading of crown corporations.

117. *Suspense accounts.* There was no appreciable change in this item on the liabilities side of the statement during the year ended March 31, 1963. The year-end figure of \$6,055,000 included balances of \$1,358,000 for the unclaimed cheques account and \$1,122,000 for the national defence replacement of materiel account. During the year, credits to

the latter account totalled \$840,000 for the proceeds of sales to other countries, pursuant to section 11 of the National Defence Act, while an amount of \$1,114,000 was charged for the procurement of replacement materiel.

118. *Unmatured debt.* A summary of the unmatured debt outstanding at March 31, 1963, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1961	March 31, 1962	March 31, 1963
Bonds			
Payable in Canada	\$ 14,002,751,000	\$ 14,930,571,000	\$ 15,385,847,000
Payable in London	31,989,000	31,990,000	34,584,000
Payable in New York	98,175,000	98,175,000	376,405,000
	<u>14,132,915,000</u>	<u>15,060,736,000</u>	<u>15,796,836,000</u>
Treasury bills (not exceeding 180 days)	1,935,000,000	1,885,000,000	2,165,000,000
	<u>\$ 16,067,915,000</u>	<u>\$ 16,945,736,000</u>	<u>\$ 17,961,836,000</u>

The increase of \$455 million in the debt payable in Canada in the amount by which new borrowings of \$3,834 million during the year exceeded redemptions of \$3,379 million of prior issues. Canada savings bonds accounted for \$1,712 million of the new borrowings and \$1,185 million of the redemptions.

The increase of \$278,230,000 in the bond debt payable in New York resulted from a new security issue in the principal amount of \$270,000,000 due October 15, 1987, with interest at 5%, together with a year-end adjustment to the ruling rate of exchange.

Issues payable in London were valued on the basis of £1 Sterling = \$3.027 Canadian while those payable in New York were valued at \$1 U.S. = \$1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount shown for "unmatured debt" along with issues maturing at later dates. In addition to treasury bills of \$2,165,000,000 shown in the above summary as maturing within 180 days, the following issues, all payable in Canada, fall due within the current fiscal year:

Loan of 1960 due April 1, 1963	\$ 12,802,000
Loans of 1961 and 1962 due April 1, 1963	300,000,000
Loans of 1961 due June 1, 1963	275,000,000
Canada Savings Bonds of 1952 due August 1, 1963	19,203,050
Eighth Victory Loan due October 1, 1963	223,020,200
Loan of 1960 due December 15, 1963	300,000,000
Loan of 1963 due February 1, 1964	125,000,000
	<u>\$ 1,255,025,250</u>

Net Debt

119. With the liabilities amounting to \$24,799,140,000 (paragraph 111) and the assets to \$10,879,370,000 (paragraph 100), the net debt at March 31, 1963 was \$13,919,770,000. The following is an analysis of the net debt account for the year under review:

Balance, April 1, 1962	\$ 13,228,137,000
Add—Deficit for the fiscal year 1962-63:	
Expenditure	\$ 6,570,342,000
Revenue	5,878,709,000
	<u>691,633,000</u>
Balance, March 31, 1963	<u>\$ 13,919,770,000</u>

Paragraph 119 shows the net debt position, and then reference is made to the contingent liabilities.

Contingent Liabilities

120. A note on the liabilities side of the statement of assets and liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end and makes reference to the appendix to the public accounts (Volume I, page 180) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts which were outstanding at March 31, 1963, in comparison with the corresponding amounts at the close of the two preceding years:

	March 31, 1961	March 31, 1962	March 31, 1963
Insured loans made by approved lenders under the National Housing Act, 1954	\$ 3,017,404,000	\$ 3,640,000,000	\$ 4,123,000,000
Railway securities guaranteed as to principal and interest	1,672,634,000	1,636,100,000	1,381,361,000
Deposits maintained by chartered banks in Bank of Canada	656,295,000	696,008,000	741,870,000
Guarantees under Export Credits Insurance Act, Part I	109,934,000	291,700,000	333,646,000
Loans made by chartered banks to Canadian Wheat Board	125,558,000	113,555,000	80,331,000
Other contingent liabilities of determinate amounts	89,783,000	66,299,000	73,998,000
	<u>\$ 5,671,608,000</u>	<u>\$ 6,443,662,000</u>	<u>\$ 6,734,206,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under national housing acts prior to the 1954 act.

The main contingent liabilities would determine amounts that were outstanding. There are a number of guarantees existing all the time with respect to various loans, securities and deposits. A good example of the guarantees is shown under the Export Credits Insurance Act, part I.

Comments on Assets and Liabilities

121. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

We then turn to the comments I have on the assets and liabilities under paragraph 121.

122. The statement of assets and liabilities at March 31, 1963 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the public accounts:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are

held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule to the statement of assets and liabilities."

The comment was made in last year's report (paragraph 139) that, while the statement of assets and liabilities may seem to correspond in appearance to the balance sheet of a large commercial undertaking, it is important for the reader to understand that it is not a balance sheet within the generally accepted meaning of the term. This is because the statement in its present form omits a number of items which would normally appear as assets on a commercial sheet, while at the same time including others which are of doubtful value. Similarly, certain items appear as liabilities which are not generally found as such in commercial practice. The showing of the excess of liabilities over net assets as a "net debt" item on the assets side of the statement is confusing, and in our view the term would be more appropriately used to describe the net result shown by a statement exhibiting the gross debt, less recorded assets, at the termination of the fiscal year.

Over the years, as was mentioned in last year's report, the audit office has subscribed to the view that little advantage would be gained by attempting to convert the central accounting system of the government from the cash basis to the accrual basis. It has recognized that the executive must know at all times what funds are required to be raised to meet expenditures expected to come in course of payment within the fiscal year. Parliament in turn must always be basically interested in examining the country's financial needs in terms of cash required when considering budget proposals and estimates of proposed expenditures.

However, as will be evident from some of the following comments in this section of the report, we believe that the statement and its contents could be improved from the standpoint of clarity and presentation so as to achieve maximum disclosure of information for the benefit of parliament and the public.

Under paragraph 122 I give a rather oversimplified explanation of the nature of the statement of assets and liabilities which is often described as the balance sheet of Canada. I felt it was useful to do this because an increasing amount of interest is being shown as to the manner in which the statement of assets and liabilities is prepared. As I think we discussed at an earlier meeting, it is prepared on the basis of the cash accounting prin-

ciple as distinct from the accrual accounting one which you find in the case of crown corporations. I believe it is probably unnecessary to go further at this time unless there are further questions.

123. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the statement of assets and liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year (other than with respect to balances receivable by the taxation division of the Department of National Revenue) is given in the several departmental sections of Volume II of the public accounts. There is, however, no one place in the public accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. We suggested in last year's report that it would be informative to parliament were an appendix giving this information included in the public accounts in future.

The following summary of accounts receivable includes the totals given in the departmental sections of the public accounts at March 31, 1963 together with totals of balances receivable as at February 28, 1963 by the taxation division, as provided to us by that Division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 1,184,198	\$ 736,331	\$ 36,322	\$ 1,956,851
Citizenship and Immigration	67,925	256,733	186,346	511,004
Defence Production	1,115	1,911	259,329	262,355
Finance	100,104	8,495	607	109,206
Justice	203,401	129	18,841	222,371
National Defence	4,266,901	2,170,985	217,913	6,655,799
National Health and Welfare	698,189	344,815	193,051	1,236,055
National Revenue—				
Customs and Excise Division	7,923,513*		2,229,997*	10,153,510
Taxation Division	160,637,394*		21,640,427*	182,277,821
Northern Affairs and National Resources	99,333	298,870	25,055	423,258
Public Works	713,797	200,324	140,536	1,054,657
Royal Canadian Mounted Police	311,405	10,904	24,489	346,798
Trade and Commerce ...	119,620	8,929	7,784	136,333
Transport	3,791,841	3,734,192	30,526	7,556,559
Veterans Affairs	3,817,265	2,420,500	800,216	7,037,981
Other departments	213,054	85,614	51,245	349,913
	<u>\$184,149,055</u>	<u>\$ 10,278,732</u>	<u>\$ 25,862,684</u>	<u>\$220,290,471</u>

*These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following uncollectable debts of \$1,000 or less deleted from the accounts during the year under the authority of section 23 of the Financial Administration Act:

External Affairs	\$ 14,511
National Defence	22,318
National Revenue—	
Customs and Excise Division	328,797
Taxation Division	813,224
Transport	15,655
Veterans Affairs	95,867
Other departments	16,568
	\$ 1,306,940

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the statement of assets and liabilities, they are nonetheless debts due to the crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We continue to believe, as was mentioned in last year's report, this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

Under paragraph 123 I listed the accounts receivable, and this is the second time I have shown this listing in my report largely because there is no one place in the public accounts where information regarding the individual departmental totals and the substantial, over-all total of accounts receivable, is available. I have made the suggestion, with which you concurred in your sixth report on October 20th of this year, that there should be an appendix or statement giving the over-all picture of the accounts receivable placed in the public accounts, and your recommendation here ties in with the consideration currently being given to this by Mr. Ryan's subcommittee on the form and content of the public accounts.

This is something I suggest should be included as distinct from things you may decide to take out. The accounts receivable shown here disclose for the first time—actually the first time was in 1962 and it appears here for 1963 also—the unpaid accounts due to the income tax division. You will see that the figure is very substantial at \$182,277,000. The income tax division is in the habit of taking its figures off at periodic intervals, for example February 28th rather than March 31st. With the adoption of your recommendation that some information be given on these accounts in an appendix, in the public accounts the position of the unpaid taxation division accounts receivable will thus appear in the public accounts each year in future. There are of course a number of write-offs, and a summary of these is given on page 80. You will see there the departments and the extent of the write-offs. You will also see the size of the write-offs for the Department of National Revenue.

I then deal with the importance of improving the system of internal control with regard to the supervision of these accounts receivable and particularly those that were kept on a memorandum basis. Again this was a point we dis-

cussed in the 1962 report and on which the committee has already acted. I think I am correct in saying it appeared in the sixth report, 1964. We discussed this when Mr. Bryce was here, and you joined in agreeing with the comment I had made.

124. *Public Service Superannuation Account.* In paragraph 144 of last year's report and also in earlier reports reference was made to the extra-statutory "bookkeeping entries" aggregating \$450 million which were made in 1951-52 and 1960-61 in order to increase the balance at credit of the public service superannuation account to the amount of the currently estimated actuarial liability. The offsetting debits were recorded in an "asset" account captioned "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

In the years 1951-52, 1952-53 and 1956-57 portions of the 1951-52 deferred charge of \$312 million (in the amounts of \$98 million, \$25 million and \$50 million, respectively) were written off to expenditure, leaving a balance of \$139 million at March 31, 1957. This was increased to \$277 million in 1960-61, when a further entry was made to the credit of the public service superannuation account following the actuarial valuation made as of December 31, 1957.

In previous years' reports, we have expressed the view that the public service superannuation account should have been credited (in addition to amounts contributed by participants) only with amounts provided by section 32 of the Public Service Superannuation Act or by special parliamentary appropriations—and that the offsetting bookkeeping entries should not have been made. In our opinion the actuarial deficiency remaining after credits provided for by parliament had been duly recorded should have been fully explained each year by means of a note to the statement of assets and liabilities. In his budget speech of June 13, 1963, the Minister of Finance indicated his concern at the magnitude of the actuarial deficiency.

The amount of the actuarial deficiency is, in fact, considerably greater than the \$277 million indicated on the statement of assets and liabilities. This amount continues to represent the estimated actuarial deficiency at December 31, 1957. However, in our 1961 report (paragraph 59) reference was made to the fact that, as mentioned in a note to the statement of assets and liabilities as at March 31, 1961, the balance was not adjusted to reflect the additional liability resulting from general salary and pay increases during 1960-61, estimated at \$80,700,000. Moreover, as mentioned in paragraph 52 of this report, no account has been taken of the considerable (though not officially estimated) additional actuarial liabilities that arose between April 1, 1961 and March 31, 1963 as a result of salary and pay increases granted from time to time to substantial groups of public service employees.

Section 33 of the Public Service Superannuation Act, 1952-53, reads as follows:

"The Minister shall lay before parliament at least once in every five years an actuarial report on the state of the superannuation account, containing an estimate of the extent to which the assets of the said account are sufficient to meet the cost of the benefits payable under this Act."

The Act is silent as to the remedy to be applied when a deficiency is found to exist, and no proposal for dealing with the actuarial deficiency was made when the report on the last actuarial valuation was tabled in the house on June 20, 1960. We understand that a further actuarial valuation as at December 31, 1962 has been undertaken and is expected to be completed by March 1964.

Paragraph 124 deals with the public service superannuation account. I suggest we need not spend much time on this nor on paragraph 125 which deals with the Canadian forces superannuation account.

125. *Canadian Forces Superannuation Account.* In the last three reports, references have been made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this account in 1958-59, with an offsetting amount being charged to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian forces superannuation account".

In 1962-63, following an actuarial valuation as of December 31, 1960, adjusted to March 31, 1963, a further bookkeeping credit of \$198,549,000 was made, with an offsetting charge to the "asset" account referred to above, bringing the additional amounts thus included in the balance at credit of the account to a total of \$524,849,000.

The audit office view continues to be that amounts additional to contributions by members of the forces should be credited to the account only as provided for by parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation. As in the case of the public service superannuation account (paragraph 124) our view is that the actuarial deficiency remaining after recording credits provided for by parliament should be explained each year by means of a note to the statement of assets and liabilities.

The treatment to be given to these accounts by the executive will follow the statements made by the Minister of Finance to the house on March 6th last when he indicated how he was going to deal with the deficiencies that exist in these two superannuation accounts, and you have instructed me to set out the action taken in my next report. That is currently receiving attention as we complete our examination of accounts for the year ended March 31, 1964.

126. *R.C.M.P. Benefit Trust Fund.* Comments were made in last year's report (paragraph 146) and in that of the preceding year (paragraph 115) regarding the use made of this fund.

The major outlay from the fund during the year under review again took the form of a distribution to each member of the force. Individual payments of \$35, compared with \$30 in the preceding year, accounted for a total of \$214,000 out of the gross expenditure of \$216,000. Although it had been expected that the fund would be utilized to a greater extent for the making of loans and grants in appropriate circumstances, little demand for them has materialized and only \$315 was paid out on this basis during the year.

The fund had a balance of \$392,510 at March 31, 1963. In addition to cash resources of \$240,230 on deposit with the receiver general, and \$52,100 (par value) of Dominion of Canada bonds in like custody, assets included the \$98,350 balance of a loan to a members' recreational organization and \$1,830 in loans to individual members.

Paragraph 126 deals with the R.C.M.P. benefit trust fund, and as you see the fund is not being utilized to the extent that had been expected. In fact, there has been little demand for the making of loans and grants, and only \$315 was paid out of this fund in the year that we are reviewing. Paragraph 127 deals with your own retiring allowances account. As I said, in 1962 disbursements from this account exceeded receipts, resulting in a further reduction of \$133,000 in the balance of the account which amounted to \$1,295,000 at March 31, 1963.

However, substantial changes were made in this account in 1963-64, and I believe you will find some further comment on this in my next report.

Mr. CARDIFF: What was the reason for the deficit there?

Mr. HENDERSON: During the year the receipts were \$222,000 and the disbursements made from the account were \$354,000. It may interest you to know that there was a swing the other way in 1963-64 when the receipts rose to \$687,000 and the disbursements were only \$311,000, leaving a balance of \$1,671,000 at March 31, 1964. The reason would be directly traceable to the contributions of the members and correspondingly to the changes. It seems like a large swing and I do not have the individual particulars here, Mr. Cardiff, but we will be looking at this in connection with the 1964 report. It is a good question.

Mr. CARDIFF: I wondered if it was a case of the members failing to meet their responsibilities.

Mr. HENDERSON: No, I do not think it is that, sir.

Perhaps I should ask Mr. Chapman to explain this to you. He is my director in charge of this.

Mr. CHAPMAN: I think the explanation is that during the last several years there have been frequent elections, and as a result of those elections there has been a drain on the account with respect to pensions that became payable.

When the act was amended recently there was provision made that members contribute on the full amount of their indemnity, and in addition members had the privilege of electing to pay additional contributions in respect of previous sessions. As a result, fairly large amounts of contributions in respect of previous sessions have been paid or the members have elected to pay them in instalments, and those amounts have been matched by the government immediately.

In 1963-64, as Mr. Henderson has said, there have been considerably increased contributions and there has been no great increase in respect of pensions.

I think that sums up the situation.

Mr. SOUTHAM: Would a greater number of members becoming deceased cause these figures?

Mr. CHAPMAN: I do not think it is a matter of deceased members. After any general election if a number of members have not been re-elected there will be a proportionate increase in the amounts of pensions payable.

The CHAIRMAN: There will be casualties other than death.

Mr. SOUTHAM: I should have said political decease!

Mr. HENDERSON: Let us now turn to the crown corporation section which will be found on page 82, starting at paragraph 128. In this part of the report I show what the auditor's report is required to state; I set down all the corporations and the reporting ministers.

The CHAIRMAN: Before we go on to that, Mr. Henderson, I would like to ask a question and bring something to the attention of the committee, not for immediate action but for your thought and consideration.

At my request Mr. Slack, the clerk of the committee, checked the files to find which crown corporations have had their affairs made the subject of discussion in this committee since it became considerably active. According to my inquiry I think I am correct in saying—and Mr. Henderson can corroborate this—that the Atomic Energy people, the Polymer Corporation, the Crown Assets Disposal Corporation and the Canadian Broadcasting Corporation comprise the extent to which any of the crown corporations have had their accounts submitted for the consideration of this committee following the Auditor General's report.

If you will turn to the table of contents of this 1963 Auditor General's report you will see a number of crown corporations and in addition the Auditor General deals with certain other funds and authorities and boards. This involves corporations with assets in some cases of many hundreds of millions of dollars. It involves the expenditure of large sums of money, and in many instances it involves payments made at the instance of the parliament of Canada to these crown corporations.

It is my view—and I just throw this out for your consideration—that this committee might well give consideration not so much this year, because we are at the tag end of our deliberations, but certainly next year to having several of these crown corporations come before the committee or, if not the committee if our time will not permit, we should give some consideration to setting up and establishing a strong subcommittee which will be charged each year with the responsibility of dealing with the accounts of some of these crown corporations so that no more than four or five or six years will go by without each one of them having come before a committee or subcommittee.

I just throw that out and ask for your comments on it, Mr. Henderson. If any members of the committee feel it is a matter they would like to discuss, then please do so.

Mr. REGAN: I certainly agree with what you say, Mr. Chairman. I am of the opinion that perhaps we should, if time allows—and you are the best judge of that—have another opportunity to examine one or two of them this year. I will be particularly anxious to have the St. Lawrence Seaway Authority come before such a session. I would appreciate it if that opportunity presented itself.

The CHAIRMAN: The steering committee does propose in the next week or ten days to look at what work is left and what time we are likely to have. If time permits we certainly do hope that at least one of the crown corporations will come before us. It is a question of time and a question of logistics.

Mr. REGAN: This is one that has never been here, I believe.

The CHAIRMAN: No, it has never been here.

Mr. HENDERSON: You did ask for my corroboration, Mr. Chairman, and so may I say that you did mention that Atomic Energy of Canada has been before this committee; that is not so. However, you omitted to remind the members that the Canada Council has been before you and that, of course, is the subject of a separate reference from the house. There has also been the Export Credits Insurance Corporation.

Mr. FANE: Mr. Chairman, in paragraph 133 it is said that the Auditor General is not responsible for the auditing of these seven crown corporations that are mentioned. Can the Auditor General tell us why?

Mr. HENDERSON: The reason why he is not responsible is that the government appoints other auditors and there is no requirement that the Auditor General shall be the auditor, or else he is not appointed under the legislation.

The Financial Administration Act has a provision which states that the Auditor General may be appointed the joint auditor of such companies, but that was not followed in these cases. Accordingly, I do not have any responsibility for examining the accounts of these particular corporations.

Mr. FANE: It seems to me that when the Auditor General is charged with the auditing of government business he should do it all. He should be responsible for all of it. Do we have the authority to call these other special auditors before this committee, Mr. Chairman?

The CHAIRMAN: I would think if you called the crown corporation before you and questions came up which involved the auditor, our authority would certainly be wide enough to extend to the auditors.

Before I call on Mr. Rock I would like to ask this question of Mr. Henderson in the light of your question, Mr. Fane.

What is the practice in the commonwealth countries of Australia—which I think also has a large number of crown corporations—and India? Have you made any inquiries? Does the national auditor general participate to any extent in the audits of crown corporations in those two countries?

Mr. HENDERSON: Yes, he does, Mr. Chairman. I am speaking from memory. I did not bring those details with me, but substantially it is as follows. In the case of India we have recently had a visit from the Comptroller and Auditor General of India, and he told me he is responsible for all of the state corporations without exception, excepting that he may not carry out all the audits. Where the government appoints outside auditors because for one reason or another he cannot handle them, then that is done on recommendation and with the concurrence of the Auditor General. The working papers of the auditors and their methods of verification are shown to him. In other words, he has access to their working papers and to that extent, you might say, shares the responsibility.

In Australia, if I recollect rightly, it is rather more rigid than that. However, I would want to have the precise facts before me to verify these statements.

The CHAIRMAN: We might have a chance to ask you further questions when we are going through some of the corporations later on.

Mr. HENDERSON: Yes.

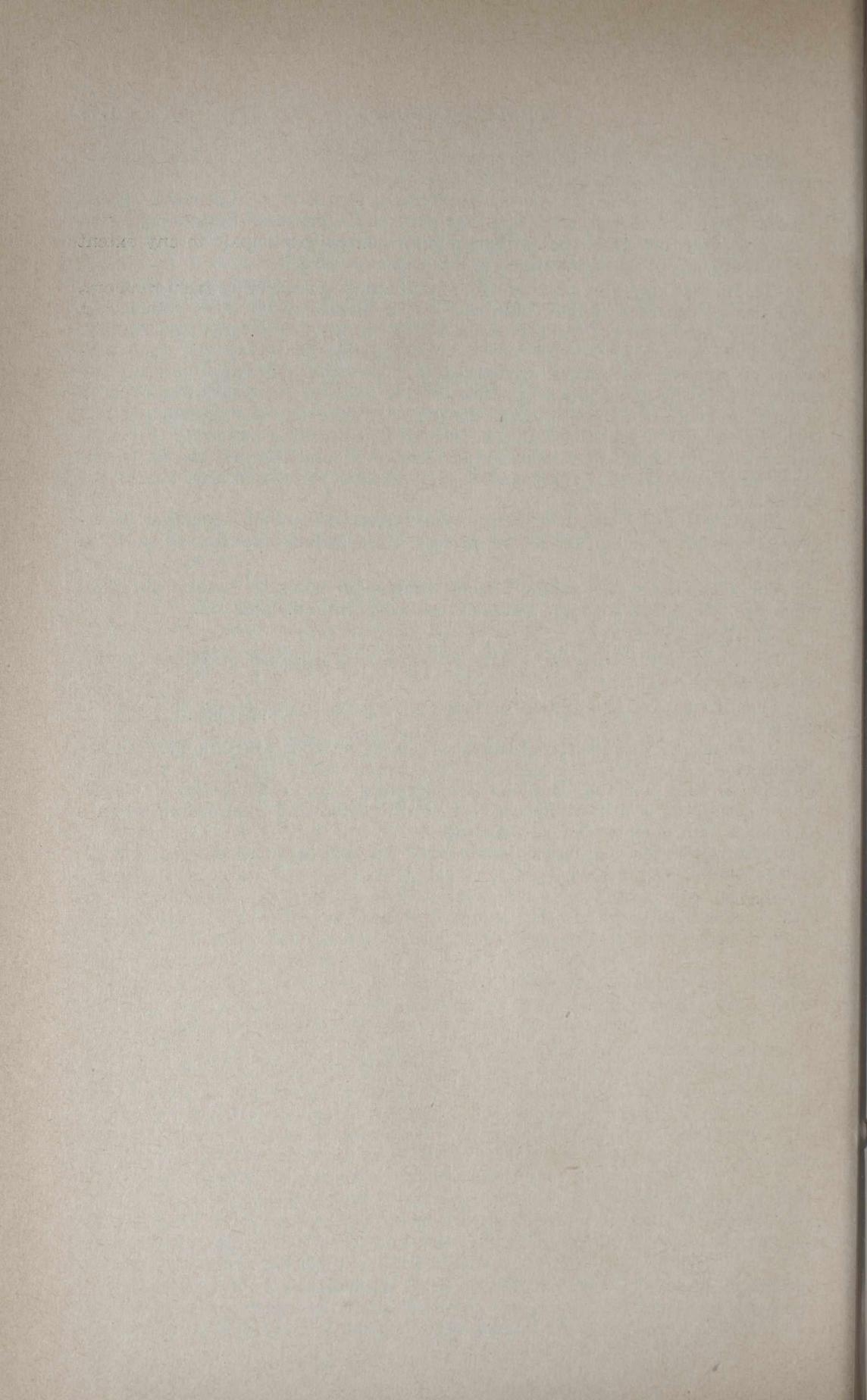
Mr. ROCK: Mr. Chairman, I have no more reason to ask questions, having now looked through the report.

The CHAIRMAN: Gentlemen, is there any more discussion on this general aspect?

If we are to discuss crown corporations at another meeting perhaps we should give a chance to the members to examine them, bearing in mind that we have already had the Canadian Broadcasting Corporation before us. Other crown corporations can be the subject of discussion and questioning when a particular item does happen to come up.

Is it your wish that we adjourn now? I know some of you have to go to the Defence Committee.

Agreed.



HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

Public Accounts, Volumes I, II and III (1963)

Reports of the Auditor General to the House of Commons
1963

TUESDAY, NOVEMBER 10, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes
of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Graftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 10, 1964.

(40)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Francis, Gray, Harkness, Leblanc, Legault, O'Keefe, Prittie, Regan, Rock, Ryan, Stefanson, Stenson, Tardif, Tucker and Winch. (17)

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes, of the Auditor General's office.

The Committee resumed consideration of the 1963 Report of the Auditor General.

It was agreed that the Chairman be authorized to name replacement members on the subcommittee on "Form of Public Accounts".

The Committee agreed to the cancellation of its Thursday, November 12th sitting.

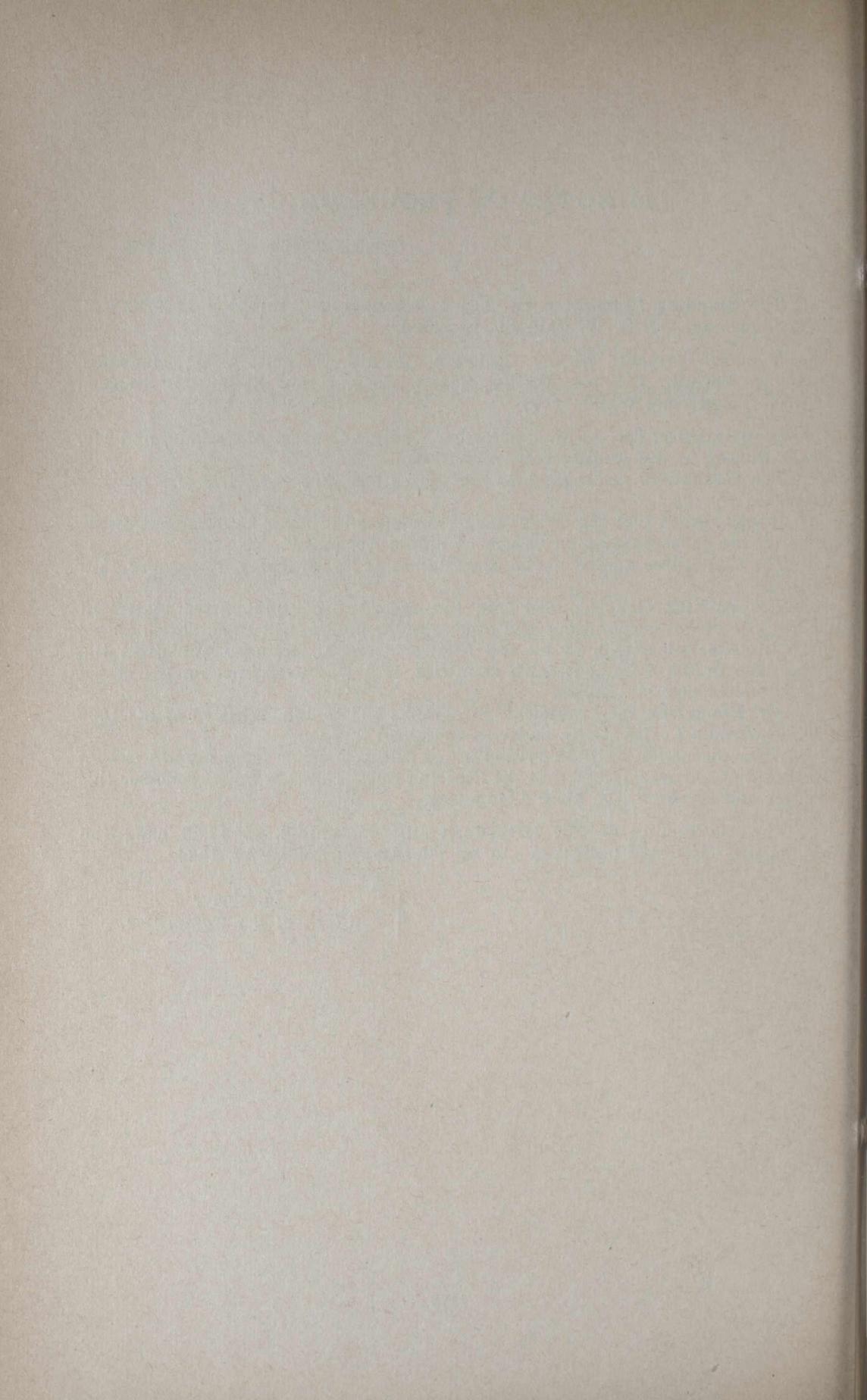
The Auditor General read into the record a comprehensive statement relating to crown corporations and other similar public instrumentalities whose accounts are not examined by the Auditor General. He also explained the procedure in the Commonwealth countries, and was examined on his statement, assisted by Mr. Stokes.

Mr. Henderson then reviewed paragraphs 135 to 158 inclusive of his 1963 Report, *Crown Corporations*, and was examined thereon.

After discussion on the advisability of calling officials from several Crown Corporations, it was agreed that the Steering Subcommittee would consider this matter and report to the Main Committee.

The questioning of Mr. Henderson still continuing, at 11.05 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, November 17, 1964.

M. Slack,
Clerk of the Committee.



EVIDENCE

TUESDAY, November 10, 1964.

The CHAIRMAN: Gentlemen, I see a quorum and the meeting will come to order. There are one or two matters which I want to bring up first. The first matter is with respect to the subcommittee on the form of public accounts. There are one or two members who will not be available for the completion of the proceedings. I attended the last meeting, and after a lot of hard work a report is now in the process of being born. I think that probably we will be able to bring it here in the not too distant future, but as we will have to have a sufficient number of members on the committee I will ask for authority to be able to appoint either one or two additional members in the place of those who will not be there. I know Mr. Southam, for example, is going to the NATO meeting and will be absent. I do not know who will be able to replace him but I would ask for authority to appoint someone.

Mr. WINCH: Yes, Mr. Chairman, it being understood that they will not make a complete review of all the work done in the committee.

The CHAIRMAN: I can give you my undertaking to brief them and to bring them up to date on what the committee has done. I understand that this authority is granted to me.

The other thing which has occurred to me is that as Wednesday is now a holiday, so far as the House of Commons is concerned, I am wondering if it is your wish that we might miss next Thursday's meeting. The preparation of a lot of reports is now being undertaken. We only have the survey of the crown corporations to complete, at which time we will have done all that the House of Commons has laid upon us as the burden for this year. I feel reasonably confident that even with the careful survey which we will see fit to make we will be able to do this a week from today, that is to complete our deliberations apart from the meetings in camera. Having in mind that a lot of members will be going to their homes on Wednesday, may I make the suggestion that we might perhaps miss Thursday's meeting? I assure you we will be drafting reports to present to you, but would you prefer to miss the Thursday meeting and come back a week from today to try to complete this? Has anyone any suggestions to make? I understand it is agreed.

Before we start with the crown corporations in specific terms, may I remind you that at the last meeting Mr. Fane posed a question to the Auditor General. He asked him why the Auditor General was not responsible for the audit of the seven crown corporations and other public instrumentalities which were listed in his report. I added to that question by asking him what was the practice in the other commonwealth countries with regard to the duties of the Auditor General on all crown corporations because, as I pointed out, this is a matter of some concern, having in mind the Auditor General's function, his position vis-à-vis the House of Commons and the extent to which parliament might, through his office, have some control over these crown corporations. He has prepared a fairly extensive memo. I am going to ask him, with your permission, to read this memo, and we might then have it put on the record as an appendix. Before we conclude our deliberations so far as this report is concerned, let me point out that members might like to discuss it to a larger extent a week from today. Mr.

Henderson could give us the benefit of his views on this question which was brought up at the last meeting.

Mr. HENDERSON: I would be glad to do so, Mr. Chairman. I do not think that the notes are so voluminous that they need to go into the proceedings in the form of an appendix. With your permission I will read them to you as I have them, and perhaps they could appear as part of the testimony, depending on whatever decision the secretary would like to make.

The CHAIRMAN: That is fine.

Mr. HENDERSON: You asked me what the situation was in Australia and in India. I spoke very briefly about this but I stated that I did not have detailed notes on this available as I did not come prepared to deal with this subject. I said that I would like to check my facts, which I have done.

In the case of Australia:

1. The audit of all wholly owned commonwealth authorities in Australia, whether board, commissions, corporations or public companies is the responsibility of the Auditor General. These include the Reserve (or Central) Bank, the Commonwealth Banking Corporation, shipping, airlines, commodity boards, etc., and the Australian National University. No private auditing firms are engaged as the external auditors.

2. Some of these authorities (e.g., Australian Coastal Shipping Commission, Coal Mines Insurance Limited and the Australian National University) engage private firms as internal auditors. In this capacity their responsibility is to the authority concerned to whom they report. However, in such cases the Auditor General is given the opportunity to comment on the program of internal audit which they follow and receives copies of the internal audit reports because, as explained under (1) above, he has the final responsibility for the audit.

India

1. The audit of government companies (joint stock companies where the states own at least 51 per cent of the capital stock) can only be carried out by private auditing firms selected and appointed by the government acting on the advice of the Auditor General.

The Auditor General has the following powers in all such cases:

- (a) To give directions to the private auditors regarding the manner in which the audit is to be conducted and instruction regarding any matters relating to the work.
- (b) To have a supplementary or test audit of the accounts conducted by such person or persons as he may authorize on his behalf and his independent observations and comments on the private auditors' reports have to be placed before the general meeting of shareholders.

2. In the case of Statutory Corporations (i.e., those established by act of parliament) such as Air India, Indian Airlines Corporation, Oil and Natural Gas Commission, the Auditor General of India is the sole and exclusive auditor. In certain exceptions, the audits are conducted by private firms appointed by the government but always on the advice of the Auditor General. All of the audit reports in such cases are laid before both houses of parliament.

Ceylon

1. The audit of all semi-government bodies is carried out by the Auditor General by statute.

2. In the case of autonomous and semi-autonomous bodies, the acts of parliament provide for the manner in which the audit is to be carried out, viz.:

Universities—by the Auditor General

Nationalized Activities—by the Auditor General who may employ the services of any qualified auditor or auditors to act under his direction

State Industrial Corporations—by auditors appointed by the minister responsible on the advice of the Auditor General. Statutes provide that the Auditor General has power to

- (a) direct manner in which the corporation's accounts shall be audited and to give auditor instructions;
- (b) conduct a supplementary or test audit by such persons as he may authorize, to require such information as he wishes, etc.

In the United Kingdom the comptroller and Auditor General does not have any audit responsibility for the nationalized industries—national coal board, railways, gas industry, electricity industry, aircraft corporations, etc. The acts setting up these bodies specify that the audits shall be carried out by auditors appointed by the minister. With respect to another class of undertaking (e.g., the sugar board and the legal aid fund) a dual system of audit is prescribed by the legislation. Commercial accountants are employed to audit these but they render their accounts to the comptroller and Auditor General and he is required to make whatever further examination he thinks fit and he himself is then required to certify and lay the accounts before parliament.

In Malaysia the Auditor General must be expressly appointed by law to audit certain statutory bodies, for example the Central Bank of Malaysia, the Malayan railway administration and the employees provident fund. There are, however, several independent authorities such as the land development authority, the housing trust, the rubber replanting board, the social and welfare services lotteries board, etc., where commercial auditors carry out the work. The Auditor General does review the audited statements of bodies like these and stated that where he has any query he raises it with the responsible ministry or department.

A somewhat similar situation exists in Jamaica. The audit provisions there relating to statutory organizations are not by any means uniform. The Auditor General is by statute the auditor of the Bank of Jamaica.

In Canada, different or varying arrangements apply to each of the seven exceptions listed in paragraph 133, so that in my answer to Mr. Fane's question I should refer to them separately.

As to the Bank of Canada, this is governed by the Bank of Canada Act, Chapter 13, R.S. 1952, as amended by Chapter 33, Statutes 1953-54. By section 25 (1) it is provided that the governor in council shall, on the recommendation of the Minister of Finance, not later than the 31st January in each year, appoint two auditors eligible to be appointed as auditors of a chartered bank, but not being members of the same firm, to audit the affairs of the bank, but if the same two persons or if members of the same two firms have been appointed under this section for two consecutive years, one such person or a member of his firm shall not be appointed for the period of two years next following the term for which he was last appointed. Thus the Bank of Canada's practice is similar to that employed by the chartered banks under section 61 of the Bank Act, which spells out the qualifications auditors of chartered banks must have to be eligible for appointment. In this connection it is interesting to note that under section 61 (18) of the Bank Act it is stated that where a

chartered bank carries on any of its operations in the name of a corporation controlled by the bank, the auditors of the bank shall be the auditors of the corporation and the bank must take all necessary steps to ensure that they are appointed auditors of that corporation. The purpose of this requirement is to ensure that the auditor of the bank has full knowledge of all of its operations wherever they may be, and it is therefore because of this that the auditors of the Bank of Canada are likewise the auditors of the Industrial Development Bank.

In the case of the Canadian National Railways, section 38 of the Canadian National Railways Act, Chapter 29, Statutes 1955, provides that a continuous audit of the accounts shall be made by independent auditors appointed annually by parliament, that they shall report annually to parliament and call attention to any matters that in their opinion require consideration or remedial action, and that they shall be paid by the railways such amounts as the governor in council approves. The auditors of the railway are also the auditors of the Canadian National Railway Security Trust. They are also the auditors of Trans-Canada Air Lines because section 13 of the Trans-Canada Air Lines Act provides that the accounts and financial transactions of the corporation shall be audited by the auditor appointed by parliament to audit the accounts of the Canadian National Railways.

The Canadian Wheat Board Act, Chapter 44, R.S. 1952, provides under section 7 (1) (b) that with the approval of the governor in council there shall be appointed a responsible firm of chartered accountants for the purpose of auditing accounts and records and certifying reports of the board.

The Central Mortgage and Housing Corporation Act, Chapter 46, R.S. 1952, provides under section 31 (1) that the minister, with the approval of the governor in council, shall appoint two auditors to hold office for a term not exceeding two years, to audit the affairs of the corporation.

It is pursuant to the foregoing legislation that private firms have been appointed the auditors of the seven institutions listed in paragraph 133.

The Financial Administration Act, under Part VIII dealing with crown corporations, provides as follows under section 77:

“77. (1) Where, in respect of a crown corporation

(a) no provision is made in any act for the appointment of an auditor to audit the accounts and financial transactions of the corporation, or
(b) the auditor is to be appointed pursuant to the Companies Act, the governor in council shall designate a person to audit the accounts and financial transactions of the corporation.

(2) Notwithstanding any other act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a crown corporation.”

Although this provides that notwithstanding any other act the Auditor General is eligible to be appointed the auditor or a joint auditor of a crown corporation, only two cases exist at the present time where the Auditor General has been appointed the joint auditor of a crown corporation.

Members of the committee may recall that action was taken in this regard on the recommendation of the public accounts committee in 1961 in regard to the wholly-owned European subsidiary companies of Polymer Corporation Limited. Because the financial and accounting records of these subsidiaries are maintained at their offices in Switzerland, France,

Belgium and the Netherlands, a private firm of accountants with offices in these countries carries out the audit work, based on work programs developed with me as the other joint auditor, and reports thereon to me in detail at the time I am completing the audit of Polymer Corporation in Sarnia and we are consolidating the accounts of this corporation and its subsidiaries.

As you know, Polymer accounts are submitted on a consolidated basis.

This arrangement has the advantage of saving the travelling costs which would otherwise be entailed were it necessary for my officers to visit these countries on a regular audit schedule. After examining the report of my joint auditor in these countries, we both sign and take the joint responsibility for the accounts of each of the subsidiaries, and I accept these without qualification in rendering my final certificate on the consolidated accounts of the corporation and its subsidiaries, which are then laid before parliament each year in the same manner as the accounts of each of the other crown corporations. The certificate I place thereon is my own and has always been unqualified.

The second case where I am a joint auditor is Expo '67. Under the Canadian Corporation for the 1967 World Exhibition Act, Chapter 32, Statutes 1963, section 17 requires that the accounts and financial transactions of the corporation are to be audited by the Auditor General of Canada and the Quebec provincial auditor, and the joint auditors are then required to report annually in a manner similar to that required by the Financial Administration Act in respect of other crown corporations.

I am pleased to tell you that these joint auditing arrangements are operating very satisfactorily so far as I am concerned, and I am sure that were my joint auditors present they would have no hesitation in saying the same to you.

The CHAIRMAN: Thank you, Mr. Henderson.

Gentlemen, you are now perfectly free to ask any questions of Mr. Henderson. However, without inhibiting any discussion now I think, in fairness to members of the committee who will have a chance to read this as it appears in the record, an opportunity will be given to them at our next meeting to ask any questions they wish. It is a very important question, and whether or not we make any recommendations it is something that the committee might want to explore.

Mr. FRANCIS: I would like to ask Mr. Henderson what is the theoretical justification for a private audit of a crown corporation in circumstances in which Mr. Henderson presumably does not have access to them. It bothers and concerns me as a principle.

Mr. HENDERSON: The justification for it? I suppose the proper answer to that would be that in view of the fact that it is permissible under the Financial Administration Act it has become the policy of successive governments to appoint private auditors in these cases.

Mr. FRANCIS: What is the advantage of a private auditor over your own services?

Mr. HENDERSON: That is a good question but perhaps one on which I should not express myself.

Mr. FRANCIS: I appreciate that you might hesitate but I want to go on record as saying that I do not think it is right as a principle. I think that any public institution or crown corporation should be accessible to the Auditor General, and I think that circumstances in which the Auditor General does not

examine books are wrong in principle. I think every public enterprise should be accessible to the Auditor General. This is my personal opinion and I would like to go on record as expressing it.

Mr. HENDERSON: I would like to add something to what you have said in this respect. Under the Financial Administration Act I am informed that I do have access to the records of these companies notwithstanding the fact that I am not the officially appointed auditor. However, in the accounting profession, as in other professions, there are ethical standards, and it would be only under direct instructions from you or from the Minister of Finance that I would feel I could ask to have access to their records. I think that would be the proper course to take. I enjoy long and happy relations with the private sector of my profession. I feel that that would be the proper course for me to take.

Mr. WINCH: There is just one question I would like to ask here. It has to do with the broad or general principle that the Auditor General is responsible to parliament, by statute or appointment for a crown corporation. This automatically means, as I think he put it, a consolidated report. Let us take for example the Polymer Corporation where there are four or five subsidiaries overseas. Can he then state, as he did, "I accept these without qualification", that is what private auditors overseas report to the Auditor General? He then added "thereby accepting full responsibility". I would like a further explanation on this because you have the responsibility of reporting on the parent body, and yet that includes subsidiaries on which you do not make any audit at all as far as your department is concerned. You say that you accept the reports from overseas on an unqualified basis and you accept the full responsibility.

Mr. ROCK: The joint responsibility.

Mr. HENDERSON: That is a very good question, and, as a matter of fact, at the time this arrangement was made in 1961 you may recall it was discussed at some length in the committee when the Polymer officials were before the committee. They had then established the subsidiaries abroad and had in fact proceeded to appoint an international firm of chartered accountants with offices in the various European capitals. Had that arrangement remained on that basis, leaving me as auditor for the parent company but not auditor for the subsidiaries, it would have, in accordance with accepted accounting practices, necessitated a reference by me to this fact in my certificate stating that the accounts of the subsidiary companies had been examined by other firms of auditors in these countries. However, by the same token it was felt, and I think the committee took the view and so did the officers of the corporation, that it would make for a smoother operation if the Auditor General were to share that responsibility with the private firm in the capacity of a joint auditor appointed under this provision of the Financial Administration Act because these are crown corporations whether they are in the Netherlands for example, or in Canada. I therefore take responsibility for their accounts, and delegate that responsibility to them to the extent that I see fit in my professional capacity because they are on the spot. It is a much more economical operation from the travelling standpoint to have them in these countries. They are more familiar than I with the tax and related law and legislation in these countries. As you know from your studies of the Polymer Corporation, it is an operation which requires continuous study.

And when they have completed their work, these joint auditors submit detailed reports directly to me as to how the work has been carried out, and what in effect they have had to consider and suggest by way of recommendation. Mr. Stokes is with me today. It is he who carries out the audit of Polymer Corporation for me and it may be of interest to you to know that last year he and I met with our joint auditors overseas in order to review their program of

activities in these countries. We may well, if occasion presents itself in the years ahead, be participating with them in some of the phases of this work. So it is not just a joint arrangement on paper. This is the type of judgment which many auditing firms have to be prepared to exercise in cases like this in adapting themselves to a particular situation. I am joint auditor of these firms in Europe, and I sign their statements as required by the authorities over there, and by the stockholders. I am, as you know, the sole auditor of the parent corporation.

Mr. WINCH: That is the very point. I do not question that this is done on a basis of efficiency and economy and so on. But what I cannot get through my head yet is that you sign as joint auditor.

Mr. HENDERSON: We are jointly and severally responsible.

Mr. WINCH: Yes, but the point is that you and your department do not actually make any audit. Yet you sign as auditors for operations of which you never make any audit. In so doing, according to your own terminology, you accept it on an unqualified basis, so therefore you accept the responsibility, because as far as you are concerned, with parliament there is only one report and one responsibility, and that is yourself.

Mr. HENDERSON: If there is anything in the accounts of these subsidiaries which my joint auditors report to me, and about which I may have any reservations, or facts I feel that the house should know, it is understood between us that I tell the house about them in my own report to the House. There may be instances come along in their reports when perhaps the journal vouchers were not approved for one month, or small points arise concerning the system of internal control needing overhaul which I may decide not to burden the house with at all. But this is how I have delegated the day to day audit work to the firms. I am perfectly satisfied with the competency of the firm in question, and with the program of work they follow, because we collaborate in preparing it. Their reports to Mr. Stokes, and to me are very detailed. Periodically, if we have occasion to be overseas, we will sit down and visit with them. This about sums up the way we operate. The only alternative open to me would be to do the complete audit, and to dispatch teams to these countries twice a year.

The CHAIRMAN: Perhaps Mr. Stokes might care to make a comment.

Mr. A. B. STOKES (*Supervisor, Auditor General's Office*): In the course of the audits which may be performed by our colleagues overseas, questions may arise which they will direct to us in order to obtain our opinion as to certain transactions. So we feel that we are kept informed throughout the audit itself with respect to matters of principle which may arise.

Mr. HENDERSON: These have been fairly frequent, I might say, because the operations of these companies in the various countries are involved, and we are thus familiar with whatever situation they have under discussion with local management. They will correspond with us, and we in turn will talk to the president and the vice presidents at Sarnia, as to the course of action to be taken, and we have been able to work together very satisfactorily on this basis.

Mr. ROCK: In other words, during the audit you have communication with them. You do it out there. You do discuss the audit with them.

Mr. HENDERSON: Oh, yes.

Mr. ROCK: They are your employees, indirectly?

Mr. HENDERSON: You might put it that way. They are our employees in the sense that we have no difficulty in working out a program together—and we do this in great detail, because since we are auditors of the parent corporation, they must know what our standards are, and what we expect of them, and how we apply them in our work at Sarnia; and we agree with them in the setting up

of the work. I might cite for example, the large rubber plant at Strasbourg. We have looked into the system of internal control which they have set up very carefully. Mr. Stokes and I were there last summer, as I mentioned, and we met with the officers not only in their offices but also on the site, and with management in looking over these things. We went over there with a list of questions for checking. We do not propose to do this every year unless we should have reason to believe that we have to be more active than we are at the present time. This is a matter of judgment in the exercise of my own responsibility as I see it.

Mr. WINCH: Just to use Polymer as an example, is my understanding correct that when they report on the parent corporation in Sarnia, it is a consolidated report of the parent company?

Mr. HENDERSON: That is right.

Mr. WINCH: That leads me to this question. On the matter of policy, would you recommend any change in order that the House of Commons should have a complete understanding of the operations. That would end your consolidated report. Should there be an indication of the operations of the subsidiaries, so that the House of Commons would know not only what the overall position of the parent company is, but also have a financial picture of the operations of the subsidiaries? Has any thought ever been given to that angle, or is there any reason why the House of Commons should receive only a consolidated report?

Mr. HENDERSON: I think you have made a good point in that the house has every right to know the full and complete details of the operations of each of these subsidiary companies. I am speaking of financial reports as distinct from what the subsidiaries do, which I think is a matter of record in the annual report of the corporation; but to have the individual financial result of each subsidiary company listed there would not convey too much in the over-all picture, because it is a very complex one. These companies are little more than branch operations.

Mr. WINCH: Let us consider Mexico.

Mr. HENDERSON: That is a different situation when compared to the one at Strasbourg. The only way to show the real picture of Polymer is on a consolidated basis, in my opinion. It would not be too difficult to give you an explanation at any time as to how these subsidiaries interlock, and the reason for some of the arrangements which exist. But I would point out to you that if you should require Polymer to spread this information out, you may in turn be doing it a disservice in its relations with the competition which it has to meet over there, because this competition is extremely formidable. There are no mysteries about this. It is a standard type of operation which you find in any large business.

If Canada is going to compete in these markets, and to extend and strengthen its competitive position, then some regard should be given, it seems to me, to the manner in which you ask the company to make its affairs public. On the other hand, such a thing as an in camera meeting to explain the interlocking arrangements would have a certain amount of merit. But I think the proper way to assess Polymer's progress from its financial point of view is essentially on a consolidated basis. You know that they have to meet very intense international competition from some of the largest complexes in the world such as Standard Oil of New Jersey, Royal Dutch Shell, and so on.

Mr. O'KEEFE: I am anxious to go on record as being opposed to outside firms coming in. Would there be a saving to the taxpayer if that system were changed?

The CHAIRMAN: You may assess what saving might be acquired.

Mr. HENDERSON: Well, it really would depend on how you approach it. Essentially, the saving inherent in such an arrangement would be one of comparing an audit conducted by private firms as opposed to an audit conducted by my office. In fairness to the private firms, just like the rest of us, they have to pay taxes. I wish to point that out. As to the man power which I would require to employ in order to match theirs, there are two firms of auditors, as I indicated for most of these seven corporations. The fees which are paid to them were tabled in answer to a question in the Senate last year. I do not have it at hand, but they were all given there, I think.

Mr. O'KEEFE: So there would be no saving?

Mr. HENDERSON: No, there would be a saving undoubtedly to the federal treasury. I have not made any computation as to how much it would be. I would have to expand on the staff side, Mr. Chairman, and, as we know from earlier discussion, this particular situation has improved in my office. The treasury board as recently as October 22 accepted or approved my request for additional staff with effect from April 1 of next year. In doing so they made this effective as of October 1 of this year so that I could go out and get the people in and have them trained before our busy season commences, which is early in the new year. Therefore, I am very hopeful that the problems we have discussed here together in the past are going to be behind us very soon, and that I shall now have a staff adequate to meet the job.

The CHAIRMAN: I wonder if it would be possible for Mr. Henderson to refer the clerk to the particular reference in the Senate committee reports, so that it meets Mr. O'Keefe's point, and that the committee might agree that it be included as part of our proceedings, so that it would be on record for the purpose? Would you agree?

Mr. O'KEEFE: Yes, I would.

Mr. HENDERSON: All right, I shall obtain it for you.

Mr. ROCK: Mr. Francis and Mr. O'Keefe have already gone on record as being against the hiring of outside auditors without getting a full picture of the situation in principle. Even so they are on record. But it is easy to go on record without getting all the facts. Would Mr. Henderson not say that there may be a little saving?

Mr. O'KEEFE: Thank you very much.

Mr. ROCK: Does this mean that even if you have your own men and send them over there every year, and bring them back, it would be a saving, or would you have to retain your men in Europe, and find homes so that they might live there? They might even receive an extra bonus, such as other people do when they go overseas.

Mr. FRANCIS: Mr. Chairman, I would like to set the record straight. I am not objecting to the arrangement with Polymer. I think it is excellent, and makes a lot of sense. I do not see how the Auditor General could be doing otherwise. It should be brought out that it was on his initiative and recommendation that this solution was arrived at, because he did not want to have his staff travelling all over the world. But I would repeat that I do think there is a principle that is spelled out in the Financial Administration Act that, where public funds are involved, there is a function on the part of the Auditor General to be performed, and I think there is a principle being followed in such a situation. The Auditor General does not, as a matter of practice, and out of courtesy and deference to his professional colleagues in the private sector, do the job which I would like to see him do in respect of the corporations which do not use his service, but do use the services of private auditors. Thank you for your courtesy.

Mr. ROCK: This is your opinion, but I do not see much reason for the system presently being used. I do not think in effect we would ever save any money according to Mr. O'Keefe's proposition. And I think that the proof is submitted here. I will go along with the way it is being done right now.

The CHAIRMAN: Gentlemen, may we perhaps close off the discussion now without inhibiting a discussion again after we have had an opportunity to read what Mr. Henderson has said. I was very interested in the situations he has brought up, namely, that the Auditor General do it alone, or the Auditor General's office do it in joint combination or co-operation with members of the private sector; or that it be done by the private sector alone. These are the three choices set out. Perhaps after we have had a chance to read it carefully, it would be open to discussion at our next meeting with such additional information which Mr. Henderson will get for us as to the cost to the country.

Mr. WINCH: Can we be sure of getting the transcript for the next meeting?

The CHAIRMAN: Let us say that even if the transcript is not available, we might have copies run off for members of the committee.

Mr. HENDERSON: You mean copies of the Senate figures?

The CHAIRMAN: Yes.

Mr. HENDERSON: Yes. Unfortunately I did not bring them to the meeting. But they are available in the Senate reports. A question was asked and an answer was tabled giving the names of the firms and the fees paid in respect of the audits.

Mr. WINCH: Could we not have photostats run off of your brief for members of the committee, in case we cannot get the transcript before the next meeting?

The CHAIRMAN: Yes, I think so. When copies are made available to us, they will be made available to you.

Mr. HENDERSON: You mean concerning the arrangements in other commonwealth countries?

The CHAIRMAN: Yes. They will be made available as well. Now, let us turn to paragraph 135, which has to do with the first of the crown corporations.

135. *Atomic Energy of Canada Limited*. This company was incorporated in 1952 under the Companies Act, 1934 pursuant to the authority contained in the Atomic Energy Control Act, R.S., c. 11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the company is in Ottawa. Nuclear reactors and major research and development laboratories are maintained at Chalk River, Ontario. A commercial products division, located in Ottawa, is responsible for the sale of beam therapy units, radio-active isotopes and other allied products. A nuclear power plant division is situated in Toronto and has responsibility for the administration, design, engineering and procurement services for the Douglas Point nuclear power station located on the shore of Lake Huron. In addition, this division co-ordinates all the research and development contracts which the company places with Canadian industry. At the year-end there were 162 of these contracts placed with 33 firms.

A nuclear power demonstration plant at Rolphton, Ontario, was completed and put into operation during the year. This plant was built as a joint project of Atomic Energy of Canada Limited, the Hydro-Electric Power Commission of Ontario and Canadian General Electric Company Limited, and was built to demonstrate the Canadian type of nuclear power reactor. The crown company's share of the costs of this project

amounted to \$25,537,000. This includes \$724,000 spent on a design concept which was not used for the reactor, as constructed, and consequently the company's share of the plant is recorded in its accounts at a cost of \$24,813,000.

At the year-end the company had under construction a nuclear research establishment in the Whiteshell area, near Winnipeg, and a nuclear power station at Douglas Point. The cost of the research establishment (\$8,693,000) is being financed by parliamentary appropriations and the cost of the power station (\$19,811,000) by government of Canada loans.

The crown's equity in the company at March 31, 1963 totalled \$55,336,000, comprising: loans for housing, \$5,667,000; loans for construction of Douglas Point generating station, \$19,281,000; capital stock, \$54,000,000; and retained earnings, \$1,627,000—less the depreciated value of the N.R.U. reactor (\$25,239,000) which was written off during the year, as authorized by the Special Appropriation Act, 1963 (Atomic Energy Vote 16).

A comparative summary of income and expense for the past two years follows:

	Year ended March 31	
	1963	1962
Research Program—Operating		
Expense—		
Research and development	\$ 8,792,000	\$ 8,456,000
Operation of research facilities	1,795,000	1,597,000
Engineering services	3,870,000	3,770,000
Engineering design and applied development ..	1,497,000	1,393,000
Nuclear power plant	9,125,000	7,060,000
Administration	3,159,000	3,011,000
Other	2,289,000	1,886,000
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	30,527,000	27,173,000
Income: Gross income from housing, hospital, transportation, etc.	1,896,000	1,438,000
	<hr/>	<hr/>
Excess of expense over income	\$28,631,000	\$25,735,000
	<hr/>	<hr/>
Provided for by:		
Parliamentary appropriation	\$28,646,000	\$25,756,000
Less: Unexpended balance refundable to the government of Canada	15,000	21,000
	<hr/>	<hr/>
	\$28,631,000	\$25,735,000
	<hr/>	<hr/>
Research Program—Capital		
Expense: Construction of buildings and acquisition of equipment	\$ 9,349,000	\$ 9,223,000
	<hr/>	<hr/>
Provided for by:		
Parliamentary appropriation	\$ 8,431,000	\$ 8,198,000
Retained earnings	918,000	1,025,000
	<hr/>	<hr/>
	\$ 9,349,000	\$ 9,223,000
	<hr/>	<hr/>
Commercial Operations		
Income—		
Sales	\$ 3,803,000	\$ 3,878,000
Rentals, etc.	159,000	196,000
	<hr/>	<hr/>
	3,962,000	4,074,000
	<hr/>	<hr/>

Commereiiial Operation (Concluded)	Year ended March 31	
	1963	1962
Expense—		
Cost of sales, etc.	1,858,000	2,178,000
Research and development	652,000	444,000
Selling	863,000	760,000
Administrative	373,000	374,000
	3,746,000	3,756,000
Excess of income over expense, credited to re- tained earnings	\$ 216,000	\$ 318,000

The sale of materials irradiated in the N.R.U. reactor and the related costs are subject to a classified international agreement and are, therefore, not reflected in the above summary.

The rise of \$3,354,000 during 1962-63 in research operating expenses was largely due to increases in: salaries and wages, including welfare benefits, \$766,000; materials and supplies, \$1,221,000; professional and special services, \$1,553,000; less a decrease of \$897,000 in contractual expenditures. The increase in salaries and wages resulted from an increase in the number of personnel employed, together with increased remuneration granted under union contracts. The commissioning and putting into operation of the nuclear power demonstration plant at Rolphton necessitated materials and supplies not heretofore required, plus additional professional and other services resulting in the marked increase in the cost of these items. In previous years one of the contractual expenditures of the research operating program was a "grant" of \$215,000 to the company's commercial products division. This policy was discontinued during 1962-63 and the decrease in expenditures under contracts is partly due to discontinuation of this "grant", as well as to the termination of payments under contracts upon completion of the nuclear power demonstration plant.

The annual parliamentary appropriations for the research operating program take into consideration credits for income arising from housing, hospital, transportation, etc. On the other hand, income incidental to the operation of research facilities and profits on disposal of plant, property, etc., is credited to retained earnings account instead of to the annual appropriations for the research capital program. However, the company supplements these appropriations by funds from retained earnings, and the amounts of the appropriations take into consideration undertakings on the part of the company to provide such funds. The balance of the retained earnings account at March 31, 1963 amounted to \$1,627,000 and the company has undertaken to supplement the appropriations for the research capital program by this amount over the next two years.

Mr. HENDERSON: Would it be satisfactory if we could just deal with each one of them as we go through, beginning with this paragraph 135?

The CHAIRMAN: Yes, and if any member has a question, he may ask it when Mr. Henderson has completed what he has to say concerning the paragraph in question.

Mr. HENDERSON: Here you see set out the background of what the crown corporation does, how it operates, the size of the crown's equity, and the result of its operations. So on page 86 you will see it done on a comparative basis with previous years, followed by an explanation as to the increase in expenditures

as well as in revenues. Any comment we might have to make on the manner in which the operations are carried out is usually made at the conclusion of the commentary. And in the case of Atomic Energy of Canada Limited we do not have any remarks of that type to make here. Now, paragraph 136 which deals with Canadian Arsenals Limited:

136. *Canadian Arsenals Limited*. This company was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the department of reconstruction act, 1944, c. 18. The main objects of the company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that the operations could be expanded on short notice.

At the year-end the company, with its head office in Ottawa, was the custodian of nine crown-owned plants constructed at a cost in excess of \$100 million. Eight of these plants were maintained in partially stand-by condition and one was idle.

Funds totalling \$392,000 were provided by the Department of Defence Production under authority of parliamentary appropriations and Governor General's special warrants towards construction, improvements and equipment acquired by the company during 1962-63. Actual capital expenditures during the year amounted to \$383,000 and the unexpended balance of \$9,000 has been refunded.

At March 31, 1963 the company's operations were financed by advances of \$1,150,000 from the Department of National Defence in respect of orders placed (reduced from \$4,648,000 at March 31, 1962), advances of \$2,250,000 from the Department of Defence Production revolving fund (reduced from \$5,000,000 at March 31, 1962) and advances of \$7,500,000 from the Minister of Finance for working capital (unchanged from March 31, 1962).

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1963	1962
Income—		
Sales	\$16,975,000	\$22,936,000
Miscellaneous	815,000	503,000
	<hr/>	<hr/>
	17,790,000	23,439,000
Expense—		
Cost of sales, including indirect labour and other overhead expenses absorbed	15,310,000	20,250,000
Indirect labour and other overhead expenses not absorbed in cost of sales	5,863,000	5,318,000
Administrative expenses	818,000	911,000
	<hr/>	<hr/>
	21,991,000	26,479,000
Excess of expense over income	\$ 4,201,000	\$ 3,040,000

Except for a minor increase in 1961-62 over 1960-61, there has been a steady decline in sales over the past eight years, from \$81 million for the year ended March 31, 1955 to \$17 million for the year ended March 31, 1963. The reduced level of sales, coupled with the company's obligation to maintain the crown-owned plants in partial stand-by condition,

has necessitated funds being appropriated by Parliament towards the cost of administration and operation of the company. During the year under review a total of \$4,216,000 was provided by the Department of Defence Production for this purpose through parliamentary appropriations and Governor General's special warrants. Since the excess of expense over income for the year ended March 31, 1963 amounted to \$4,201,000, a balance of \$15,000 remained at the year-end and was refunded in May 1963.

Indirect labour and overhead expenses for the year totalled \$10,853,000 (compared with \$11,238,000 for the previous year) of which \$4,990,000 was included in cost of sales. It has been the company's practice to calculate this portion of overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, \$5,863,000, shown in the above table as indirect labour and other overhead expenses not absorbed in cost of sales, can be largely attributed to idle capacity of production facilities.

Inventories of raw materials, work in process and finished goods were reduced by \$5,027,000 or 48% from their level at March 31, 1962. The inventory reduction includes write-offs of \$334,000, of which \$32,000 was for products rejected in the previous year.

Reference was made in last year's Report to the fact that a firm of management consultants, engaged in November 1960 by the Department of Defence Production to undertake a study of the organization of the company, the efficiency and cost of its manufacturing operations and other aspects of its activities, had submitted its report and that this was under review by the management. During the year under review a number of the recommendations made by the consultants were implemented, while others were still under study.

The same practice is followed here. On page 88 you see a comparative summary of the results of operations for the past two years, and then the explanation follows as to the reason for the increase or change in the various income and expenditure categories. You will notice reference at the conclusion here to a firm of management consultants which has been engaged in November, 1960, by the Department of Defence Production to undertake a study of the organization of the company, the efficiency and costs of its manufacturing operations and other aspects of its activities. It has submitted its report which is under review by management. We take an interest in these studies as we must, because the facts disclosed by them often are reflected in the operations which we audit, and the changes that they are proposing to employ might affect the delicate balance of the system of internal financial control. This is of great importance to us in our audit program as you know.

Now, paragraph 137:

137. *Canadian Broadcasting Corporation.* The Canadian Broadcasting Corporation, established by the Canadian broadcasting corporation act, 1936, c. 24, superseded by the Broadcasting Act, 1958, c. 22, operates the national television and radio broadcasting services and also administers an international shortwave service on behalf of the government of Canada. The head office of the corporation is in Ottawa, with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver and an engineering headquarters in Montreal.

The Corporation derives its funds for operating requirements in excess of advertising revenue and also funds for its capital requirements from grants provided through parliamentary appropriations.

At March 31, 1963 the crown's equity in the corporation amounted to \$42,798,000, an increase of \$1,772,000 over the equity of \$41,026,000 at the close of the preceding year.

The following is a comparative summary of the results of operations for the last two financial years:

	Year ended March 31	
	1963	1962
Expense—		
Cost of production and distribution		
Cost of programs	\$70,005,000	\$68,361,000
Network distribution	10,146,000	10,062,000
Station transmission	4,030,000	3,893,000
Payments to private stations	4,335,000	4,851,000
Commissions to agencies and networks	3,872,000	4,620,000
	<hr/>	<hr/>
	92,388,000	91,787,000
Operational supervision and services	8,427,000	8,843,000
Selling and general administration	7,269,000	6,968,000
Emergency broadcasting	282,000	13,000
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Total expense (including depreciation)	108,366,000	107,611,000
Income—		
Advertising revenue	31,403,000	33,320,000
	<hr/>	<hr/>
Net expense	\$76,963,000	\$74,291,000

The "grant in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service", \$72,655,000, comprising net expense of \$76,963,000 shown above, less depreciation of \$4,308,000 charged for cost ascertainment purposes, was provided by parliamentary appropriations to the extent of \$61,661,000 and by Governor General's special warrants to the extent of \$11,583,000. The unexpended portion of \$589,000 was refunded to the Receiver General in May 1963.

The net expense for the year under review increased by \$2,672,000 over the net expense for the preceding year, \$1,917,000 of the increase being attributable to decreased advertising revenue and \$755,000 to increased expense. Continuing competition from independent television stations and increased competition from a private television network were the main reasons for the decrease in advertising revenue. An increase of \$2,362,000 in salaries and wages, which more than accounted for the overall increase in expense, was mainly due to salary increases required by collective bargaining agreements. An increase in the number of employees during the first four months of the fiscal year was more than offset by subsequent reductions and at March 31, 1963 the corporation had 179 fewer employees than at the end of the preceding year.

The following inventory balances at March 31, 1963 are compared with the corresponding balances at March 31, 1962:

	March 31		
	1963	1962	Increase
Engineering and production supplies ..	\$ 1,646,000	\$ 1,569,000	\$ 77,000
Programs completed and in process of production	3,589,000	3,341,000	248,000
Prepaid film rights	1,705,000	1,514,000	191,000
Prepaid script rights	172,000	143,000	29,000
	<hr/>	<hr/>	
	\$ 7,112,000	\$ 6,567,000	\$ 545,000

The bulk of the inventory of programs completed and in process of production continued to be in Toronto and Montreal, for the English and French networks respectively, and included programs recorded in advance of broadcast on videotape (\$2,277,000) and film (\$1,176,000). Of the \$1,705,000 of prepaid film rights, \$1,363,000 or 80% was in the Quebec region, where the limited supply of French language film available in Canada necessitated the acquisition of rights in advance of normal requirements.

The inventory balances shown in the above tabulation are after giving effect to the following write-offs:

Programs completed and in process of production abandoned and cancelled because of performer or technical deficiencies or changes in programming	\$ 115,000
Film rights expired and not telecast because of changes in programming or unsuitable because of program content	73,000
Script rights expired or unsuitable	64,000
Engineering and production supplies unusable and obsolete	3,000
	\$ 255,000

The comparable write-offs in the previous year totalled \$1,159,000 which included \$701,000 of stationery, technical and production supplies on hand and which were charged directly as expense at March 31, 1962 in keeping with the corporation's decision to charge these classes of supplies as expense when purchased rather than when used, as had been the previous practice.

The capital requirements of the corporation, amounting to \$6,600,000, were provided to the extent of \$6,050,000 by parliamentary appropriations and \$550,000 by Governor General's special warrant. With capital expenditure during the year amounting to \$6,390,000 the unexpended balance of \$210,000 was refunded to the Receiver General in May, 1963.

During the last four years, \$3,802,000 was spent in connection with the consolidation of facilities in Toronto, Montreal and Ottawa. A note to the financial statements at March 31, 1963 sets out that the present estimate of the cost of consolidation of facilities at these locations would be \$83,058,000 of which, subject to the provision by parliament of annual appropriations for the purpose, \$1,597,000 would be expended during the year ending March 31, 1964 and the balance during the four years ending March 31, 1968.

In the reports for the past two years we drew attention to a recommendation contained in our report to the board of directors for the year ended March 31, 1960 that a useful purpose might be served by having the corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the audit office. A study along these lines was made by the Royal Commission on Government Organization, and the results were contained in report 19, volume 4 of its reports released on April 17, 1963. The commissioners stated that, while they had not undertaken the detailed investigation and appraisal which may have been contemplated, their report was proposing guidelines and criteria which, subject to government decisions on policy, should permit the corporation to adjust its internal organization and operations to management and performance needs. Several of the commissioners' comments, particularly those relating to financial administration, dealt with matters which had been the subject of critical comment in our 1960 report, and we found that a number of these matters had, in the meantime, been remedied. These comments made by the commissioners have been reviewed with the president and senior officers of the corporation who have stated that further remedial action would be undertaken.

This paragraph gives you a picture of the Canadian Broadcasting Corporation which you have already dealt with earlier this year; and as you know, behind each one of these observations there exists a long form report which is sent to the management, and copies of which were tabled for your information and to facilitate your discussions and consideration of the affairs of the corporation when you examined it.

Now, paragraph 138:

138. *Canadian Commercial Corporation.* This corporation, which was established in 1946 under the Canadian Commercial Corporation Act, now R.S., c. 35, provides procurement services in Canada for the governments of other countries and for international organizations. The corporation's main customer is the United States government, although a considerable volume of purchasing of Canadian-made goods is carried out on behalf of the Department of External Affairs' external aid office for Colombo plan projects. Some \$153 million of suppliers' invoices were processed by the Corporation on behalf of its customers, during the year under review, in comparison with \$107 million in the preceding year.

At the year-end the equity of the government of Canada in the corporation was \$9,899,177 represented by a \$9.5 million working capital advance and an accumulated surplus of \$399,177.

The corporation's operating budget for 1963-64 estimates a loss of \$390,000; therefore, it is assumed that by the end of the 1963-64 fiscal year the surplus will be almost depleted. A board of directors' minute of March 19, 1963, noted that the operating deficit for the financial year 1964-65 should be covered by a Department of Defence Production vote and that the department will be asked to provide an amount for this purpose in its estimates for that year.

The following is a comparative summary of the operations of the corporation for the past two years:

	Year ended March 31	
	1963	1962
Expense—		
Salaries and living expenses	\$ 381,000	\$ 331,000
Other expenses	110,000	87,000
	<hr/>	<hr/>
	491,000	418,000
	<hr/>	<hr/>
Income—		
Purchase surcharges	127,000	108,000
Interest earned	119,000	66,000
Exchange gain	8,000	62,000
Other income	1,000	6,000
	<hr/>	<hr/>
	255,000	242,000
	<hr/>	<hr/>
Net loss	\$ 236,000	\$ 176,000
	<hr/>	<hr/>

The increase in salaries and living expenses was due to the cost of additional staff required to process the increased volume of business and to a general salary increase retroactive to October 1, 1961. The increase in interest resulted from an increase in funds available for short-term investment while the decrease in exchange gain resulted from the fact that in the previous year a substantial gain resulted from the sale of United States funds.

In last year's report it was noted that the Department of Defence Production had been providing purchasing and accounting services free of charge to the corporation since 1951. This arrangement was continued

in the year under review. In addition, as a result of a reorganization during the year for the purpose of improving the services rendered on export contracts, 31 engineers and purchasing officers were loaned to the company without charge by the Department of Defence Production and Defence Construction (1951) Limited.

That is a fairly straightforward operation, I think.

Now paragraph 139:

139. *Canadian National (West Indies) Steamships, Limited.* The active operations of this company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests, and its activities are now confined to the winding-up of its affairs. The head office of the company is in Ottawa and its residual functions are being performed by staff of the Canadian Maritime Commission.

During the year, by supplementary letters patent, 16,390 of the company's 16,400 outstanding shares were cancelled. Paid-up capital represented by the cancelled stock amounted to \$1,599,000. Payments to the government of Canada, by the transfer of the Minister of Finance of \$725,000 on deposit with the Receiver General and a remittance of \$550,000, reduced the undistributed capital to \$324,000 at December 31, 1962.

The sum of \$60,000 was received in war claims during the year and \$42,000 of interest was earned on deposits and agreements of sale. Expenditures, comprising settlement of claims and legal expenses with respect to these claims, amounted to \$5,000.

The crown's equity in the company at December 31, 1962 amounted to \$468,000 represented by the following:

Cash	\$ 26,000
Balance due under agreement of sale of vessels including accrued interest	456,000
	<hr/>
	482,000
Less: Matured bonds, unclaimed	14,000
	<hr/>
	\$ 468,000

An outstanding claim of \$59,000, filed with the War Claims Commission in respect of a loss due to enemy action, was not recorded on the balance sheet of the company as a receivable at the year-end since the amount of any further recovery is dependent on the adequacy of the war claims fund. On the other hand, no provision was made for a possible liability, estimated at approximately \$50,000, in respect of legal claims filed or pending for damages resulting from the company's operations in past years.

This deals with the Canadian National (West Indies) Steamships, Limited which is reaching the conclusion of its activities as it collects the final balance due from the sale of its ships.

Now, paragraph 140:

140. *Canadian Overseas Telecommunication Corporation.* The objects of this corporation, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, now R.S., c. 42, are: to establish, maintain and operate external telecommunication services for the conduct of public communications; to carry on the business of public communications; to improve the efficiency of telecommunication services generally; and to co-ordinate Canada's external telecommunication

services with those of other parts of the commonwealth. To these ends the corporation, in 1950, acquired the external telecommunication facilities in Canada of Cable and Wireless Limited and Canadian Marconi Company Limited. The acquisition of these facilities provided cable and radio-telegraph circuits between Canada, Britain, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services with Britain and the West Indies. The more recent of many major subsequent developments include the following: the bringing into service in January 1963 of the cable system between Canada, Greenland and Iceland, with extensions to Britain and Europe; the acquisition of the right of use of an appropriate number of circuits in a cable between the United States and Jamaica and an extension to Montreal to provide service between Canada and Jamaica, beginning in February 1963; and the joint agreement with Britain, Australia and New Zealand to construct the Commonwealth Pacific Cable System between Canada and Australia and New Zealand which is to be brought into service in December 1963.

The equity of the crown in the corporation amounted to \$56,947,000 at March 31, 1963, an increase of \$13,411,000 over the equity at the end of the previous year, and comprised \$49,321,000 of advances for capital purposes and \$7,626,000 of accumulated surplus.

Loans to finance, in part, the capital requirements of the corporation are provided by parliamentary appropriations. Capital additions during the year amounted to \$17,781,000 towards which \$13,000,000 was advanced by the crown and \$4,781,000 was provided out of accumulated earnings. At March 31, 1963 the estimated cost of completing approved capital projects was approximately \$23,400,000 of which \$14,400,000 related to the year ending March 31, 1964.

The following is a summary of the income and expense of the corporation for the last two years:

	Year ended March 31	
	1963	1962
Income—		
Telephone, telegraph, telex, circuit rentals, etc.	\$12,321,000	\$ 9,484,000
Expense—		
Salaries, wages and employee benefits	2,591,000	2,304,000
Depreciation	2,376,000	1,709,000
Rental of circuits, etc.	1,377,000	1,135,000
Interest	1,339,000	921,000
Operation, maintenance and repairs—buildings, plant and equipment	1,051,000	789,000
Other	517,000	373,000
	9,251,000	7,231,000
Less: Estimated amount recoverable from Com- monwealth Network	1,025,000	1,164,000
	8,226,000	6,067,000
	4,095,000	3,417,000
Deduct: Cost of additional pension benefits	116,000	94,000
Profit before income tax	3,979,000	3,323,000
Deduct: Income tax	1,971,000	1,658,000
Net profit	\$ 2,008,000	\$ 1,665,000

Income increased by \$2,837,000 or approximately 30% over that of the previous year, the same percentage of increase as was recorded last year. The increase for the year under review is largely the result of greater revenue from circuit rentals, although revenue realized from telegraph, telephone and telex services also increased substantially.

The \$1,040,000 of cash and investments which was formerly held in trust for actuarial deficiencies in pension funds for employees participating in pension plans of a predecessor company was distributed during the year. Following payment of \$499,000 into the pension fund of the predecessor company in respect of former employees who are in receipt of pensions and those employees who elected to continue under the predecessor company's pension plan, the balance of \$541,000 was transferred to the public service superannuation account of the government of Canada, in accordance with the regulations respecting the transfer of pensions of employees of the Canadian Overseas Telecommunication Corporation as set forth in order in council P.C. 1961-1556 of October 26, 1961.

This deals with Canadian Overseas Telecommunication Corporation operating out of Montreal, and as you will see, it is a profitable operation. It is well run, and we have seldom had occasion to criticize any of its operations.

Now, paragraph 141:

141. *Canadian Patents and Development Limited*. Section 17 of the Research Council Act, R.S., c. 239, provides for the incorporation of one or more companies by the national research council for the purpose of exercising certain of the powers conferred upon the council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the council. The services of the company, which is located in Ottawa, are available to government departments, publicly supported institutions and universities.

The following summary shows the results of the company's operations for the year ended March 31, 1963 compared with the preceding year:

	Year ended March 31	
	1963	1962
Income—		
Royalties, licensing fees, etc.	\$ 554,000	\$ 277,000
Less: Costs of licensing rights and related technical assistance, etc.	63,000	12,000
	491,000	265,000
Other income	24,000	14,000
	<u>515,000</u>	<u>279,000</u>
Expense—		
Salaries	29,000	27,000
Services provided by National Research Council..	36,000	30,000
Patent attorneys' fees and other patent expense..	55,000	33,000
Awards to inventors	19,000	14,000
Other expenses	10,000	33,000
	<u>149,000</u>	<u>137,000</u>
Net profit for the year	\$ 366,000	\$ 142,000

The increased income from royalties, licensing fees, etc., is largely attributable to one licence. Two other licences, while contributing to the increased income, were mainly responsible for the greater part of the increased cost of licensing rights and related technical assistance, etc. The increased cost of patent attorney's fees and other patent expense was largely due to an expenditure of \$14,000 for the filing of patent applications on a device in a number of countries. The item for "other expenses" shows a significant decrease because the preceding year's figure included a grant of \$25,000 to a university, for applied research, referred to in last year's report.

The net profit of \$366,000 for the year resulted in a corresponding increase in the crown's equity in the company which, at March 31, 1963, was \$820,000, comprising capital stock of \$296,000 and surplus of \$524,000.

When approving the company's 1962-63 operating budget, the Minister of Finance, while recognizing the value of grants to persons carrying out applied research at universities in fields from which the company had or might derive patent rights, expressed the opinion that for 1962-63 and future years "more emphasis should be placed on the development of products and techniques that the company is already in a position to lease on a royalty basis to private industry". As a result, during the year under review no grants were made for the carrying out of applied research at universities. However, the company initiated a program of assistance to Canadian industry in establishing new processes and at March 31, 1963 there were outstanding commitments of approximately \$32,000 in connection with this program.

This corporation is another company which operates under the aegis of the research council. As you will see, they have been improving their position and increasing their income and accordingly their net profit. There is an interesting comment at the top of page 96 to the effect that when approving the company's 1962-63 operating budget, the Minister of Finance expressed the opinion that greater emphasis should be placed on the development of products and techniques that the company is already in a position to lease on a royalty basis to private industry. As a result, during the year under review, no grants were made for the carrying out of applied research at universities.

Now, paragraph 142:

142. *Cornwall International Bridge Company Limited.* This company was incorporated in 1949 under the Companies Act, 1934, by private shareholders, for the purpose of operating a toll highway over the St. Lawrence River between Cornwall, Ontario, and Rooseveltown, New York, on railway bridges leased from two railway companies. These railway bridges were acquired by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a wholly-owned United States corporation) in connection with the construction of the seaway. In 1957, all of the outstanding stock of the bridge company was purchased jointly by the seaway entities for \$480,000, of which \$200,000 was paid by the authority.

This international bridge system now uses new facilities constructed by the seaway entities. The low-level railway bridges were replaced by a high-level south channel span in 1958 and by a high-level north channel span in 1962.

In June 1962, the seaway entities agreed to discontinue the operation of the toll bridge by the bridge company and to assign the operating responsibility to a wholly-owned subsidiary of the authority to be incorporated under section 24A of the St. Lawrence Seaway Authority

Act. On July 3, 1962, pending incorporation of the subsidiary, the bridge division of the authority took over the operation of the bridge system and on January 1, 1963 The Seaway International Bridge Corporation, Ltd. took over operations on the same terms as were in effect for the Cornwall International Bridge Company Limited which is now in the process of winding up its affairs.

By agreement between the seaway entities the annual revenues of the company have been applied in the following order of priority:

- (i) in payment of all operating, administrative and general expenses of the bridge company;
- (ii) in amortization of the costs of constructing the North Channel bridge by the Authority, plus interest, over a period of fifty years; and
- (iii) the balance distributed on a fifty-fifty basis between the Authority and the Corporation.

A summary of the operations of the company for its past two financial years follows:

	Year ended September 30	
	1962	1961
Income—		
Bridge tolls	\$ 210,000	\$ 348,000
Other	2,000	3,000
	212,000	351,000
Expense—		
Salaries and wages	36,000	49,000
Maintenance and repairs	31,000	25,000
Rental of toll collection machines	10,000	13,000
Advertising	25,000	2,000
Other	35,000	52,000
	137,000	141,000
Provision for amortization of cost of North Channel bridge owned by The St. Lawrence Seaway Authority	75,000	130,000
	212,000	271,000
Fee for management, use of right-of-way over bridges, etc., payable to The St. Lawrence Seaway Authority (50% in trust for the Saint Lawrence Seaway Development Corporation)	—	\$ 80,000

As the company ceased operations on July 2, 1962 the figures shown for the year ended September 30, 1962 cover an operating period of only nine months, in comparison with a full period of twelve months in the previous year.

Prior to or in the course of the winding up process, the company disposed of land, buildings and equipment at a loss of \$10,000 and made provision in the accounts for a loss of \$52,000 expected to be realized from the proposed conveyance to municipalities of title to a bridge and roads.

After giving effect to these adjustments, which involved charges to surplus account, the shareholders' equity in the company at September 30, 1962 amounted to \$48,000, comprising \$50,000 of capital stock less a deficit of \$2,000.

This covers the operations of the Cornwall International Bridge Company Limited. This is operated jointly by the St. Lawrence Seaway Authority and

its United States counterpart, the St. Lawrence Seaway Development Corporation. The Cornwall-Rooseveltown bridge is the new one under this category, and this company is being wound-up in favour of the newer arrangement. Details of it will be found in my next report. I make reference to it in the first paragraph.

Now, paragraph 143:

143. *Crown Assets Disposal Corporation.* In 1944 the Surplus Crown Assets Act established the war assets corporation, which, by a 1949 amendment to the act, became the Crown Assets Disposal Corporation. With certain specified exceptions, the corporation is responsible for the disposal of the surplus assets of all government departments and most of the crown corporations and agencies. Also, the corporation has entered into agreements with Britain and the United States whereby it disposes of surplus property of these countries located in Canada. The Corporation's head office is located in Ottawa and sales offices are maintained in a number of other cities throughout Canada.

As in the preceding year, the corporation was authorized by the governor in council to retain 4% of the net proceeds of sales and other moneys received from sales of lands and buildings, and 10% of the net proceeds of all other sales, to meet its administrative and other expenses. A summary of the income and expense of the corporation for the year ended March 31, 1963, together with the comparable figures for the previous year, follows:

	Year ended March 31	
	1963	1962
Income—		
Percentage of net proceeds of sales made and of other income earned, etc.	\$ 755,000	\$ 955,000
Expense—		
Salaries	450,000	427,000
Employees' welfare benefits	44,000	44,000
Rent	53,000	51,000
Telephone, telegrams and postage	27,000	28,000
Printing, stationery and office supplies	22,000	26,000
Travel	14,000	12,000
Other expenses	10,000	12,000
	620,000	600,000
Excess of income over expense	\$ 135,000	\$ 355,000

The \$200,000 decrease in income is largely explained by the fact that during the previous year there were several exceptional sales at substantial prices—to which reference is made below—from which the corporation derived considerable income through the retention of the usual percentage of net proceeds of sales.

The \$23,000 increase in salaries was due to adjustments in the salaries of certain employees commensurate with increases granted to comparable classes in the civil service. There were 99 employees at March 31, 1963, the same number as at the close of the preceding year.

Pursuant to section 81 of the Financial Administration Act, the corporation was directed to pay to the Receiver General, as of March 31, 1959, and from time to time thereafter but at intervals of not longer than six months, all of its surplus in excess of \$100,000. The \$135,000 excess of income over expense for the year under review was,

in consequence, paid to the Receiver General, leaving the surplus balance unchanged at \$100,000.

The equity of the Crown at March 31, 1963 in the Corporation's agency account was \$5,884,000, compared with \$7,242,000 at the end of the preceding year, and was largely represented by amounts receivable under long-term interest-bearing sales agreements totalling \$5,764,000.

The transactions in the agency account during the year ended March 31, 1963, compared with the previous year, are summarized as follows:

	Year ended March 31	
	1963	1962
Proceeds from sales, etc.		
Government of Canada	\$ 7,790,000	\$12,355,000
Other principals	823,000	631,000
Interest earned	268,000	243,000
	<hr/>	<hr/>
	8,881,000	13,229,000
Less: Direct costs relating to sales	29,000	39,000
	<hr/>	<hr/>
	8,852,000	13,190,000
	<hr/>	<hr/>
Deduct:		
Percentage of net proceeds from sales, etc., retained by the Corporation	755,000	955,000
Remittances to Receiver General of Canada	8,715,000	9,355,000
Other remittances	745,000	556,000
	<hr/>	<hr/>
	10,215,000	10,866,000
	<hr/>	<hr/>
Increase (decrease) in equity:		
Government of Canada	(1,358,000)	2,313,000
Others	(5,000)	11,000
	<hr/>	<hr/>
	(\$1,363,000)	\$ 2,324,000
	<hr/>	<hr/>

During the year ended March 31, 1962, as previously mentioned, there were several exceptional sales of surplus assets at substantial prices. These sales included the former gun plant at Longueuil, \$1,400,000, and a former R.C.A.F. station at Lachine, \$2,300,000. The absence of such exceptional sales during the year under review accounts for a substantial part of the decrease of \$4,565,000 in proceeds from sales on behalf of the government of Canada.

We examined this corporation in 1961. And here again you will find set down the basis of its operations during the year compared with the previous year.

Now paragraph 144:

144. *Defence Construction (1951) Limited.* This crown-owned agency was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority in section 7 of the Defence Production Act, now R.S., c. 62. The company is responsible for the awarding and supervision of contracts for defence construction projects, for which funds are provided by the department initiating a project, or by the United States government for projects undertaken on its behalf. During the year ended March 31, 1963 approximately \$72 million was spent on such projects, compared with some \$86 million during the preceding year.

Funds to cover the company's operating expenses are provided annually by means of a Department of Defence Production appropriation.

The following is a comparative summary of the operating results for the past two years:

	Year ended March 31	
	1963	1962
Expense—		
Salaries and living allowances	\$ 2,575,000	\$ 2,683,000
Travel and removal	246,000	302,000
Employees' welfare benefits	181,000	190,000
Other expenses	265,000	315,000
	<u>3,267,000</u>	<u>3,490,000</u>
Income—		
Reimbursement for engineering and administrative services	45,000	27,000
Other income	1,000	3,000
	<u>46,000</u>	<u>30,000</u>
Net expense	<u>\$ 3,221,000</u>	<u>\$ 3,460,000</u>

The completion of several major projects during the year and a decrease in the number of new contracts awarded, accompanied by a reduction in staff, accounted for the decrease in expense.

This corporation deals with defence construction and it is responsible for the awarding and supervision of contracts for defence construction projects for which funds are provided by the department initiating a project, or by the United States government.

Now, paragraph 145:

145. *Eldorado Aviation Limited*. This company, which is a wholly-owned subsidiary of Eldorado Mining and Refining Limited, was incorporated in 1953 under the companies Act. Operating from headquarters in Edmonton, the company provides air transportation services on behalf of the parent company and Northern Transportation Company Limited, another subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited at December 31, 1962 amounted to \$256,000 comprising capital stock of \$28,000 and surplus of \$228,000.

The following is a comparative summary of the net expenses of the company for its last two financial years:

	Year ended December 31	
	1962	1961
Salaries, wages and contributions to employees' pension plan	\$ 251,000	\$ 263,000
Supplies	134,000	180,000
Repairs	81,000	88,000
Depreciation	59,000	92,000
Insurance	50,000	63,000
Other	64,000	63,000
Total expenses	<u>639,000</u>	<u>749,000</u>
Less: Miscellaneous income	30,000	10,000
Net expenses	<u>\$ 609,000</u>	<u>\$ 739,000</u>

The net expenses for 1962 were recovered from Eldorado Mining and Refining Limited to the extent of \$494,000 and from Northern

Transportation Company Limited to the extent of \$115,000. The decreased expenses in 1962 result from a substantially reduced volume of service provided. Traffic in southbound air-freight, which was reduced in 1961 due to the shut-down of the Port Radium mine of Eldorado Mining and Refining Limited in 1960, was further reduced in 1962 when deliveries from the Beaverlodge mine near Uranium City, Saskatchewan also fell significantly.

Eldorado Aviation Limited is a wholly owned subsidiary of Eldorado Mining and Refining Limited. Its expenses each year are recovered from Eldorado Mining and Refining Limited.

Now, paragraph 146:

146. *Eldorado Mining and Refining Limited.* This company was incorporated in 1945 under the Companies Act, 1934, following expropriation by the government of Canada in 1944 of the shares of a privately-owned company incorporated in 1927. The head office of the company is in Ottawa, the Beaverlodge mine near Uranium City, and the refinery and administrative offices in Port Hope, Ontario. The principal functions of the company are to produce, refine and sell uranium and allied products.

Since 1948 the company has also been charged with the responsibility for the purchase and disposal of all uranium produced in Canada, although in recent years private producers have been free, under certain circumstances, to sell uranium without reference to the company. Uranium concentrates are purchased by the company, as the uranium procurement agent for the crown, at various prices determined by separate agreements with each producer. In some cases the purchase prices are higher, and in other cases lower, than the prices at which the concentrates are sold to the United States Atomic Energy Commission and the United Kingdom Atomic Energy Authority. Although all purchase costs will be fully recovered before the contracts with the commission and the authority are completed, there are periods within the life of individual contracts when cumulative costs of concentrates sold exceed revenue from sales. During these periods, temporary financing is provided, as required, by the company. Charges are applied against the contract revenue for the company's services in administering and financing the ore procurement program.

During 1962 the cost of purchased concentrates delivered to the commission and the authority of \$153,444,000 exceeded the revenue from sales of \$151,964,000 by \$1,480,000. Administrative expenses and financial charges for the period amounted to \$308,000. The resultant excess of costs and expenses over sales of \$1,788,000 will be offset in future periods when sales will be made at prices exceeding the costs of acquisition.

A contract dated July 30, 1962 between the company and the United Kingdom Atomic Energy Authority for the sale of 12,000 tons of uranium in concentrates provides for certain deliveries on which payments do not become due until later years of the contract period. The account receivable thus deferred at December 31, 1962, and amounting to \$3,988,000, will increase to a maximum of almost \$32,000,000 in 1965 and decline thereafter until it is fully paid at the end of the contract in 1973.

The equity of the crown in the company at December 31, 1962 amounted to \$50,268,000, consisting of capital stock of \$6,586,000 and surplus of \$43,682,000. Dividends of \$3,000,000 were paid to the Receiver General during the year, compared with \$5,000,000 paid in the preceding year.

The following is a summary of income and expense for the financial year 1962, in comparison with the preceding year:

	Year ended December 31	
	1962	1961
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	\$26,695,000	\$29,607,000
Expense—		
Mining, refining and other expenses	12,511,000	16,032,000
Depreciation	3,952,000	3,900,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer	3,234,000	4,178,000
Amortization of pre-production, mine development and other deferred expenditures	836,000	1,102,000
Reduction in valuation of inventories		785,000
	<u>20,533,000</u>	<u>25,997,000</u>
Net income from operations	6,162,000	3,610,000
Other income	1,648,000	728,000
	<u>7,810,000</u>	<u>4,338,000</u>
Provision for income tax	3,600,000	2,125,000
Net income	<u>\$ 4,210,000</u>	<u>\$ 2,213,000</u>

Notwithstanding the continuing decline in sales of uranium concentrates—amounting to \$3,068,000 in 1962—offset to a small degree by increased revenue of \$156,000 from refining services and sales of special products, the reduction in expense was such that net income from operations increased by \$2,552,000 for the year.

In 1960 the company acquired, at a cost of \$19 million, the rights of another uranium producer to deliver concentrates to the United States Atomic Energy Commission. This cost is being written off on a pro rata basis against the production remaining to be supplied out of the Beaverlodge mine. After amortizing \$3,234,000 in 1962, the sum of \$6,589,000 remained to be written off by 1965.

Following the shut-down of the Port Radium mine in 1960, substantial losses on disposal of general, leach plant and commissary stores were considered inevitable by management and accordingly this inventory was reduced to a nominal value of one dollar by write-offs of \$639,000 in 1960 and \$85,000 in 1961. The inventory valuation of uranium metal and related products at Port Hope was reduced by write-offs of \$927,000 in 1960 and \$700,000 in 1961 to revalue these products in accordance with current market conditions. No further reduction was made in the value of uranium metal and related products inventories in 1962.

This deals with the expenditures and changes during the year and the present state of its operations. You will notice in the last paragraph on page 102 that there have been, following the shutdown of the Port Radium mine in 1960, substantial losses which were considered inevitable by management, and accordingly this inventory was reduced to a nominal value. The inventory valuation of uranium metal and related products at Port Hope was reduced by write-offs of \$927,000, in 1960, and \$700,000 in 1961 to revalue these products in accordance with current market conditions. This is a type of write-off which all companies, crown corporations included, are bound to face when they deal with strategic materials having market value.

Now, paragraph 147:

147. *Export Credits Insurance Corporation.* This corporation was established in 1944 by the Export Credits Insurance Act, R.S., c. 105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The corporation is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, the governor in council may, pursuant to section 21 of the act, authorize the corporation to enter into the proposed contract of insurance. In the event of a loss under this section (there has been none) the moneys required to discharge the liability are payable from unappropriated moneys in the consolidated revenue fund. A 1959 amendment to the act introduced section 21A under which the corporation may, with the authority of the governor in council, provide financing for long term export sales of capital goods with funds available out of the consolidated revenue fund. The corporation's head office is in Ottawa with branches in Montreal and Toronto.

The crown's equity in the corporation at December 31, 1962 was \$40,520,000, consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, earned surplus of \$2,390,000 and an underwriting reserve of \$5,000,000, together with advances and accrued interest totalling \$23,130,000 in respect of long term financing of sales agreements under section 21A of the act. The corporation held government of Canada bonds having a par value of \$18,550,000.

Export sales insured by the corporation on its own account during 1962 totalled \$96,000,000 and premiums earned amounted to \$679,000. Export sales insured under section 21 of the act totalled \$49,000,000 and premiums amounted to \$748,000 of which \$561,000 was remitted to the Receiver General and \$187,000 was retained by the corporation in respect of expenses and overhead, in accordance with a basis authorized by the Minister of Finance. At December 31, 1962 the liability of the corporation under contracts of insurance issued and outstanding totalled \$268,106,000 of which \$196,354,000 was for contracts entered into under section 21 of the act.

At December 31, 1962, after two years of operation in the field of direct financing of long term export sales of capital goods under the authority of section 21A of the act, the corporation had signed agreements to finance export sales amounting to \$57,000,000, of which \$23,000,000 had been disbursed. In addition, the corporation had agreed in principle to finance \$100,000,000 of prospective sales and had undertaken to guarantee negotiable instruments totalling \$21,220,000 with respect to completed sales.

The following is a comparative summary of operations for the corporation's past two financial years:

	Year ended December 31	
	1962	1961
Income—		
Premiums and fees earned	\$ 921,000	\$ 744,000
Expense—		
Salaries and benefits	316,000	221,000
Rents	33,000	17,000
Travel	21,000	15,000
Communications expense and credit reports	19,000	16,000
Stationery, printing and office expenses	16,000	18,000
Other	34,000	42,000
	439,000	329,000
	482,000	415,000
	Year ended December 31	
	1962	1961
Policy holders' claims—		
Recoveries	687,000	558,000
Payments	164,000	163,000
	523,000	395,000
Excess of income and net recovery on policyholders' claims over expense	1,005,000	810,000
Add: Interest on investments	719,000	678,000
	1,724,000	1,488,000
Deduct: Provision for income tax	828,000	741,000
Surplus for year	\$ 896,000	\$ 747,000

The cost of additional staff for the export finance division, formed in 1961, and for insurance and general administration, together with the cost for a full year of larger quarters occupied in September 1961, was largely responsible for the increase of \$110,000 in the corporation's expenses during the 1962 financial year.

The following is a summary of transactions during the year in respect of payments of policyholders' claims for losses:

Type of claim	Outstanding Jan. 1, 1962	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1962
Insolvency ..	\$ 268,000	\$ 8,000	\$ 2,000	\$ 76,000	\$ 198,000
Default	354,000	150,000	129,000	76,000	299,000
Exchange transfer .	1,482,000		556,000	(56,000)	982,000
Other	1,000	6,000		6,000	1,000
	\$ 2,105,000	\$ 164,000	\$ 687,000	\$ 102,000	\$ 1,480,000

Of the amount of \$1,480,000 in claim payments shown above as outstanding at December 31, 1962, the corporation anticipates making substantial recoveries, particularly in respect of the claims amounting to \$982,000, which were paid because of exchange transfer difficulties in the buyers' countries. The amounts to be recovered will be added to income in the years in which the recoveries are effected.

Members are probably very familiar with this corporation, because of the changes introduced in the house to increase its lending powers. There is a summary of its operations given on page 103 where you will see that its expenditures have substantially increased because it is undertaking more work. And there is included a summary of transactions on page 104 which shows the picture in respect of payments of policyholders' claims for losses. We watch this carefully because it gives us a very good idea concerning possible bad debts. I think it was the year or two previous when we had a case we were successful in unearthing in the course of our work, whereby the corporation had been defrauded out of a substantial sum of money in a foreign country, due to the behaviour of some of its agents and subagents. The management went right after it, and I think I am correct in saying that they were successful in collecting.

Now, paragraph 148:

148. *Farm Credit Corporation.* This corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the corporation is to make, administer and supervise long term mortgage loans to farmers. The head office is in Ottawa and there are seven branches and 127 field offices throughout Canada.

During the year under review the government of Canada paid the corporation \$2,250,000 to increase its capital investment, and advanced a further \$56,747,000 (net) by way of loans. At March 31, 1963 the equity of the government in the corporation amounted to \$278,158,000, comprising: capital, \$10,350,000; loans, \$258,618,000; accrued interest on loans, \$7,519,000; and reserve for losses, \$1,671,000.

During the year, 6453 loans (6,027) in 1961-62) were disbursed to farmers to a total of \$78,428,000 (\$68,887,000 in 1961-62) and repayments amounted to \$20,287,000 (\$15,197,000 in 1961-62). Loans outstanding at the year-end, including accrued interest, amounted to \$277,485,000 compared with \$217,898,000 at the end of the previous year.

The following is a comparative summary of the income and expense of the corporation for the past two years:

	Year ended March 31 1963	1962
Income—		
Interest earnings	\$11,806,000	\$ 9,152,000
Deduct: Interest on loans from the Government of Canada	10,200,000	7,867,000
	<hr/> 1,606,000	<hr/> 1,285,000
Appraisal, supervision and legal fees	500,000	406,000
	<hr/> 2,106,000	<hr/> 1,691,000
Expense—		
Salaries and employee benefits	2,427,000	1,817,000
Travel	277,000	216,000
Office accommodation	212,000	129,000
Printing, stationery and office supplies	80,000	80,000
Postage, express, telephone and telegraph	78,000	59,000
Fees and expenses of part-time appraisers	21,000	91,000
Depreciation	36,000	31,000
Other	55,000	44,000
	<hr/> 3,186,000	<hr/> 2,467,000
Net loss carried to reserve for losses	\$ 1,080,000	\$ 776,000

The increase of \$719,000 in expense for the year ended March 31, 1963 resulted largely from the continued growth in lending activity and the consequent expansion of the corporation which has resulted in an increase in staff from 183 at March 31, 1960 to 388 at March 31, 1962 and 468 at March 31, 1963.

In my report under section 87 of the Financial Administration Act, on the examination of the accounts of the corporation for the year ended March 31, 1963, reference was made to the reduction in the reserve for losses during the past three years, due in part to the statutory obligation placed on the corporation to lend money at a fixed rate, as follows:

Section 15 of the Farm Credit Act requires the corporation to establish a reserve out of which may be paid "any losses sustained by the corporation in the conduct of its business". The section further provides that the corporation shall credit its net earnings each year to this reserve until the amount of the reserve equals the capital of the corporation, which amounted to \$10,350,000 at March 31, 1963. In the years up to March 31, 1960, the reserve for losses had been built up to an amount of \$3,749,000, including \$3,486,000 accumulated by the predecessor corporation (Canadian Farm Loan Board) to March 31, 1959.

The operations of the corporation over the past three years have resulted in net losses aggregating \$2,078,000 which have reduced the balance of the reserve to \$1,671,000 at March 31, 1963. These losses are due in part to the corporation being required to pay a higher rate of interest on \$42,300,000 borrowed from the government of Canada than the rate of 5% charged, under section 16 of the act, on loans to farmers.

An amount of \$11,500,000 borrowed at 5½% during the year brings to \$107,800,000 the total of amounts which have been borrowed at interest rates of 5% (\$65,500,000), 5½% (\$11,500,000) and 5¾% (\$30,800,000) since April 1, 1959 and loaned to farmers at the statutory interest rate of 5%. In addition to a direct interest loss in excess of \$3,000,000 during the repayment period, on the \$42,300,000 borrowed at 5½% and 5¾%, these interest rates provide no margin to cover administrative expenses and losses on loans.

Since further annual operating losses appear to be in prospect, consideration should be given to means whereby these losses may be covered without further depleting the reserve, as well as to the manner in which the reserve can be brought up to the equivalent of the capital of the corporation as contemplated by section 15 of the act.

I might make reference to page 105 here and to the qualification which I have made in my statutory report. I quote it. It deals with the reduction in the reserve for losses due in part to the statutory obligation placed on the corporation to lend money at a fixed rate. This presents a difficult situation. But as you can see, there is little that can be done about it at this stage.

Now, paragraph 149:

149. *The National Battlefields Commission.* This commission, which was constituted by the National Battlefields at Quebec Act, 1908, c. c. 57 and 58, with the object of acquiring and preserving the historic battlefields at Quebec, comprises nine members, seven of whom are appointed by the governor in council and one by the governments of each of the provinces of Ontario and Quebec.

Prior to 1958 the commission was financed by statutory grants made from time to time under the constituting act but, since then, the commission has been financed by annual parliamentary appropriations. At March 31, 1963 the proprietary equity of the crown in the commission

amounted to \$1,482,000 represented by an investment of \$1,465,000 in capital assets and \$17,000 in working capital. The increase of \$21,000 over the equity at March 31, 1962 is accounted for by increases of \$20,000 in capital assets and \$1,000 in working capital during the year.

The following is a summary of the expenses for the year under review compared with those of the preceding year:

	Year ended March 31	
	1963	1962
Salaries, wages and related expenses	\$ 151,000	\$ 151,000
Repairs of roads and driveways	21,000	—
Policing services	14,000	12,000
Operating supplies and nursery stock	10,000	10,000
Heat, light and power	10,000	10,000
Other expenses	6,000	7,000
	<hr/>	<hr/>
	212,000	190,000
Capital outlays	21,000	24,000
	<hr/>	<hr/>
	\$ 233,000	\$ 214,000

The expenditure of \$21,000 for repairs of roads and driveways represents the cost of patching and paving sections of the avenues within the park. No repairs of this nature had been undertaken since 1949.

The expenses of the commission during the year under review, shown above in the amount of \$233,000, were financed to the extent of \$214,000 by parliamentary appropriations and \$19,000 by Governor General's special warrant.

Funds contributed by provincial governments, municipalities and others in the years following the establishment of the commission in 1908, which may be used only for the acquisition of land, with prior parliamentary approval, amounted to \$29,000 at March 31, 1963. The only change in the balance of this account over the past thirty years has been the increase arising out of investment earnings.

The picture is given there as to how this agency is progressing.

Now, paragraph 150:

150. *National Capital Commission*. This commission was established by the National Capital Act, 1958, c. 37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the commission under the act are "to prepare plans for and assist in the development, conservation and improvement of the national capital region in order that the nature and character of the seat of the government of Canada may be in accordance with its national significance". Subject to the control exercised by the governor in council, the commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The commission consists of 20 members appointed by the governor in council from across Canada.

The proprietary interest of the government of Canada in the commission, including loans, at March 31, 1963 totalled \$83,084,000 represented by: cash, \$1,230,000; inventories of tools, equipment and supplies,

\$243,000; payments for land purchases under negotiation, \$6,016,000; and cost of capital assets, \$75,595,000.

The commission's activities are financed by annual parliamentary appropriations, drawings from the national capital fund and loans from the government of Canada, along with incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1963	1962
Operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull and general administration		
Expenditures	\$ 3,131,000	\$ 2,579,000
Provided for by:		
Parliamentary appropriations	\$ 2,905,000	\$ 2,317,000
Revenue	226,000	262,000
	<u>\$ 3,131,000</u>	<u>\$ 2,579,000</u>
National Capital Fund		
Balance of Fund in hands of Commission at beginning of year	\$ 302,000	\$ 1,000
Add:		
Amounts drawn from Fund provided by parliamentary appropriations	5,500,000	4,250,000
Proceeds from sales of property	120,000	682,000
	<u>5,620,000</u>	<u>4,932,000</u>
	5,922,000	4,933,000
Deduct:		
Capital outlays for parks, parkways, railway lines and structures	3,367,000	2,968,000
Repayment of loans to acquire property now in use—Queensway	—	345,000
Maintenance of land and rehabilitation works ..	81,000	112,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges, sewers, etc.	2,732,000	1,206,000
	<u>6,180,000</u>	<u>4,631,000</u>
Balance of Fund in hands of Commission at March 31, 1962		<u>\$ 302,000</u>
Amount due from National Capital Fund at March 31, 1963	<u>\$ 258,000</u>	
Acquisition of property in the national capital region through loans provided by the government of Canada		
Unexpended balance of loans at beginning of year ..	\$ 901,000	\$ 684,000
Add:		
Government of Canada loans (net)	9,428,000	6,247,000
Proceeds from sales of property	372,000	3,553,000
	<u>9,800,000</u>	<u>9,800,000</u>
	10,701,000	10,484,000

Deduct:		
Expenditures for acquisition of property	9,471,000	9,583,000
Unexpended balance of loans at end of year	\$ 1,230,000	\$ 901,000
Interest charges on outstanding government of Canada loans		
Interest on loans	\$ 1,776,000	\$ 1,505,000
Provided for by:		
Parliamentary appropriation	\$ 1,475,000	\$ 1,304,000
Net revenue from rentals of property and interest earnings	301,000	201,000
	\$ 1,776,000	\$ 1,505,000

The expenditures incurred in the various activities of the commission, as summarized above, totalled \$20,558,000 during the year compared with \$18,289,000 in the preceding year and were financed as follows:

	Year ended March 31	
	1963	1962
Parliamentary appropriations	\$10,440,000	\$ 7,570,000
Loans to the Commission	9,099,000	6,030,000
Proceeds from sales of property	492,000	4,235,000
Revenues of the Commission	527,000	463,000
	\$20,558,000	\$18,298,000

In paragraph 59 of this report, reference is made to loan interest paid by the commission out of funds provided by means of annual parliamentary appropriations.

The financing of the National Capital Commission was the subject of a recommendation by this committee in, I think, its sixth report of 1964, having to do with the loan interest paid by the commission out of funds provided by means of annual parliamentary appropriations.

151. *National Centennial Administration.* The National Centennial Administration was established by the National Centennial Act, 1961, c. 60, the objects being to promote interest in, and to plan and implement programs and projects relating to, the centennial of confederation in Canada. The administration consists of a commissioner, a deputy commissioner and eight directors, all appointed by the governor in council, and operations are conducted from a head office in Ottawa.

Section 10 of the act directs that there shall be a special account in the consolidated revenue fund, to be known as the national centennial fund, to which there shall be credited the amounts appropriated by parliament for the purposes of the fund. The Minister of Finance may, on the recommendation of the President of the Queen's Privy Council for Canada, pay to the administration out of the consolidated revenue fund "such amounts as are from time to time required for the purpose of making grants to any province, or to any organization the objects of which are similar to the objects of the administration, for the observance of the centennial of confederation in Canada". The amounts paid by the Minister of Finance are to be charged to the fund but a payment out of the consolidated revenue fund may not exceed the balance standing

to the credit of the fund. With Privy Council vote 55 providing for a payment of \$833,333 to the national centennial fund and no payment having been made out of the fund, a balance of \$833,333 was carried at the credit of the national centennial fund at March 31, 1963. Special appropriation act, 1963, which was given royal assent on July 22, 1963, provided for the payment of \$1,000,000 to the fund in respect of the year ended March 31, 1963. Accordingly, an additional \$166,667 was charged to Privy Council vote 55 and credited to the fund as at March 31, 1963.

Section 11 of the act provides that all expenditures of the administration, other than grants made out of the national centennial fund, shall be made out of moneys appropriated by parliament therefor. The expenses for the period from the establishment of the administration on September 29, 1961 to March 31, 1963 comprised \$275,000 for two grants and \$22,000 for administrative expenses. The grants were made pursuant to the provisions of section 9 of the act which provides that the administration may, subject to the approval of the governor in council, engage in joint projects with, or make grants to, any province or organization with objects similar to those of the administration. The administrative expenses did not include the value of office accommodation and accounting services provided by government departments.

Here you will see the manner in which this administration operates and what it costs. However, as pointed out at the top of page 110, the administrative expenses did not include the value of office accommodation and accounting services provided by government departments. This is a point we are discussing in the subcommittee on the form of public accounts.

Now, paragraph 152:

152. *National Harbours Board.* This board was established in 1936 by the National Harbours Board Act, now R.S., c. 187, and has jurisdiction over the harbours of Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal (including the Jacques Cartier and Champlain bridges), Vancouver and Churchill, together with the grain elevators at Prescott and Port Colborne. The head office of the board is in Ottawa.

The proprietary equity of the government of Canada at December 31, 1962, as shown on the board's balance sheet, totalled \$463,766,000, made up of: assets transferred to the board on its establishment and subsequently, \$56,917,000; loans and advances, \$308,882,000; interest in arrears on loans and advances, \$71,290,000; and reserves, \$100,037,000; less the accumulated deficit of \$73,360,000.

There was a net increase of \$17,945,000 during the year in the outstanding loans and advances. The following summary shows the changes in this account:

Balance, January 1, 1962		\$ 290,937,000
Add:		
Loans during year, secured by certificates of indebtedness	\$ 18,816,000	
Advances	150,000	18,966,000
		<hr/>
		309,903,000
Less: Repayments during year		1,021,000
		<hr/>
Balance, December 31, 1962		\$ 308,882,000
		<hr/>

The interest in arrears on loans increased by \$6,504,000 during the year, representing credits to the proprietary equity of \$10,059,000 (with offsetting charges to expenditure) less payments to the Receiver General of \$3,555,000. There has been a steady increase over the past five years in the outstanding interest in arrears on loans, as follows:

December 31, 1958	\$49,315,000
December 31, 1959	54,011,000
December 31, 1960	59,008,000
December 31, 1961	64,786,000
December 31, 1962	71,290,000

In previous reports it was observed that there appears little prospect of the board being in a position to meet its principal and interest obligations and it was recommended that consideration be given to re-constituting the board's financial structure on a more realistic basis.

Amounts receivable by the board at the year-end included \$112,000 due from the Quebec Natural Gas Corporation for rental charges by the board for an easement for a 20-inch natural gas pipeline on the Jacques Cartier bridge. The amount represents the sum of \$56,000 which was outstanding on December 31, 1961 plus a charge of the same amount for 1962, no payment having been received during the year. Authority for installation of the pipeline was granted by the board on May 1, 1959 subject to later negotiation of the annual rental rate, but after installation of the pipeline the corporation would not agree to the rental rate proposed by the board and requested the board to consider a rental rate that would be little more than nominal. No agreement was reached during the year under review with respect to the rate to be charged.

The Jacques Cartier bridge was operated, until revocation of tolls on June 1, 1962, under a tri-partite agreement, a provision of which required the city of Montreal and the province of Quebec each to pay to the Board one-third of any annual deficit arising from the operations of the bridge, to a maximum of \$150,000. In 1944 the province refused to make its required contribution and as of the end of 1949 its accumulated indebtedness amounted to \$744,425. The bridge has not incurred an operating deficit since 1949 and the accounts of the board continue to show this sum as the amount due from the province. The settlement of this claim and the transfer of the bridge to the province have been subjects of recent negotiation between the board and the province.

As observed in previous reports, the board has been involved in a dispute with the Canadian Pacific Railway regarding the ownership of certain areas at Coal Harbour, Vancouver, since the board's establishment in 1936 (being a continuation of a dispute between the board's predecessor and the railway company since 1880. Pending settlement of the matter, the Canadian Pacific Railway collects rental and other revenue from certain areas in possession of the company, while the harbour authorities do likewise in respect of certain areas which the board has occupied. At December 31, 1962 the board was holding \$139,800 in cash and securities in a special account, while the Canadian Pacific Railway was holding \$220,000 in an escrow account. No progress was made towards settlement of the dispute during the year.

The following is a summary of the operations of the board for its past two financial years:

	Year ended December 31	
	1962	1961
Operating income—		
Harbours	\$ 3,184,000	\$ 3,243,000
Wharves and piers	9,267,000	9,366,000
Grain elevator systems	7,539,000	7,739,000
Cold storage systems	1,130,000	1,172,000
Permanent sheds	2,023,000	1,843,000
Railway systems	705,000	731,000
Jacques Cartier Bridge	1,494,000	3,498,000
Champlain Bridge	163,000	—
Miscellaneous services	1,213,000	1,426,000
	26,718,000	29,018,000
Operating and administrative expenses—		
Harbours	3,870,000	3,775,000
Wharves and piers	1,186,000	871,000
Grain elevator systems	5,235,000	5,416,000
Cold storage systems	1,173,000	1,141,000
Permanent sheds	1,485,000	1,378,000
Railway systems	1,103,000	1,119,000
Jacques Cartier Bridge	426,000	694,000
Champlain Bridge	155,000	—
Miscellaneous services	1,460,000	1,645,000
Administrative expenses	2,259,000	2,004,000
	18,352,000	18,043,000
Net operating income	8,366,000	10,975,000
Other income—		
Income from investments	2,475,000	2,520,000
Miscellaneous	202,000	170,000
	11,043,000	13,665,000
Special charges—		
Provision for interest on loans and advances	9,464,000	8,759,000
Provision for replacement of capital assets	4,493,000	4,349,000
Other special charges	664,000	555,000
	14,621,000	13,663,000
Net loss or (profit)	\$ 3,578,000	(\$ 2,000)

As previously noted, all tolls and charges assessable in respect of the passage of vehicles over the Jacques Cartier bridge were revoked, effective June 1, 1962 in accordance with order in council P.C. 1962-792 of May 28, 1962, and this accounts for the decrease in revenue of \$2,004,000 from this source. The Champlain bridge was opened to traffic on June 29, 1962 and is being operated as a toll bridge.

The increases in operating expenses for harbours and wharves and piers are largely explained by repairs of a nature which do not normally

occur annually. At Quebec, major repairs and reconstruction of a quay wall amounted to \$144,000 and, at Montreal, repairs to a wharf amounted to \$156,000.

Prevailing rate employees of the board, after a period of satisfactory service, become eligible to be contributors under the Public Service Superannuation Act, retroactive to date of commencement of employment. In such cases it becomes necessary for the board to contribute to the public service superannuation account an amount equal to the sum contributed by relevant employees for service prior to the date of eligibility. A large number of prevailing rate employees at Montreal will become eligible to so contribute during 1963 and, accordingly, the sum of \$111,000 was charged in the accounts as a provision for the estimated liability for contributions which will then be required to be made by the Board in respect of prior service. This provision, plus an upward adjustment in salaries of permanent employees, largely explains the increase in administrative expenses during the year ended December 31, 1962

This is a very substantial operation of long standing, which is reflected by the size of its outstanding loans and advances. As you will see on page 110, there is a summary showing the size of its loans and advances, which are in excess of \$308 million, along with substantial interest arrears on loans. You will note we say that as there appears to be very little prospect of the board being in a position to meet its principal and interest obligations, consideration might be given to reconstituting the board's financial structure on a more realistic basis. I think it would be a good idea if this could be more closely examined, because there seems to be an enormous conglomeration of debt that should be sorted out.

Mr. FRANCIS: I wonder if Mr. Henderson would explain this a little further. I do not quite know what he is getting at.

Mr. HENDERSON: The harbours board has jurisdiction over the harbours which are named, Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal, including the Jacques Cartier and Champlain bridges, Vancouver, and Churchill together with the grain elevators at Prescott and Port Colborne.

It has been the practice of the government to finance its operations by means of continued loans which the board is not in a position not only to repay, but not even to meet the interest upon. You will see from the summary of operations for the past two years, that while it broke even in 1961, it was in a loss position in 1962. Tolls have been lifted on the Jacques Carter bridge, and that alone accounted for a decrease of over \$2 million in the year we are looking at. At the same time it has had some difficulty in collecting certain accounts. There has been a lengthy argument going on also with the Quebec Natural Gas Corporation.

Mr. FRANCIS: Would you mind explaining that? It seems to me that surely a private corporation, which has a contract of this nature, must have open to it procedures by which it can collect its accounts. The Quebec Natural Gas Corporation, while it may have been in a very difficult situation at one time, now seems to be doing quite well. Why should it not pay its debts?

Mr. HENDERSON: That is the position the board has been taking as I understand it. I have no doubt that its officers are seeking to improve their posi-

tion vis-à-vis the Quebec Natural Gas Corporation in Montreal perhaps by extending them further time.

Mr. FRANCIS: I wonder if the officers of the harbours board should not be called before this committee so that we might consider this recommendation?

The CHAIRMAN: The point was raised before. I suggest that before we leave the question of crown corporations, the committee might care to give consideration to this or to any other crown corporation, in the hope that while we might not do this while closing off our formal deliberations on the Auditor General's report. We can make a report, nevertheless, and we could provide a full opportunity to call such officials from this or any other crown corporation subject to time being available. In other words, we could write our report, and still conduct an examination of the affairs of any of these crown corporations if we have the time to do it, and if it be the wish of the committee to call such officials before us. I think the steering committee might consider the matter before the next meeting, and that the members might indicate their preference or desire as to this or any other corporation that they might wish to have made the subject of discussion.

Mr. REGAN: I had some conversation with you on this matter the other day, following our last meeting. I think it is true that some of the crown corporations have never been called to appear before this committee.

The CHAIRMAN: Most of them.

Mr. REGAN: I understand that the St. Lawrence seaway authority has never appeared here. I would like to see them here, and also the national harbours board, which conducts vast operations in this country's economy. And I would hope that next year we might have an opportunity to examine two or three other crown corporations.

Mr. FRANCIS: Possibly one or two of the ones that the Auditor General does not himself audit. I would like to see Canadian Mortgage and Housing Corporation brought here, for example.

Mr. ROCK: I believe that the hon. member wishes to have the St. Lawrence seaway authority brought here in order to protect his harbour at Halifax.

Mr. REGAN: You have given me a motive, in any event.

Mr. STENSON: Atomic Energy of Canada Limited has never been before the committee.

The CHAIRMAN: No, it has not. And this brings up a question I raised at the last meeting. I think there are some 35 crown corporations, and that in eight years only five have come before the public accounts committee. So on that basis it would appear to be a very long time before they all do so. We might give some thought to making a recommendation for next year to set up a strong and active working subcommittee to deal with the affairs of some of the smaller corporations, without our having to take up the time of the main committee in its plenary sessions. I simply throw that out as a suggestion. We might consider it before we adjourn. The steering committee will be meeting before too long, and we perhaps might give consideration to the suggestion before our next meeting. May we now proceed for a little longer so that perhaps by the next meeting we might conclude our official discussion.

Mr. HENDERSON: I think it would be very useful to examine the national harbours board with a view to studying its heavy debt position, and to see whether or not it would be possible to come up with some recommendation

about it. Mr. Francis will probably notice on page 111 how the board has been involved in a dispute with the Canadian Pacific Railway since 1880, which is not yet settled.

Mr. FRANCIS: That is what worries me, and about the Quebec natural gas matter. I would like to see something resolved.

Mr. HENDERSON: Mr. Stokes informs me that no agreement has been reached yet on the Quebec natural gas matter.

153. *Northern Canada Power Commission.* This commission, which was established in 1948 and operates under the Northern Canada Power Commission Act, 1956, c. 44, consists of three members appointed by the governor in council and has its head office in Ottawa. The objects of the commission are to construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the governor in council, in any other part of Canada. Hydro-electric plants are operated at Snare river, Northwest Territories and at Mayo river and Whitehorse rapids, Yukon Territory and thermal-electric stations are in operation at Fort Resolution, Fort Smith, Fort Simpson, Inuvik, Fort McPherson and Frobisher Bay Northwest Territories and at Field, British Columbia.

The proprietary equity of the government of Canada, as shown on the commission's balance sheet at March 31, 1963 was as follows:

	March 31	
	1963	1962
Advances:		
Under section 14 of the Act—for investigation of projects	\$ 50,000	\$ 50,000
Under section 15 of the Act—for capital expenditures, including accrued interest	18,960,000	19,104,000
Equity represented by depreciated value of public utilities at Inuvik N.W.T., financed by advances under section 15 of the Act recoverable from funds to be appropriated by Parliament according to Order in Council P.C. 1957-36/626 of May 3, 1957 .	6,513,000	6,759,000
Reserve for contingencies pursuant to section 10 of the Act	1,601,000	1,611,000
Reserve for extension, expansion and improvements, equivalent to expenditures incurred on acquisition of capital assets, as permitted under section 22 of the Act	242,000	228,000
Surplus, per Statement of Surplus	856,000	913,000
	<u>\$28,222,000</u>	<u>\$28,665,000</u>

Subsequent to the fiscal year-end, special appropriation act, 1963 (Vote 119) authorized the write-off of the advances made to the commission for the construction and installation of the public utilities at Inuvik, Northwest Territories, thus permitting a corresponding elimination from proprietary equity in the commission's accounts.

The commission acts as agent for the government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c. 25, and, in this capacity, advances are made to the provincial power commissions of Nova Scotia, New Brunswick and Newfoundland. As of March 31, 1963 these outstanding loans totalled \$23,170,000, of which \$5,861,000 was added during 1962-63.

A summary of the income and expenses of the commission for the past two years follows:

	Year ended March 31	
	1963	1962
Income—		
Sales of power	\$ 2,798,000	\$ 3,036,000
Income arising from construction, maintenance and operation of facilities for government departments and others	568,000	471,000
Sale of steam and water heat	365,000	375,000
Miscellaneous	123,000	106,000
	<u>3,854,000</u>	<u>3,988,000</u>
Expense—		
Operating and maintenance	2,135,000	1,823,000
Administrative	236,000	227,000
Interest on advances from the Government of Canada	757,000	775,000
Provision for depreciation (equivalent to repayment of principal of advances from the Government of Canada)	498,000	494,000
	<u>3,626,000</u>	<u>3,319,000</u>
Net income	\$ 228,000	\$ 669,000

During the year the rates charged for electric power were reduced and there was a decrease of approximately \$484,000 from the preceding year in the revenue from sales of power attributable to the lower rates. However, consumer demand for electric power continued to rise and the decline in revenue resulting from the lower rates was offset to the extent of \$247,000 by revenue from increased consumption.

The operations of this commission are quite interesting, and at the same time rather involved. We do not have any adverse comment to make in this note.

Now, paragraph 154:

154. *Northern Ontario Pipe Line Crown Corporation.* This corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c. 10, for the purpose of constructing the northern Ontario section of the all-Canadian gas pipe line and leasing it (subject to approval by the governor in council) to Trans-Canada Pipe Lines Limited, with an option to purchase.

In October 1958 the corporation entered into an agreement to lease the northern Ontario section to Trans-Canada Pipe Lines Limited for a period of 25 years, with an option to purchase the facilities, exercisable within the period of the lease agreement. Under the terms of the lease, all expenses of operation, repairs and maintenance, taxes and other expenses of upkeep were borne by the lessee.

Section 6 of the act enabled the corporation to borrow, from the government of Canada or otherwise, the funds necessary for the construction of the facilities, provided that the borrowings outstanding at any time did not exceed \$130 million. Borrowings under this section were solely from the government and were covered by demand notes bearing interest at the rate of 3½% per annum. At December 31, 1962, \$113,137,000 was outstanding, a decrease of \$7,843,000 from the pre-

ceding year, being the net result of additional loans of \$1,545,000 and repayments of \$9,388,000.

The capital cost of the northern Ontario section at December 31, 1962 amounted to \$129,866,000, comprising assets acquired of \$119,873,000 and engineering, administrative and financing expenses of \$9,993,000.

The corporation's accumulated surplus increased by \$118,000, from \$365,000 at January 1, 1962 to \$483,000 at December 31, 1962. This increase was accounted for by the excess of interest earned in accordance with the lease agreement, \$4,205,000, over the interest of \$4,087,000 paid on borrowings from the government of Canada.

A footnote to the corporation's balance sheet at December 31, 1962 stated that Trans-Canada Pipe Lines Limited had indicated its intent to exercise the option to purchase the northern Ontario section in 1963. This option has since been exercised and the purchase was completed on May 29, 1963 whereupon the corporation discharged its liability for the amount then due to the government of Canada for outstanding loans and interest accrued thereon. In accordance with the terms of sale, Trans-Canada Pipe Lines Limited assumed responsibility for the negotiation and settlement of all claims then outstanding and any other claims which may arise in the future.

Trans-Canada Pipe Lines Limited has since exercised its option as indicated on page 115. This was completed on May 29, 1963, when the corporation discharged its liability for the amount then due to the government of Canada for outstanding loans and interest accrued thereon. In accordance with the terms of sale, Trans-Canada Pipe Lines Limited assumed responsibility for the negotiation and settlement of all claims then outstanding and any other claims which may arise in the future.

Now, paragraph 155:

155. *Northern Transportation Company Limited.* This company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation (1947) Limited was incorporated under the Companies Act, 1934, to take over the business and undertaking of a predecessor company which had been incorporated under a province of Alberta charter in 1935 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the government in 1944. The corporate name was changed to Northern Transportation Company Limited in 1952. Although the company is authorized by its letters patent to carry on a general transportation business by land and water throughout Canada and elsewhere, its activities, directed from administrative headquarters in Edmonton, have been almost wholly confined to the Mackenzie river water system and the adjacent area of the Arctic ocean.

The equity of Eldorado Mining and Refining Limited at December 31, 1962 was \$6,159,000, comprising capital stock of \$152,000, surplus of \$4,757,000 and a reserve for insurance of \$1,250,000. The reserve for insurance was increased by \$750,000 during the year under review by a transfer of this amount from surplus in accordance with a resolution of the board of directors to discontinue all physical damage insurance coverage with commercial companies by June 30, 1962. The reserve is fully invested in short-term bank deposits.

The following is a comparative summary of the operating results of the company for its last two financial years:

	Year ended December 31 1962	1961
Income—		
Freight earnings	\$ 2,233,000	\$ 2,583,000
Expense—		
Operating	1,265,000	1,361,000
Depreciation	488,000	527,000
Administrative	240,000	222,000
	1,993,000	2,110,000
Net income from operations	240,000	473,000
Miscellaneous income	142,000	93,000
	382,000	566,000
Provision for income tax	250,000	312,000
Net income	\$ 132,000	\$ 254,000

The decline in freight earnings which began in 1959 continued during the year ended December 31, 1962 with a decrease of \$350,000, mainly due to reduced traffic caused by the curtailment of uranium production at the Beaverlodge mine of Eldorado Mining and Refining Limited. The reduction of \$96,000 in operating expenses reflected the decreased level of operating activity, as well as a continuation of the cost reduction policy put into effect last year.

There is an explanation given on page 166 for the reason for the drop in income arising largely from the depletion in freight earnings due to reduced traffic caused by the curtailment of uranium production.

Now, paragraph 156:

156. *Park Steamship Company Limited.* This company, incorporated in 1942 under the Companies Act, 1934 for the purpose of supervising the operation of crown-owned cargo vessels, ceased operations when the "park" fleet was sold in 1946-47. Its current activities are limited to the settlement of occasional claims for compensation by seamen for injuries that had been sustained during the operating period, and these activities are attended to by staff of the Canadian Maritime Commission.

This is practically inactive at the present time. I have recommended to the minister that consideration be given to winding it up and surrendering its charter, since it had done its work.

Now, paragraph 157:

157. *Polymer Corporation Limited and Subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Companies Act, 1934 pursuant to the provisions of section 6 of the department of munitions and supply act, 1939, c. 3 as amended by 1940, c. 31. At December 31, 1962 there were three wholly-owned subsidiary companies: Polysar Belgium S.A., Polysar Nederland N.V., and Polysar International S.A., as well as one subsidiary, Polymer Corporation (SAF) in which Polymer held a 95% equity and the Banque de Paris et des Pays-Bas the remaining 5%. Polymer Corporation (SAF) was incorporated under the laws of France in January 1961 and in the fall of 1962 its special purpose rubber plant located near Strasbourg commenced opera-

tions, although output to the end of the year was nominal. Polysar Belgium S.A. was formed under the laws of Belgium in December 1961 and construction of a butyl rubber plant near Antwerp began in 1962. Polysar Nederland N.V., which is a holding company, was incorporated in accordance with the laws of Holland in May 1962. Polysar International S.A., with headquarters in Fribourg, Switzerland and branch offices in Vienna, London, Tokyo and Mexico City, was incorporated under Swiss law in June 1962 for the purpose of marketing all Polymer products outside of North America. The parent company produces synthetic rubbers and chemicals at Sarnia where the head office is also situated.

The equity of the crown in Polymer Corporation Limited and its subsidiary companies at the year-end amounted to \$79,105,000, consisting of capital stock of \$30,000,000 and retained earnings of \$49,105,000. During the year under review dividends of \$3,000,000 were paid to the Receiver General, the same amount as in the previous year.

The results of operations for the past two years are set out in the summary which follows. Since none of the subsidiary companies had commenced operations by December 31, 1961 and only one had begun full-scale operations by December 31, 1962, the amounts shown in 1961 are with respect to the operations of the parent company only, and the amounts shown for 1962 include, in addition, only the operating results of the one subsidiary for the period from September 1 to December 31, 1962.

	Year ended December 31	
	1962	1961
Sales	\$87,022,000	\$87,679,000
Other income	435,000	835,000
	<hr/>	<hr/>
	87,457,000	88,514,000
	<hr/>	<hr/>
Cost of sales	63,634,000	64,308,000
Selling, administrative and research expenses	4,774,000	4,144,000
	<hr/>	<hr/>
	68,408,000	68,452,000
	<hr/>	<hr/>
Net income before provision for income tax	19,049,000	20,062,000
Provision for income tax	8,765,000	9,842,000
	<hr/>	<hr/>
Net income	\$10,284,000	\$10,220,000

Additions to fixed assets during the year, amounting to \$23,517,000, were almost equally divided between the costs of the capital development program of the subsidiary companies and the costs of the expansion of the parent company plant at Sarnia. The managements of the several companies estimate that continuation of the capital development program will involve expenditures totalling \$21,000,000 during the year ending December 31, 1963.

In computing taxable income for the years 1961 and 1962 the company took advantage of capital cost allowances permitted under the Income Tax Act which were in excess of depreciation charged in the accounts. The effect of this procedure was to defer payment of income tax totalling \$3,460,000 until future years when depreciation charges may be in excess of capital cost allowances.

To finance construction of their plants in France and Belgium, Polymer Corporation (SAF) borrowed NF 35.600.000 (\$7,817,200) repayable 1965-71, and Polysar Belgium S.A. negotiated a loan of BF 450.000.000 (\$9,729,729), repayable 1969-77. No funds were drawn

down by Polysar Belgium S.A. under its loan during 1962. With the exception of NF 15,280,000 (\$3,354,900), the loans are guaranteed by the parent company and all are repayable in the currency in which they were obtained.

This has to do with Polymer Corporation Limited and its subsidiary companies which we were discussing earlier. I see that Mr. Winch is no longer present, but there is an explanation here dealing with the manner in which the corporation operates. On page 118 particulars are given as to how construction of the plants were arranged in France and Belgium. You might wonder why these borrowings would be undertaken by a crown corporation in this manner. I might add that this has been done very largely as part of the arrangements under which the Polymer Corporation enjoys excellent relationships in the countries concerned. And as you know, in setting up plants in these countries, you have a considerable number of permits and the like to obtain, and when this is done the hope is sometimes expressed that you like to borrow some money in those countries.

Now, paragraph 158:

158. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seaway Authority Act, R.S., c. 242 (proclaimed July 1, 1954) the authority maintains and operates the Canadian section of the 27 foot waterway between the port of Montreal and Lake Erie. The section of the seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. In accordance with an agreement made in 1959 between Canada and the United States, revenues from tolls are divided between the two Seaway entities in proportion to their annual costs of operation and maintenance, interest charges and repayment of loans. The authority also operates non-toll canals at Lachine, Cornwall and Sault Ste. Marie, the net operating cost being provided for by annual parliamentary appropriations.

The authority is a corporation consisting of a president and two other members as provided by the Act. Its head office is at Ottawa, with operating headquarters at Cornwall and regional headquarters at St. Lambert, Cornwall and St. Catharines.

The crown's equity at December 31, 1962 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport, April 1, 1959 (including Welland Ship Canal at a value of \$130,717,000)	\$180,483,000
Loans under section 25 of the Act	334,500,000
Interest on loans—deferred	49,388,000
	<u>564,371,000</u>
Deduct: Deficit	37,934,000
	<u>\$526,437,000</u>

The following is a summary of the income and expense of the Authority for its past two financial years:

	Year ended December 31	
	1962	1961
Income—		
Tolls	\$ 9,556,000	\$ 9,548,000
Net income from operation of Cornwall-Roosevelt-town International Bridge	121,000	—
Other	1,015,000	899,000
	<u>10,692,000</u>	<u>10,447,000</u>

STANDING COMMITTEE

	Year ended December 31	
	1962	1961
Expense—		
Operating expense	2,592,000	2,602,000
Maintenance expense	2,087,000	1,728,000
Operating and maintenance supervision	1,232,000	1,071,000
Administrative expense	1,760,000	1,617,000
	7,671,000	7,018,000
Deduct: Portion of supervision and administrative expense applicable to non-toll canals	324,000	288,000
	7,347,000	6,730,000
Net operating income before providing for interest and for replacement of machinery and equipment	3,345,000	3,717,000
Interest on loans from the Government of Canada	15,397,000	13,793,000
Interest on contractors' claims and other accounts .	164,000	—
Provision for replacement of machinery and equipment	888,000	200,000
	16,449,000	13,993,000
Net loss	\$13,104,000	\$10,276,000

Income for the year was adversely affected by the government's decision to suspend tolls for the transit of the Welland canal, effective July 18, 1962. According to statistical records, this suspension of tolls resulted in a loss of revenue of \$953,000 during the remainder of the year.

The extent by which revenues in 1962 fell short of meeting expenses in each of the two sections of the waterway and of the North Channel Bridge is shown in the following summary:

	St. Lawrence River Section	Welland Canal	North Channel Bridge	Total
Tolls	\$ 8,914,000	\$ 642,000	\$ —	\$ 9,556,000
Other income	217,000	798,000	121,000*	1,136,000
	9,131,000	1,440,000	121,000	10,692,000
Expenses of operation, maintenance and ad- ministration	2,931,000	4,416,000	—	7,347,000
Net operating profit (loss)	6,200,000	(2,976,000)	121,000	3,345,000
Interest on loans ...	13,397,000	1,795,000	205,000	15,397,000
Interest—other	153,000	11,000	—	164,000
Provision for replace- ment of machinery and equipment	503,000	379,000	6,000	888,000
	14,053,000	2,185,000	211,000	16,449,000
Net loss	\$ 7,853,000	\$ 5,161,000	\$ 90,000	\$13,104,000

* Excess of income over operating expense for the period from July 3 to December 31, 1962.

On the St. Lawrence river section the net operating profit of \$6,200,000 compares with profits of \$5,893,000 in 1961, \$5,178,000 in 1960 and \$5,-894,000 in 1959. On the Welland canal, the net operating loss of \$2,976,000 compares with losses of \$2,176,000 in 1961, \$1,726,000 in 1960 and \$633,000 in 1959.

Toll revenues for four full navigation seasons have been substantially less than had been anticipated by the Canadian and United States toll committees in 1958, as shown below:

	St. Lawrence River		Welland Canal	
	Estimated	Actual	Estimated	Actual
1959	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960	10,789,000	7,156,000	2,215,000	1,326,000
1961	12,277,000	8,086,000	2,369,000	1,462,000
1962	13,765,000	8,914,000	2,575,000	642,000*
	<u>\$46,132,000</u>	<u>\$31,261,000</u>	<u>\$ 9,219,000</u>	<u>\$ 4,654,000</u>

* Tolls for the transit of the Welland Canal were suspended as of July 18, 1962.

The authority and the Saint Lawrence Seaway Development Corporation are to report to their respective Governments in 1964 on the adequacy of the toll structure to provide sufficient revenue to meet their operating costs and financial obligations. In this connection, it has been estimated that, beginning with 1964, the authority will require revenues of about \$30 million each year for 46 years to meet operating costs and debt payments under the present financial arrangements. Tolls and other income in 1962 amounted to only \$10.7 million including \$642,000 of Welland canal tolls which, as noted above, were suspended in 1962.

Section 25 of the St. Lawrence Seaway Authority Act provides that the Minister of Finance, with the approval of the governor in council, may from time to time make loans to the authority. Section 13 of the act, as amended, states that the aggregate of the amounts so borrowed under the Act and outstanding shall not at any time exceed \$345,000,000. At December 31, 1962 the authority was indebted to the government of Canada in respect of loans and deferred interest in the total amount of \$383,888,000, made up as follows:

Loans under section 25 of the Act	\$ 334,500,000
Interest to December 31, 1959—deferred	19,427,000
Interest for the year 1961—deferred	14,289,000
Interest for the year 1962—deferred	15,672,000
	<u>\$ 383,888,000</u>

Section 16 of the St. Lawrence Seaway Authority Act requires that the tolls shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to the Authority of its operations, which costs shall include (a) payments in respect of interest on amounts borrowed by the authority, (b) amounts sufficient to amortize the principal of amounts so borrowed over a period not exceeding fifty years, and (c) the cost of operating and maintaining the canals and works under the administration of the authority, including all operating costs of the authority and such reserves as may be approved by the minister. Pursuant to these provisions, the original conditions under which loans were made to the authority under section 25 of the act required the pay-

ment of interest only in the first three full years of operation (through the year ending December 31, 1962) and thereafter payment of annual amounts sufficient to amortize over a period of 47 years (or by December 31, 2009) all loans and interest thereon.

The terms of the authority's financing arrangements were amended by order in council P.C. 1961-1863 of December 29, 1961 and the principal amount of loans received to finance construction of the Seaway, together with interest previously deferred and all other interest now accrued or accruing up to December 31, 1963, is now to be repaid, together with current interest thereon, in 46 equal annual instalments commencing December 31, 1964.

In accordance with these financial arrangements, the operations for 1962 have been charged with interest amounting to \$15,397,000 (an additional amount of \$275,000 was included in construction costs), but this interest has not been paid and is included in the balance sheet as part of the proprietary equity. There was no charge to the year's operations with respect to amortization of the principal of the amounts borrowed.

The costs of operating and maintaining the canals and works under the administration of the authority are defined under paragraph (c) of section 16 as including all operating costs of the authority and such reserves as may be approved by the Minister. The authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance costs and that the amortization over the 50 year period of the principal of the amounts borrowed, together with interest as required by subsections (a) and (b), and provision for replacement of machinery and equipment as mentioned below, meets the requirements of the act. Accordingly no provision for depreciation has been included in the costs for the year under review.

Provision has been made during the year toward the cost of replacing machinery and equipment, including lock, bridge and building machinery and equipment, in the amount of \$2,710,000, of which \$1,822,000 was charged to deficit account, being additional provision required for the years 1959 to 1961, and \$888,000 was charged to expense in respect of the year ended December 31, 1962. The reserve for replacement of machinery and equipment, as thus augmented, amounted to \$3,343,000 at December 31, 1962. No provision has been made in the accounts for the replacement of buildings, lock gates and lock and bridge structures. The authority considers that these seaway works can be maintained in working condition at all times under its maintenance program.

The governor in council, by order in council P.C. 1963-572 of April 11, 1963 and pursuant to a 1956 agreement between the Canadian National Railway Company and The St. Lawrence Seaway Authority, has determined that responsibility rests with The St. Lawrence Seaway Authority for the cost of installing a lift span in the Victoria bridge at Montreal and of constructing an alternative bridge, containing a moveable span, to carry rail as well as highway traffic over the St. Lawrence seaway. The order accordingly provided that the Authority should reimburse the Canadian National Railway Company for its outlays of \$11,753,000 on these works, together with interest thereon computed to December 31, 1962 in the amount of \$2,228,000 and interest on the same amount of \$11,753,000 from December 31, 1962 to the date of reimbursement.

Because the borrowing powers of the authority were close to their statutory limits of \$345 million and could not cover the above-noted reimbursement of \$11,753,000, the governor in Council, by P.C. 1963-

1140 of July 30, 1963, directed that the payment of the said amount be made from parliamentary appropriations for 1963-64 and that the matter of reimbursement by the authority be reserved for later decision. The above order in council also provided that the interest payment to the railway company should be made from parliamentary appropriations but should not be recovered from the authority as the lengthy delay in settlement of the matter could not be blamed on the Authority since, under the 1956 agreement, this was a matter for action by the governor in council.

The following table summarizes the expense and income and shows the remedial works and capital expenditure relating to the non-toll canals operated or administered by the authority for the past two years:

	Year ended December 31	
	1962	1961
Expense—		
Operating expense	\$ 1,086,000	\$ 584,000
Maintenance expense	940,000	749,000
Operating and maintenance supervision	181,000	204,000
Portion of Authority's supervision and administrative expense applicable to non-toll canals ..	324,000	288,000
Employee benefits	107,000	111,000
	<hr/>	<hr/>
	2,638,000	1,936,000
Income from rentals, wharfage, etc.	378,000	515,000
	<hr/>	<hr/>
Operating deficit	2,260,000	1,421,000
Remedial works—municipal properties	—	72,000
Capital expenditures	76,000	\$ 1,811,000
	<hr/>	<hr/>
Operating deficit, remedial works and capital expenditures (recovered from parliamentary appropriations)	\$ 2,336,000	\$ 1,811,000
	<hr/>	<hr/>

The increase of \$502,000 in operating expense during 1962 is more than accounted for by increased grants in lieu of municipal taxes, which amounted to \$700,000 compared with \$128,000 in 1961.

Mr. RYAN: Might I ask Mr. Henderson why it is that Polymer pays income tax, whereas the Northern Power Commission, paragraph 153 on page 113, does not seem to do so? According to the net income figures set out, and shown on page 144, there is a suggestion Northern Canada Power Commission pays no income tax.

Mr. STOKES: Agency corporations do not pay income tax. Northern Canada Power is one of these. But proprietary corporations do so if they have income, and Polymer Corporation is a proprietary corporation. But Northern Power Commission operates or provides a service to the municipalities in the north country and is not supposed to make a profit. The rates that they charge for power provided to the area are supposed to be just sufficient to cover the cost of operation, repayment of principal of loans, with interest thereon. If you should add an income tax charge on top of all that, you would be overburdening the cost of power in that particular area.

Mr. FRANCIS: May I ask if Polymer Corporation pays municipal business taxes?

Mr. STOKES: It does not pay municipal business taxes as such, but it pays a grant in lieu of local taxes, in an amount which otherwise would be payable as taxes.

Mr. FRANCIS: Canadian Mortgage and Housing Corporation pays the city of Ottawa property taxes, but it refuses to pay a business tax. It does not pay a grant, yet it is in the same position as a private company. Is it true that Polymer pays its grant in lieu of both business tax and property tax in the county in which it operates?

Mr. STOKES: Yes, I believe it does, but I shall check on it and get you the information.

Mr. ROCK: Do you not think that Polymer Corporation should be on the same basis as any incorporated business, and therefore it should pay all taxes, and pay no grant whatsoever? I think there is something wrong with this outlook. If Canada is going to organize certain companies as businesses, where private enterprise cannot enter into the field, then it should be an incorporation, and I think it would only be fair that it be placed on exactly the same business basis as any other corporation which manufactures a commodity, and therefore it should pay taxation in its municipality and act like other corporations, and not give out grants in lieu of taxation. I think there is something wrong, and I think it should be investigated.

Mr. HENDERSON: You have made a good point. But from our standpoint it is a matter of government policy; that is, the payment of a grant in lieu of taxes. We consider it a matter of government policy and I do not think we should express an opinion on it.

The St. Lawrence seaway authority picture is set out in paragraph 158. Perhaps it is not necessary to go into it in much detail in view of the fact that you propose to call them before the committee in due course. I do not need to remind you of the difficulty it is having in meeting its obligations. The interest has been deferred again for another year. You will see from the statement at the bottom of page 120 the size of its debt, and how the interest has had to be deferred. There is a great deal of detail given here regarding the authority, and perhaps it would be better to leave it unless the members have some questions, until it comes before the committee.

The CHAIRMAN: Are there any questions?

Mr. ROCK: I would like to ask a question or two. As I understand matters at the bottom of page 120 and the top of page 121, is it your feeling that section 16 of the St. Lawrence Seaway Authority Act is not at present being complied with? Is that accurate?

Mr. HENDERSON: I do not think I said that.

Mr. ROCK: You point out that the rates do not provide a fair and reasonable revenue sufficient to defray the cost to the authority of its operation. In other words, at the present time these rates are not providing adequate revenues, and that they are not likely to be adequate for some period of time to come. Yet the authority has not taken any action to increase the rates. Would that not indicate that they are going beyond or outside the responsibilities as laid down by section 16?

Mr. HENDERSON: That is a very nice point, and you are making it well. It is not easy to interpret section 16, because it is not too specific as to what cost shall include. This is just the sort of question which I think might very usefully be discussed when the authority appears before the committee.

Mr. REGAN: The only problem about that again is that I gather that if we are to have them appear, it would be after our report is drafted. Is that correct?

Mr. HENDERSON: I think you would want to make a very positive study, and that it would take up a complete meeting, one at which these things could be explored in detail. I would like to have the officials here to discuss their interpretation of section 16.

The CHAIRMAN: I think that this is a subject which the committee must decide upon ultimately, and that we might draft a report. But I suppose it would depend on what happens, whether there be a recess at Christmas or a prorogation. If it appears that there will be a prorogation, then there is no problem presenting itself at all, because reports Nos. 7, 8 and 9 may also be made subject to a subsequent report. We would have completed our consideration of Mr. Henderson's 1963 report, and this would still leave us free to make an additional report to include this or any other corporation. But we could close our books on his report, leaving us free to bring in a subsequent report regarding these corporations, which we are in fact standing.

Mr. HENDERSON: If I may offer one final word to Mr. Regan, you will notice on page 121, and in regard to section 16, how I explain that "the costs of operating and maintaining the canal and works under the administration of the authority are defined in paragraph (c) of section 16 as including all operating costs of the authority and such reserves as may be approved by the minister. The authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance costs and that the amortization over the 50 year period of the principal of the amounts borrowed, together with interest as required by subsection (a) and (b) and provisions for replacement of machinery and equipment as mentioned below, meets the requirements of the act. Accordingly no provision for depreciation has been included in the costs for the year under review."

And that perhaps is essentially your question. I am giving you an interpretation placed on it by the authority, but at the same time it does not include depreciation which is usually regarded as an element of cost.

Mr. REGAN: Yes.

Mr. HENDERSON: This involves an interpretation placed on it by officials, and it is something which I think would be useful to discuss with them when they are before us.

The St. Lawrence Seaway Development Corporation in the United States did not include depreciation in its costs. Their accounts were qualified by the comptroller general in Washington, and the whole matter has been the subject of very intense discussion there. And they have since been directed to take it up, and to include it. I take rather more of a middle-of-the-road view of the matter, and I have been prepared to accept the explanation given or placed on it by the officers of the corporation bearing in mind that they are amortizing the cost.

Mr. REGAN: Aside from depreciation, they are not fully meeting their operating costs.

Mr. HENDERSON: The tolls are not adequate to meet the cost. That is all too obvious from the figures shown here.

Mr. REGAN: As the figures indicate, they are actually possibly produced in two ways: One by not including depreciation, and even if they are correct in that view, they still do not comply with the act; they need to increase the tolls because they still have inadequate operating revenue to meet their operating costs.

Mr. HENDERSON: You are asking me to give a legal opinion.

Mr. REGAN: They still have inadequate income to meet their operating costs.

Mr. HENDERSON: That is clearly indicated from the figures given here. It is a point on which I have not yet had the benefit of legal advice. But being in a position now to obtain some, I hope to take steps to secure an opinion, because it is an important point.

The CHAIRMAN: We have finished with the crown corporations. We have left only a few departmental activities which we could probably dispose of at our next meeting a week from today, plus this question of crown corporations, plus any questions of general recommendations regarding crown corporations and having to do generally with these other crown companies. So let us adjourn now with the hope that a week from today we may conclude our formal inquiry, leaving the question of crown corporations to come before us at a future time. The meeting is now adjourned.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 27

Public Accounts, Volumes I, II and III (1963)
Report of the Auditor General to the House of Commons
1963

TUESDAY, NOVEMBER 17, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes
of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Pilon,
Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY November 17, 1964.

(41)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Fane, Francis, Frenette, Harkness, Leblanc, Legault, Lessard (*Saint-Henri*), Loiselle, McMillan, Pilon, Prittie, Regan, Rock, Ryan, Stefanson, Stenson, Tucker, Wahn and Winch. (21)

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes, of the Auditor General's office.

The Committee resumed consideration of the 1963 Report of the Auditor General.

The Chairman tabled a return relating to Crown companies, Auditing of Accounts, which was ordered printed as an Appendix to the record of this day. (*See Appendix 1*).

The Auditor General tabled a return from the External Aid Office supplying answers to questions by Messrs. McLean (*Charlotte*) and McMillan at the sitting of October 22nd; this return was ordered printed as an Appendix to the record of this day. (*See Appendix 2*).

Mr. Stokes read into the record an answer to a question by Mr. Francis of November 10th relating to Polymer Corporation.

Mr. Henderson was further examined on his statement of November 10th relating to Crown Corporations and other similar public instrumentalities whose accounts are not examined by the Auditor General.

The Auditor General reviewed paragraphs 159 to 182 inclusive of his 1963 Report and was examined thereon.

The Committee, having completed its examination of the 1963 Report, the Chairman thanked the members of the Committee and also thanked Mr. Henderson and his staff.

The Chairman announced that the Committee would meet later in camera to consider "draft" reports to the House.

At 11.00 a.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

MEMORANDUM FOR THE RECORD

DATE: 10/15/54

TO: SAC, NEW YORK

FROM: SA [Name], NEW YORK

SUBJECT: [Subject]

[Text]

[Text]

[Text]

EVIDENCE

TUESDAY, November 17, 1964.

The CHAIRMAN: I think probably we had better come to order now. There are five committee meetings this morning and I know that some of you gentlemen have to go elsewhere later on, so I will call the meeting to order.

Possibly, since you have this material before you, we might deal with the question asked by Mr. Francis at the last meeting of the committee, whether Polymer Corporation Limited pay municipal business taxes. I think we might do that before we finish the last few items which are in the Auditor General's report for 1963.

First of all, may I have your consent to the tabling of the public accounts, or the extracts from the debates of the Senate, dealing with fees paid to private auditors, and may this be printed as an appendix to today's proceedings; is that agreed?

Agreed.

Have you something to file, Mr. Henderson?

Mr. HENDERSON (*Auditor General*): I would like to take the opportunity, if I may, to place on the record a letter furnished by M. H. O. Moran, the director general of external aid, in answer to questions asked by Dr. McMillan and Mr. McLean at the meeting of October 22, at which time I agreed to obtain information from the director general.

The CHAIRMAN: Thank you.

Mr. HENDERSON: At the same time, questions were asked at the last meeting regarding the taxes paid by Polymer Corporation Limited in Canada, and I would like to ask Mr. Stokes if he could furnish this information.

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): Yes. Mr. Francis asked if Polymer Corporation paid municipal business taxes. Now, in the computation of the grant in lieu of municipal taxes paid by Polymer Corporation the municipal assessment for business taxes has been taken into consideration to the extent of 60 per cent of the assessment.

In 1963 Polymer paid a grant in lieu of municipal taxes to the city of Sarnia to the total of \$580,708.57, and this was with respect to land, \$45,986.15; buildings, \$317,965.51; business taxes—this is 60 per cent of the assessment—\$216,756.91.

Mr. FRANCIS: Mr. Chairman, may I ask—

The CHAIRMAN: Before you ask a question, Mr. Francis, is it agreed that the letter of November 6, from Mr. Moran to Mr. Henderson, be printed as applying to today's proceedings?

Agreed.

Mr. PILON: Have we got copies of that letter?

The CHAIRMAN: This has just been presented today and it will be filed and it will be printed as an appendix.

Mr. FRANCIS: I want to observe, Mr. Chairman, that I am pleased to see that this is the case. I just wish that all crown corporations did it in the same way.

Mr. WINCH: It must be one of the largest taxpayers.

Mr. FRANCIS: It is most unfortunate that other crown corporations do not follow the same practice.

Mr. McMILLAN: In connection with the grant in lieu of taxes paid to Sarnia is that in respect of Polymer alone, or is that all—

Mr. STOKES: That is on Polymer Corporation Limited alone.

The CHAIRMAN: Now gentlemen, we are now open for general discussion on the question of the auditing of crown corporations in general and, in particular, the question of crown corporations which have, under the terms of their statute, a private auditing firm and who are not under the auditing inspection of the Auditor General, either jointly or by himself. Included in this discussion, of course, is a question someone raised at the last meeting, with regard to what fees were paid; and that information appears in the document which was tabled today.

Are there any questions on this particular point at this time? If not, have you a comment, Mr. Henderson, that you would like to make?

Mr. HENDERSON: I do not think so, Mr. Chairman. I answered the questions that had been put to me by yourself and by Mr. Fane, and you have here a copy of the answers.

The CHAIRMAN: Yes.

Mr. HENDERSON: I think that would be all that I would have to say on the subject at this point.

Mr. WINCH: I believe that the information contained herein answers, to the best of my recollection, the questions that were asked, and therefore reflect the comments we made ourselves in our recommendations.

The CHAIRMAN: That is quite correct.

I think the answers to the questions are here, and we will be able to make use of it.

There is one question which is probably very remotely related to this and which I propose to ask Mr. Henderson at this time. Mr. Henderson, you have given some indication in the past, but who audits your books, and under what arrangements are your books audited? In other words, who audits the Auditor General?

Mr. HENDERSON: Under section 75 of the Financial Administration Act treasury board appoints an officer of the public service to be the auditor of my office, and his certificate will be found on my accounts in the public accounts. I believe the officer at the present time is Mr. MacDonald, the comptroller of the post office.

The CHAIRMAN: The reason I raise it is the fact that the Auditor General is appointed by the government and is the agent of parliament and answers to parliament; and I have always had in my mind the impression of the desirability of an auditor being appointed by the government rather than by parliament.

I just wanted to raise it, and members might give some consideration to it. We might wish to discuss it and deal with it later, but I thought it might be of interest, because it does, to some extent, in my humble opinion, limit, or could have a limiting effect on, the independence of the Auditor General, and I think this is a thing which should be supreme in our minds, amongst other things—that the position should be one of complete independence.

Mr. WINCH: I think you have a wonderful point there. If the Auditor General is appointed by, and responsible to, parliament then surely the auditing of his own branch should be by someone who is appointed by, or responsible to, parliament.

May I add, Mr. Chairman, that you have now asked a question which I have always wanted to ask, with regard to who examines the examiner.

Mr. McMILLAN: I wonder if there is any way of obtaining the comparative cost of auditing the books of crown corporations ourselves, in relation to those audited by private corporations. I suppose they are paid a much higher rate, are they, than when it is done by the government?

Mr. HENDERSON: The fees are, I would assume, based on the charges which the private firms negotiate with the people who employ them.

As I mentioned last week, it should be borne in mind that these firms are taxpayers, and were I to do the work this would not apply to the same extent.

It is impossible for me to answer your question unless a special study were made.

Mr. FANE: Mr. Chairman, I was just wondering if it would be a better system to have all these crown corporations which are in government business audited by the Auditor General instead of having all these other firms hired to do it. If the Auditor General did all that—was responsible for auditing the accounts of all crown corporations—then the auditing would certainly be uniform and the same kind of records would be kept for all the government business.

I think the Auditor General should be responsible for the auditing of all government business.

The CHAIRMAN: Thank you.

Mr. PRITTE: My view, Mr. Chairman, is much the same. I would imagine that the office of the Auditor General should be exactly the same with regard to government departments and other crown corporations.

An analysis of the excerpt of the Senate report shows that \$250,000 has been paid out in fees.

I would suggest that we cannot go very far into this unless we had some estimate of the Auditor General with regard to what extra personnel he would need in order to do the same work. It would be all right so long as we had the necessary staff to do all the public accounting; but I really do not think we can go very far until we have some comparison to make.

The CHAIRMAN: Are there any other comments?

Mr. HARKNESS: I would take the opposite point of view. A corporation such as Canadian National Railways, which has to run its business the same as the C.P.R., should be in the position of having auditors just the same as any other corporation does; and the same thing, of course, will apply to most of these other corporations which are not audited by the Auditor General.

In other words, it seems to me this is a very reasonable sort of division of the activities in the auditing line.

The CHAIRMAN: Are there any other comments, gentlemen? If not, we will have an opportunity to study these things and the views expressed by members when we come to our final meeting, if the committee wants to discuss it further; and we will have that opportunity.

Mr. McMILLAN: Are there any of these audits which, in your opinion, should be in a different form for us? I mean, are they adapted to your form of auditing, to the type of information you get in your audit?

Mr. HENDERSON: Yes; there are differences between them. However, again, I am unable to answer your question fully because I am not familiar with their accounts.

Mr. McMILLAN: In other words, do you get all the information in those audits?

Mr. HENDERSON: I am not in a position to say, because I am not the auditor.

Mr. LEBLANC: I have two questions I should like to ask the Auditor General. The first is this: Do you have access at times to the working papers of the

private auditors for the various crown corporations for which you are not responsible?

Mr. HENDERSON: No.

Mr. LEBLANC: You do not have access to their working papers; so you do not know exactly what type of audit is being done—how much detail they are doing and what type of work they are actually doing?

Mr. HENDERSON: No; I have made no inquiry, for the reasons I gave at the last meeting.

Mr. LEBLANC: The reason for the question is that I think it would be very difficult for us at the present time, without knowing exactly what type of work they are performing there, to budget for the excess of employees in your department to look after those audits through your own office.

If we are paying out \$250,000 for those various audits one thing we are sure of is that the amounts involved from your own department would be less than that; but I think it is very difficult to say exactly what the amount of saving would be.

Mr. HENDERSON: As I mentioned earlier in response to Dr. McMillan's question, until such a study as you suggest is undertaken it is impossible to be specific on how large the saving might be.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. TARDIF: If you were responsible you would be responsible for any auditors engaged to do any other auditing work besides what you do yourself, would you not?

Mr. HENDERSON: Yes.

The CHAIRMAN: Are there any other comments? If not, could we turn to paragraph 159? We had finished the crown corporations and we had left the departmental operating activities, from paragraph 159 on until the end of the report.

Mr. McMILLAN: That was for 1963?

The CHAIRMAN: That was 1963, Dr. McMillan.

I think we had completed the examination of appendix 1 dealing with non-productive payments, but from paragraph 159 to that appendix we have still to consider the material there. Is that correct, Mr. Henderson?

Mr. HENDERSON: Yes, that is correct. We reached the end of page 122 and we were about to turn to departmental operating activities.

The CHAIRMAN: Paragraphs 159 and 160 follow:

DEPARTMENTAL OPERATING ACTIVITIES

159. Extensive trading or servicing activities are operated by a number of departments, for example:

- ✓ Agricultural commodities stabilization activities (operated by the agricultural stabilization board under the Department of Agriculture);
- Board of Grain Commissioners for Canada (under the Department of Agriculture);
- Canadian Government Elevators (operated by the Board of Grain Commissioners under the Department of Agriculture);
- National Film Board (reporting through the Secretary of State);
- Post Office activities;
- Public printing and stationery activities (under the Department of Defence Production);
- Royal Canadian Mint (under the Department of Finance); and
- Airport operations (under the Department of Transport).

160. Reference has been made in paragraph 128 to the statutory direction contained in the Financial Administration Act regarding the annual financial statements to be prepared by crown corporations. There is, however, no statutory direction regarding the preparation of financial statements in respect of trading or servicing activities operated by departments. Revenues arising from such activities are included in the public accounts as revenues of the departments concerned, while the expenditures that involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. In addition, where statutory revolving funds are used to acquire materials, etc., statements summarizing the transactions in the revolving fund accounts are also included in the public accounts. In the few instances where financial statements showing operating results from departmental trading or servicing activities are included, the costs shown include only the direct costs arising from cash outlays by the departments concerned and do not include non-cash charges for depreciation, interest on capital, services provided by other departments, etc.

Mr. HENDERSON: This section of my report refers to the extensive trading or servicing activities operated by a number of departments, and I give some examples to illustrate. These examples begin at paragraph 161 which follows:

161. *Agricultural commodities stabilization activities.* The agricultural stabilization board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the responsibility of stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the board to be the average prices at which commodities are currently being sold, or stabilizing payments for the benefit of producers. Pursuant to the act, the agricultural commodities stabilization account was established in the consolidated revenue fund and finances the activities of the board, except for administrative expenses which are financed through annual parliamentary appropriations.

The results of the board's operations for the year ended March 31, 1963 are summarized as follows in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1963	1962
Trading losses—		
Butter	\$45,239,000	\$ 2,482,000
Pork	7,528,000	2,017,000
Lamb	31,000	928,000
Cheese	1,025,000	676,000
Other	182,000	116,000
	<hr/>	<hr/>
	54,005,000	6,219,000
	<hr/>	<hr/>
Stabilization and deficiency payments—		
Milk	13,258,000	12,371,000
Sugar beets	1,983,000	1,670,000
Eggs	663,000	15,000
Wool	956,000	1,236,000
Other	991,000	495,000
	<hr/>	<hr/>
	17,851,000	15,787,000
	<hr/>	<hr/>
Net operating loss	\$71,856,000	\$22,006,000
	<hr/>	<hr/>

The \$71,856,000 loss shown for 1962-63, recovered by Special Appropriation Act, 1963 (Vote 163) does not include administrative expenses of \$461,000 which were charged to the appropriation for "Agricultural Stabilization Act Administration" (Vote 40). Moreover, no charges are made for accounting services rendered by the office of the comptroller of the treasury or for contributions to the public service superannuation account, and interest on the funds employed is not taken into consideration.

The following is a listing of the inventories, valued at cost, held by the board at March 31, 1963 in comparison with the similar inventories at the close of the preceding year:

	As at March 31	
	1963	1962
Butter	\$ 129,173,000	\$ 112,312,000
Pork	10,072,000	19,383,000
Other	266,000	1,030,000
	<u>\$ 139,511,000</u>	<u>\$ 132,725,000</u>

The inventory of butter owned by the board increased by \$16,861,000 during the year notwithstanding a resale program under which the price of butter was reduced by 12 cents per pound. The cost of this program amounted to \$42,273,000. Storage charges incurred in respect of butter which had accumulated during the years 1958 to 1962 amounted to \$4,442,000 during the year ended March 31, 1963.

As you will see from the examples appearing, some are producing effective accounting statements, others are in the process and others have not yet started to do it.

The first deals with agricultural commodities stabilization activities, and you will notice that there is a summary at the top of page 124 showing the results of the board's operations for the year, on a comparative basis. There is a net operating loss shown there for 1963 in excess of \$71,000,000. However, as pointed out this does not include, administrative expenses which were charged to vote 40, nor have any charges been made for the accounting services, for contributions to the public service superannuation account, or for interest on the funds employed.

It has been my recommendation that the statement should be carried through to the point where all these other cost elements are included in the accounting statement.

The next paragraph, No. 162, outlines the situation surrounding the board of Canadian commissioners, which paragraph follows:

162. *Board of Grain Commissioners for Canada.* This board operates under the authority of the Canada Grain Act, R.S., c. 25, and consists of a chief commissioner and two other commissioners appointed by the governor in council. The board has jurisdiction to enquire into any matter relating to: grading, weighing and storage of grain; unfair or discriminatory operation of any elevator; and any other matter arising out of the performance of the duties of the board.

The following is a comparative summary of the results of operations for the past two fiscal years:

	Year ended March 31	
	1963	1962
Expenditure—		
Salaries, allowances, etc.	\$ 4,258,000	\$ 4,286,000
Rent	188,000	188,000
Travel	122,000	125,000
Printing and stationery	57,000	58,000
General expenses	223,000	228,000
	<u>4,848,000</u>	<u>4,885,000</u>
Revenue—		
Inspection	1,584,000	1,946,000
Weighing	794,000	967,000
Registrations and cancellations	44,000	54,000
Licences	28,000	29,000
Sundry	2,000	5,000
	<u>2,452,000</u>	<u>3,001,000</u>
Excess of expenditure over revenue	\$ 2,396,000	\$ 1,884,000

Although the volume of grains handled during 1962-63 decreased considerably from the previous year, there was no significant decrease in the board's expenditures since a large portion of these are fixed. No charges were included as expenditure of the board for contributions to the public service superannuation account or for accounting and other services provided by government departments.

Revenue from inspections, weighing and registrations and cancellations varies directly with the volume of grain handled and therefore decreased in 1962-63 compared with the previous year. Fees for weighing services have not been revised since 1920 and for inspection services since 1949. In our previous reports reference has been made to this situation and last year it was observed that the standing committee on public accounts recommended in 1961 that "steps be taken to bring revenues and expenditures into balance". 1962-63 was the ninth consecutive year in which deficits exceeded one million dollars.

This paragraph has a summary of the results of the operation on page 125, and you will see that expenditure here has been exceeding revenue for some years, in point of fact were \$2,396,000 in excess at the end of 1963.

This situation has been before the committee, as you know, and in 1961 the committee recommended that steps be taken to bring revenue and expenditure into balance.

I had pointed out that 1962-63 was the ninth consecutive year in which the deficit in this operation had exceeded one million dollars, and we discussed this matter in the summary, and you may recall that in your fourth report, 1964, paragraphs 40 and 41, presented to the house on July 28 last, you took note of the fact that the board of grain commissioners had announced that there would be a 50 per cent increase in their charges to the public, to be made effective August 1, 1965.

That is the status of this matter at this time.

Paragraph 163 deals with Canadian government elevators, and is as follows:

163. *Canadian Government Elevators.* The Canadian government elevators are operated by the board of grain commissioners for Canada under section 166 of the Canada Grain Act, R.S., c. 25. There are five

interior elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton and Lethbridge; and a terminal elevator at Prince Rupert. The terminal elevator, located at Port Arthur, which had been leased to a company engaged in the grain trade was sold during the year to the former lessee (see paragraph 47).

The equity of the crown in the Canadian government elevators at March 31, 1963 was \$10,833,000, represented by fixed assets costing \$10,366,000 acquired out of funds provided by parliamentary appropriations together with a surplus of \$467,000.

The following is a summary of the results of operation for the year under review with the comparable amounts for the preceding year:

	As at March 31	
	1963	1962
Revenue—		
Storage	\$ 822,000	\$ 1,129,000
Elevation	157,000	484,000
Cleaning	36,000	159,000
Drying	11,000	23,000
Other	37,000	196,000
	<u>1,063,000</u>	<u>1,991,000</u>
Expenditure—		
Salaries and wages	785,000	889,000
Maintenance—buildings, plant and equipment	257,000	362,000
Grants in lieu of taxes	112,000	112,000
Power	65,000	98,000
Other	95,000	107,000
	<u>1,314,000</u>	<u>1,568,000</u>
Net profit or (loss)	<u>(\$ 251,000)</u>	<u>\$ 423,000</u>

The operating revenue arises almost entirely from the handling of wheat and only to a minor extent from the handling of coarse grains. The sale and movement of wheat is the responsibility of the Canadian wheat board and it is to the economic advantage of this board to ship all wheat direct to lakehead or tidewater ports without using facilities of interior elevators since, by so doing, "stop-off" and "diversion" charges are eliminated. When weather conditions at harvest time result in damp wheat and when lakehead and tidewater elevators are filled to capacity, the board uses the drying and storage facilities of interior elevators. The fall of 1962 was exceptionally dry and there was a steady export from lakehead and tidewater terminals so that the facilities of the Canadian government elevators were not required by the Canadian wheat board to the same extent as in 1961. As a result, only 6,252,000 bushels of wheat were handled by the elevators in 1962-63 compared with 25,171,000 in the previous year. This sharp decline in volume of wheat moving through the elevators was largely responsible for the reduction in revenue. In addition, the effective date of the sale of the terminal elevator was August 1, 1962 so that only four months' rental was received in 1962-63.

The decrease in volume of grain handled also resulted in decreased expenditures, chiefly for casual labour, maintenance and power, but did not affect fixed costs such as grants in lieu of taxes and head office expenses. As noted in previous years' reports, expenditures do not include amortization of elevator construction costs, charges for contributions to

the public service superannuation account, or costs of accounting and other services provided by government departments.

A loss of \$72,000 by the Lethbridge elevator was its eighteenth consecutive annual loss. The accumulated deficits during this period amounted to \$690,000.

The details of this paragraph follow on page 126. Here we had a profit in 1962 followed by a loss in 1963, the reasons for which are explained in the paragraph following the table.

I pointed out for the information of the house that the loss of \$72,000 by the Lethbridge elevator was its eighteenth consecutive annual loss, and that their accumulated deficits during that period had amounted to \$690,000.

Paragraph 164 deals with the national film board, and is as follows:

164. *National Film Board.* This board was established in 1939 by the National Film Act, now R.S., c. 185, for the purpose of promoting the production and distribution of films in the national interest. Section 18 of the act provides for the establishment of the national film board operating account in the consolidated revenue fund. The account is credited with amounts provided by annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (national film board *Vote 1*), amounts transferred from appropriations of government departments in respect of work undertaken for them, and income arising from the sale and rental of films and other visual materials. The account is charged with all expenditures made by the board, other than those for the acquisition of capital equipment which are charged to a separate appropriation.

The equity of the crown in the board at March 31, 1963 was \$2,343,000 consisting of the balance of \$581,000 in the national film board operating account for working capital together with an investment of \$1,762,000 represented by the depreciated value of equipment transferred to the board at its inception or purchased out of funds provided through parliamentary appropriations, less disposals.

Pursuant to the provisions of the act, the board maintains an accounting system on the accrual basis in addition to the accounts maintained by the comptroller of the treasury on the cash basis. The following is a summary of the results of the board's operations for the year, compared with those of the preceding year:

	Year ended March 31	
	1963	1962
Expense—		
Production of films and other visual materials ...	\$ 2,975,000	\$ 3,008,000
Distribution of films	2,313,000	2,203,000
Administration and general services	900,000	860,000
Cost of production of films and other visual materials for government departments and others ..	1,557,000	1,247,000
Acquisition of equipment (net)	197,000	172,000
	<hr/>	<hr/>
	7,942,000	7,490,000
	<hr/>	<hr/>
Income		
Sales of films and other visual materials	1,740,000	1,505,000
Rentals and royalties	585,000	877,000
Miscellaneous	25,000	15,000
	<hr/>	<hr/>
	2,350,000	2,397,000
	<hr/>	<hr/>
Net expense	\$ 5,592,000	\$ 5,093,000
	<hr/>	<hr/>

As disclosed in a note to the board's financial statements, the statement of income and expense does not include charges for the value of accommodation, contributions to the public service superannuation account and accounting and other services provided by government departments to the extent of approximately \$1,083,000 for the year. Neither does the statement include depreciation on equipment, estimated at \$330,000 for the year under review.

You will see here that the net expenses recorded by the film board in the table for 1963 is \$5,592,000. However, there was a note that the financial statement indicated that the computation did not include charges for the value of accommodation, contributions to the public service superannuation account and accounting and other services provided by government departments, to the extent of approximately \$1,083,000 for the year; nor does this statement include depreciation on equipment, which was estimated at \$330,000 for the year under review.

I am pleased to point out to you that the national film board picked up all those charges in its statement this year. The board included all these items in its statement on operations. Naturally, it has had the effect of increasing their published expense figure, but it reflects its expenses at the comparable level of, for example, private film companies. This has been dealt with in the Board's reports and if members have any questions we have particulars here which will also be found in the annual report of the national film board.

Mr. RYAN: What would be the total expenses if they took these further items into consideration?

Mr. HENDERSON: I will ask Mr. Stokes to give you the answer to that.

Mr. STOKES: In the year ended 31 March, 1963, they would have aggregated \$9,169,878.

Mr. HENDERSON: As compared with \$7,942,000 shown on page 129.

Mr. STOKES: I do not have the figure.

Mr. FANE: To go back to paragraph 163, why does the government elevator at Lethbridge continue to show a loss every year? That is at the bottom of page 126.

The CHAIRMAN: It is the last paragraph on page 126, Mr. Stokes.

Mr. FANE: Why is this the only one that does this?

Mr. STOKES: I think the only explanation is that their revenue does not match their expenditure; it is by that amount that revenue does not match expenditure.

Mr. FANE: They must handle a very great volume of grain there, because that is good grain country.

Mr. HENDERSON: My understanding is that the overhead of this particular operation is greater than exists at any of the other elevators. You will probably know whether that is so, or not.

I do not think it is because they have not been given their proper share of grain handling, but because of the built-in cost.

Mr. FANE: I see; thank you.

Mr. HARKNESS: I do not think that there is too much grain there, either. I think they found that it was a good spot to hold grain which might be needed for fairly rapid forward delivery, and the result is that the elevator has never been made as much use of as other elevators.

The CHAIRMAN: Now we are on the post office, I think, at this time—paragraph 165, which follows:

165. *Post Office activities.* The following is a summary of the post office transactions reported as departmental revenues and as charges against parliamentary appropriations in the post office section of volume II of the public accounts for the year ended March 31, 1963 in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1963	1962
Gross postal revenue	\$ 222,300,000	\$ 213,518,000
Less: Expenses paid from revenue	29,528,000	29,839,000
	<hr/>	<hr/>
Net postal revenue	192,772,000	183,679,000
Miscellaneous revenue	59,000	61,000
	<hr/>	<hr/>
	192,831,000	183,740,000
	<hr/>	<hr/>
Deduct: Expenditures from parliamentary appropriations—		
Operations	119,992,000	116,983,000
Transportation	63,935,000	62,719,000
Administration, financial services, etc.	5,417,000	5,301,000
	<hr/>	<hr/>
	189,344,000	185,003,000
	<hr/>	<hr/>
Excess of revenue over expenditure	\$ 3,487,000	(\$ 1,263,000)

This recorded excess of revenue over expenditure of \$3,487,000 for 1962-63 did not, however, take into consideration charges for services provided by other departments, including accommodation provided by the Department of Public Works estimated at \$23,411,000 or contributions to the superannuation account by the Department of Finance estimated at \$7,274,000. Neither were credits for mail franked by and sent to members of parliament and government departments, estimated at \$5,200,000, taken into account.

Mr. HENDERSON: Paragraph 165 gives the summary of the post office transactions as they are reported in volume II of the public accounts. This is on page 128; and you will see that there is an excess of revenue over expenditure, as shown in this table, of \$3,487,000. However, in the ensuing paragraph I go on to point out that this excess of revenue, or profit, if you want to call it that, did not take into consideration the charges for services provided by other departments, including accommodation provided by the Department of Public Works—that is to say, their rent—which was estimated at \$23,411,000; or contributions to the superannuation account by the Department of Finance estimated at \$7,274,000; and neither were credits for mail franked by and sent to members of parliament and other departments, estimated at \$5,200,000 taken into account.

I am hoping we may be successful in having the post office follow the example of the national film board by picking up such charges in its statements of operations.

Mr. FRANCIS: I think, in fairness to the department, the annual report does call attention to this.

Mr. HENDERSON: Yes; that is right.

Mr. FRANCIS: And an attempt has been made to increase the scale of charges to bring the total costs of operating clearly into line; and I think the minister's statement has been very clear on that.

The CHAIRMAN: Are there any other comments on paragraph 165?

Mr. CARDIFF: I think there should be something said on the amount of mail by members of parliament that is sent out on the frank.

Some members of parliament continually send stuff out. They cannot get enough work for their secretaries to do to keep them busy. They send mail out every day. I think there should be a limit set on the amount of material they can send out.

I do not know how this can be done, but I think something should be done.

Mr. FRANCIS: I wonder if Mr. Cardiff would recognize that this should have some relation to the number of votes in the member's constituency. My colleague, for instance, from north Scarborough, with his 340,000 people, would find that this created a bit of a problem. I have about 170,000 people in my constituency and that does not create just such a problem.

Mr. CARDIFF: But that could be taken into consideration. That is not the answer, of course.

Mr. FRANCIS: But it is part of the problem.

Mr. ROCK: I think there are members who, every week, send possibly to all the electors in their area, newspapers and other publications, which is kind of fantastic so far as expenses are concerned.

Mr. REGAN: Well, I would only point out that in addition to consideration of how many constituents there are there is also the nature of the constituency. There are some members of parliament who, as private members, speak, and because of the nature of their constituency they are thoroughly covered in their local newspaper. There are some who come from cities like Montreal, Vancouver or Winnipeg—or any of the large cities in Canada—where they do not get their names in the newspaper, and surely it is much more necessary for people in areas like that, in the larger constituencies, to know what they are doing by mail, with more publicity of their activities.

I think that it would probably be unwise to try to put a restriction of this type on the frank privilege. After all, in any event, it is being used for the information of the general public, and the saving would be very minimal, if at all, to the post office, since the volume going out from parliament compared to the national volume of mail must be infinitesimal; and you would be in the position where these are spread over an area so that they will be carried there by the mail carrier; and I think you would find that the saving of public money would be very small and not worth the effort of working out a successful formula.

The CHAIRMAN: I do not want to inhibit anybody, but—

Mr. ROCK: I would like to comment to the contrary. I believe that if a member of parliament sends a letter to every member of his constituency once a week then the mailman has his bag full of his mail, period; because very seldom does the mailman have a letter for everybody in the constituency on his round. When a member of parliament every week is sending out a circular letter of some kind then the mail carrier's bag is completely full and he is working more for his member of parliament that one day per week than he is working for the rest of the people.

The CHAIRMAN: I do not want to inhibit any discussion of this fascinating subject which opens up very considerable vistas for us, I am sure, but I think we are getting a little beyond the jurisdiction of the Auditor General just now. I think it will be of interest to read these comments later, but perhaps we could move on to paragraph 166 now, which is as follows:

166. *Public printing and stationery activities.* Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery is charged with the execution of printing, lithographing or work of like nature and the procurement and distribution of paper,

books and other articles of stationery required by the Senate, the House of Commons and the various government departments. The department is also responsible for the sale of all books or publications issued by order of either or both houses of parliament or by any department. The expenditures of the department are provided for through the medium of the queen's printer's advance (a statutory working capital advance) and by annual parliamentary appropriations.

The basic operating expenses of the department are charged to the queen's printer's advance under section 37 of the act. The advance is credited with the value of printing work executed for and charged, at "factory cost", to the various departments, and also for the value of stationery supplied and charged to them at "purchase cost". The act provides that the aggregate amount of the charges to the advance after deducting therefrom any amounts due to the queen's printer shall not exceed \$4 million at any time. As at March 31, 1963 the balance of the advance was \$4,730,000 and the accounts receivable totalled \$2,371,000, so that the effective balance for the purposes of the act was \$2,359,000, being an increase of \$197,000 over the corresponding figure at the end of the preceding year.

The following summary shows the operating results of the queen's printer's advance for the year ended March 31, 1963 together with the comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Revenue	\$18,990,000	\$19,543,000
Expenditure—		
Direct materials	11,954,000	11,996,000
Direct labour	3,074,000	2,729,000
Other factory expenses	3,074,000	2,729,000
Work sub-contracted	373,000	338,000
Decrease or (increase) in inventories	(192,000)	248,000
	<u>19,066,000</u>	<u>19,607,000</u>
Discount earned, etc.	76,000	64,000
	<u>9,000</u>	<u>11,000</u>
Excess of expenditure over revenue	\$ 67,000	\$ 53,000

The expenditure shown above does not include the value of services and facilities including light, power, telephone, heating, amortization of buildings and equipment, etc., provided free of charge by other government departments and through the medium of the department's own appropriations.

In addition to the expenditures recorded through the queen's printer's advance, the other expenditures of the department are charged to eight different parliamentary appropriations and totalled \$3,977,000 for the year under review. The following compares these expenditures with those for the preceding year:

	Year ended March 31	
	1963	1962
Departmental administration	\$ 771,000	\$ 751,000
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel and repairs to office equipment)	1,201,000	1,264,000
Distribution of official documents	685,000	597,000
Printing and binding official publications for sale and distribution to departments and the public	1,012,000	938,000
Printing of <i>Canada Gazette</i>	169,000	139,000
Printing and binding the annual Statutes	26,000	35,000
Plant equipment and replacements	106,000	239,000
Reimbursement of the Queen's Printer's Advance for the value of stores which have become obsolete, unserviceable, lost or destroyed	7,000	35,000
	<u>\$ 3,977,000</u>	<u>\$ 3,998,000</u>

For the year ended March 31, 1963 credits to revenue totalled \$1,660,000, most of which resulted from the sales of publications to the general public.

Mr. HENDERSON: Paragraph 166 deals with public printing and stationery activities.

At the top of page 129 you will see a summary of the operating results of the queen's printer's advance, showing an excess of expenditure over revenue of \$67,000, but again I go on to show that the expenditure shown does not include the value of services and facilities including light, power, telephone, heating, amortization of buildings and equipment, and so on, provided by other government departments; and then I show how, in addition to the expenditures recorded through the advance account, the other expenditures of the department are charged to eight different parliamentary appropriations and totalled nearly \$4 million for 1963 which we are reviewing; and you will see the nature of these listed.

What I am asking is that these might be all included together in one statement so as to show a comprehensive picture of what the result of the public printing and stationery activities have been. This does show how they are spread to the different appropriations under the prevailing system.

I do not know whether members have any comments on this.

The CHAIRMAN: I might ask a question: Are you getting any reaction to these suggestions you are making, Mr. Henderson, and what reaction is there from which you draw important conclusions as to the future?

Mr. HENDERSON: I would ask you to look at paragraph 169 on page 132, which is in the following terms:

169. In previous reports we have expressed the view that in order that parliament may gain a clear understanding of the true financial results of departmental operating activities, without necessarily disturbing the present basis of providing appropriations, consideration should be given to the inclusion in the public accounts of financial statements of the various activities designed to reflect the over-all operating results in a clear, concise manner. Such operating statements could be adjusted to the accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment costs, interest on funds employed, services provided by other departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by

the related credits to departmental revenues and charges to departmental appropriations. Balance sheets could also be prepared which would indicate the value of the assets employed by the several activities at the year-end. If statements of this type were produced, the audit office would be prepared to examine and certify them.

Paragraph 87 of the fifth report 1961 of the public accounts committee reads:

“The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport, were overall financial statements included in the Public Accounts without undue cost or staff increases.”

We are continuing to follow this matter up with departments having operating activities and to make suggestions regarding the preparation of financial statements along the lines proposed. As was the case last year, reluctance was found on the part of certain agencies to take the lead in preparing statements on the basis recommended, in the absence of encouragement from the treasury board. However, early in the present fiscal year such encouragement was given to at least one of the agencies and it is hoped that the financial statements for 1963-64 will be prepared substantially as recommended.

Here I am summing up. You will see that in 1961 the public accounts committee agreed that it would be desirable if over-all financial statements were included along these lines in the public accounts, provided they could be prepared without undue cost, or staff increases.

The work involved in putting out this type of statement during the year is, to say the least, not particularly onerous.

To answer your question, Mr. Chairman, there is an increasing recognition on the part of government departments engaged in these departmental trading and service activities as to the necessity of having these additional statements prepared, and I think in the public accounts this year there will appear five or six more departments in which they are recording all of their expenses.

In the course of our auditing work we offer our services to the departmental people to assist them in designing and preparing statements like these, not only because their inclusion in public accounts may interest members who can thus secure more information, but so that they themselves can become accustomed to using these statements as a guide and control towards containing their own expenses.

I think there is scope in the government for improving the form of its internal financial statements. This was one of the recommendations of the Glassco commission. I have been pressing for this matter since 1960 and, as I say, we are getting some action; but it is one of those problems that it is not easy to make headway with unless there is strong encouragement given from the top down; that is to say, there must be acceptance by top management of the importance of adequate financial statements, and once that has been done the people at the various levels will produce them.

What we see here is really the progress that has been made over four years in this direction, and I hope that with the added impetus of the Glassco recommendations there will finally emerge more effective accounting statements.

You will notice that paragraph 169 indicates how these operating statements can be prepared, and I go on to say that if statements of this type were

produced we, in the office audit, would be prepared to examine and certify them as we do now for the national film board and some of the others. This, I think, would be a constructive step; and I believe you think the same.

The CHAIRMAN: We still have paragraphs 167 and 168, which are as follows:

167. *Royal Canadian Mint.* The Royal Canadian Mint operates under part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Revolving fund accounts are maintained for the recording of transactions in gold, silver, and other metals acquired by the mint for the purpose of its operations. The following is a summary of the charges and credits to these accounts during the year under review in comparison with the corresponding amounts for the preceding fiscal year.

	Year ended March 31	
	1963	1962
Inventories at beginning of year	\$20,655,000	\$13,951,000
Add: Purchases during year—		
Gold	91,020,000	85,607,000
Silver	16,914,000	14,150,000
Other metals	1,408,000	1,823,000
	<u>109,342,000</u>	<u>101,580,000</u>
Gold revaluation	218,000	417,000
	<u>130,215,000</u>	<u>115,948,000</u>
Deduct: Sales—		
Gold sales	91,121,000	87,260,000
Silver coin issues, at face value	15,853,000	11,769,000
Other coin issues, at face value	4,961,000	3,806,000
Silver bullion sales	49,000	48,000
Sundry credits		4,000
	<u>111,984,000</u>	<u>102,887,000</u>
	18,231,000	13,061,000
Add: Transfers to Revenue—		
Gain on coinage operations	8,920,000	7,562,000
Gold refining gain	61,000	32,000
	<u>8,981,000</u>	<u>7,594,000</u>
Inventories at end of year	<u>\$27,212,000</u>	<u>\$20,655,000</u>

The transfers to revenue of \$8,981,000 from the revolving fund accounts, together with other revenue of \$725,000 (\$555,000 in 1961-62), making a total of \$9,706,000 for the year ended March 31, 1963, are recorded in the public accounts as revenue of the Department of Finance. Offset against this were expenditures totalling \$1,830,000 charged to parliamentary appropriations under the Department of Finance as follows: administration, operations and maintenance, \$1,768,000 (\$1,558,000 in 1961-62); and construction or acquisition of equipment, \$62,000 (\$117,000 in 1961-62).

The net result of these credits and charges was an excess of revenue over expenditure of \$7,876,000 compared with \$6,469,000 in 1961-62, an

increase of \$1,407,000. These recorded results do not, however, take into consideration charges for services provided by other departments including accommodation provided by the Department of Public Works, the services of the R.C.M.P. and contributions to the superannuation account by the Department of Finance—nor is any charge included for interest on funds employed.

In paragraph 187 of last year's report reference was made to a reduction from 20 cents per ounce to 11 cents per ounce in the charge paid by depositors who deposit gold with the mint for sale to the crown, to cover the cost of marketing the gold outside of Canada. It was noted that as there had been no reduction in the gold handling charge of 13.8 cents per ounce assessed by the Bank of Canada on gold purchased from the mint, a loss to the mint of \$62,063 had resulted during 1961-62. This situation was corrected with effect from April 1, 1962 by a reduction from 13.8 cents to 11 cents per ounce in the charge made by the Bank of Canada.

168. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1963 was \$579,085,000 compared with \$532,917,000 at the same date in the preceding year, a net increase of \$46,168,000 for the year under review.

The revenue from civil aviation airport operations for the year ended March 31, 1963 amounted to \$15,519,000 compared with \$14,625,000 in the preceding year. The summary which follows gives details of this revenue, together with the comparable amounts for the preceding year:

	Year ended March 31	
	1963	1962
Aircraft landing fees:		
Domestic	\$ 3,235,000	\$ 3,006,000
Trans-oceanic	3,074,000	2,858,000
Trans-border	753,000	686,000
Other	23,000	30,000
	<hr/>	<hr/>
	7,085,000	6,580,000
	<hr/>	<hr/>
Rentals:		
Office, shop and garage space	1,239,000	1,322,000
Living quarters	386,000	382,000
Hangar	197,000	181,000
Other	1,077,000	948,000
	<hr/>	<hr/>
	2,899,000	2,833,000
	<hr/>	<hr/>
Concessions:		
Gasoline and oil	1,881,000	1,693,000
Other	1,824,000	1,516,000
	<hr/>	<hr/>
	3,705,000	3,209,000
	<hr/>	<hr/>
Miscellaneous revenue	1,830,000	2,003,000
	<hr/>	<hr/>
Total revenue	\$15,519,000	\$14,625,000
	<hr/>	<hr/>

The parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" (Transport vote 145) was charged with expenditures totalling \$19,755,000 for 1962-63, a decrease

of \$1,007,000 from the corresponding figure of \$20,762,000 for the preceding year.

The excess of expenditure (excluding new construction) on airways and airports over the revenue received, as reflected in the Department of Transport section of the 1962-63 public accounts, was therefore \$4,236,000, a decrease of \$1,901,000 from the preceding year's figure of \$6,137,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. However, the department has maintained accounts on an accrual basis and has prepared therefrom periodic financial statements for management purposes in respect of operations at the 16 major airports which together account for approximately 82% of the revenue from civil aviation airport operations. A consolidation of these statements, which includes a provision for depreciation of civil aviation facilities (though not for the other costs referred to) for the year ended March 31, 1963 is given as an appendix to the department's section of the public accounts.

Mr. HENDERSON: Paragraph 167 gives the financial information available on the inventory of the Royal Canadian Mint, and paragraph 168 deals with airport operation.

If you will look at the last paragraph of this on page 132 you will see that the Department of Transport is preparing periodic financial statements for management purposes in respect of the operation of 16 major airports which, together, account for approximately 82 per cent of the revenue from civil aviation airport operations. That results in a consolidation of these statements which goes into the public accounts, and I think that is an admirable step forward.

I think it is important to know what individual airports are costing in terms of outgo and income.

Mr. WINCH: Could I ask one question? I agree with the hon. gentleman on this, but I would like to ask this: Do you not think that as the Department of Transport operates a great many airfields outside of major areas there should not be a consolidated report of the operations of all airports operated by the Department of Transport?

Mr. HENDERSON: Yes, I think you are right, Mr. Winch. This is the way they have started and, as I say, I think it is wholly admirable and I hope it will lead to the improvement you are looking for.

Mr. McMILLAN: There was a surplus of about \$1 million at the end of the year in the case of the mint.

Mr. HENDERSON: Yes, that is right.

Mr. McMILLAN: What do you mean by "gold revaluation"?

Mr. HENDERSON: That is an inventory term, I believe.

In what reference do you ask that?

The CHAIRMAN: That is right here, Mr. Henderson.

Mr. HENDERSON: This would I believe, be a revaluation in terms of the stock holdings of their inventory.

This statement shows the inventory at the beginning and the close of the year; and in this connection they take the purchases and deduct the sales, and in this process they have to make some adjustments in the valuation of the stocks.

I would regard this as a routine revaluation. It is not related to the par value of the currency as such.

We now come to paragraph 170 on page 133. It is in the following terms:

170. In addition to the examinations of departmental accounts and the audits of the accounts of crown corporations, already referred to in this report, the following special audits and examinations were made by the audit office during the year, most of them in accordance with specific directions contained in various statutes: Army benevolent fund board, Atlantic development board, the Canada Council, the custodian, exchange fund account, national gallery of Canada, national productivity council, public printing and stationery stores, The Queen Elizabeth II Canadian fund to aid in research on the diseases of children, Royal Canadian Mint stocks, unemployment insurance fund and Yukon territorial government.

Paragraph 170 outlines the special audits and examinations, and it begins in paragraph 171 with the army benevolent fund board:

171. *Army Benevolent Fund Board.* The accounts of this board were examined for the year ended March 31, 1963 pursuant to the requirement of section 11 of the Army Benevolent Fund Act, R.S., c. 10, and the relative report was addressed to the chairman and members of the board, with a copy being provided to the Minister of Veterans Affairs.

During the year, receipts amounted to \$236,000 of which \$224,000 was derived from interest on funds on deposit with the Receiver General of Canada and \$12,000 from interest on Government of Canada bonds. Disbursements totalled \$504,000 consisting of \$426,000 in grants to or on behalf of world war II veterans and \$78,000 for service and administrative expenses. The latter amount was after making deductions for a grant of \$18,000 provided for by an appropriation of the Department of Veterans Affairs and for a fee of \$30,000 from the Canadian army Welfare fund for managing the financial program of that fund.

After absorbing the excess of disbursements over receipts in the amount of \$268,000, the balance at credit of the army benevolent fund at March 31, 1963 was \$6,014,000 represented by \$5,754,000 on deposit with the Receiver General of Canada, \$256,000 invested in Government of Canada bonds and \$4,000 of accountable advances and prepaid expenses.

I am the auditor of the army benevolent fund.

Then we have the Atlantic development board, in paragraph 172:

172. *Atlantic Development Board.* This board was established by the Atlantic Development Board Act, 1962-63, c. 10. Under the provisions of the act, as amended by chapter 5, 1963, the objects of the board are to inquire into and report to the responsible minister upon programs and projects for fostering the economic growth and development of the Atlantic region of Canada, and to consider, report and make recommendations to the Minister concerning programs and projects.

Funds for the board's 1962-63 requirements were provided by an allotment of \$7,000 from finance Vote 50 (Miscellaneous, Minor and Unforeseen Expenses). Expenditures for the period from December 20, 1962 to March 31, 1963 amounted to \$5,032, representing administrative costs.

Section 19 of the Atlantic Development Board Act states:

"The Chairman of the Board shall, within three months after the termination of each fiscal year, transmit to the minister a statement relating to the activities of the board for that fiscal year, including

the financial statements of the board and the Auditor General's report thereon, and the minister shall cause such statement to be laid before parliament within fifteen days after the receipt thereof or, if parliament is not then sitting, on any of the first fifteen days next thereafter that parliament is sitting."

The statement relating to the short initial financial period had not been tabled when Parliament adjourned on August 21, 1963.

The Atlantic development board is a fairly recent board. Under paragraph 173 you will find The Canada Council:

173. *The Canada Council.* The council was established under the Canada Council Act, 1957, c. 3, "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences".

A report on the audit of the council's accounts for the year ended March 31, 1963 was made to the council and to the Prime Minister, as required by the act.

An endowment fund of \$50 million was established under the act. The return on the investments of the fund is used to meet administrative expenses and other expenditure for purposes of the act, except for capital assistance grants to universities in respect of building construction projects. Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the results of the endowment fund operations for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Surplus at April 1	\$ 273,000	\$ 418,000
Income—interest and dividends	3,011,000	2,955,000
	<hr/>	<hr/>
	3,284,000	3,373,000
Expenditure—		
Grants	2,721,000	2,551,000
Canadian national commission for UNESCO	78,000	57,000
Administrative and other expenses	402,000	467,000
Special project—The Canada Council train	—	25,000
	<hr/>	<hr/>
	3,201,000	3,100,000
Surplus at March 31	\$ 83,000	\$ 273,000

The Council is required to provide the secretariat for the Canadian National Commission for UNESCO. The salary costs involved for this secretariat were included in prior years under "administrative and other expenses". For 1962-63 these costs, amounting to \$23,000, were included in the above expenditure item of \$78,000 in order to show more accurately the costs of servicing the commission.

A university capital grants fund of \$50 million was established under the act in order that grants could be made to universities and similar

institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants may be paid out of the principal and accumulated income of the fund.

The following is a summary of the university capital grants fund transactions for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Balance at April 1	\$30,333,000	\$34,342,000
Add:		
Interest earned on investments	1,521,000	1,620,000
Net profit on disposal of securities	365,000	904,000
	<hr/>	<hr/>
	32,219,000	36,866,000
Deduct:		
Authorized grants	6,275,000	6,533,000
	<hr/>	<hr/>
Balance at March 31	<u>\$25,944,000</u>	<u>\$30,333,000</u>

The \$25,944,000 balance of the university capital grants fund at March 31, 1963 included \$14,280,000 representing interest earned and profits realized since the inception of the fund. No portion of this accumulated interest and profits had been allocated by the council to the provinces or distributed to the universities at the end of the fiscal year.

In paragraph 92 of its fifth report 1961, the public accounts committee, noting that no allocation of interest and profits had been made, recommended "that the council seek to conclude this matter without further delay". In submitting my follow-up report dated October 30, 1963 to the public accounts committee on the action taken by departments and other agencies in response to recommendations made by the committee in 1961, reference was made to this recommendation. It was stated that in August 1963, following further efforts to resolve the problem presented in the interpretation of subsection (2)(b) of section 17 of the Canada Council Act, the council had reconfirmed a resolution passed at a February 1962 meeting, but which by later resolution was left in abeyance, that the 1956 census be accepted as the basis for distribution of the university capital grants fund, and that "the 'hotch-pot' or trust fund approach be accepted for distribution of the income and profits on this total fund". It was further stated that the council officers had been directed to prepare revised figures based on this approach and to advise member institutions of their entitlement.

While reviewing the follow-up report, the public accounts committee on November 18, 1963 examined this matter with the chairman and members of the Canada council who were in attendance. At this meeting I advised the committee that I had informed the council that our study of the texts of the legal opinions received by the council on the proposed method of allocation and distribution had caused us to question whether the proposed method of distribution would be in accordance with the provisions of the Canada Council Act. The matter remains under review by the committee at the present time.

The council may, under section 20 of the act, acquire money, securities or other property by way of gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms upon which they are made available to the council. In previous years gifts were

comparatively small in amount and unexpended balances were accounted for in the balance sheet of the endowment fund. In February 1963, however, the council accepted the offer of a gift of approximately \$4,250,000 from an anonymous donor to be used to establish a special scholarship fund, the income from which is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions, or other equivalent or similar institutions in Canada. \$1,079,000 of the gift was received prior to March 31, 1963 and payment of the balance is to be extended over the next several years. Because of the size of, and the terms associated with this gift, the council approved of the presentation of a separate balance sheet as at March 31, 1963, designated "Special Funds", accounting for moneys or property received pursuant to section 20 of the act to a total of \$1,099,000.

This was dealt with during the meetings in July so that I do not think any time need be taken on this unless the members have any questions.

The next paragraph, No. 174, outlines the operations of the custodian of enemy property, and is as follows:

174. *The Custodian.* In accordance with regulation 6 of the revised regulations respecting trading with the enemy (1943) as set out in the schedule to the trading with the enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him" by virtue of the regulations. The under-secretary of state acts as deputy custodian and the custodian's office is administered by an assistant deputy custodian in Ottawa. A report on the audit of the custodian's accounts for the year ended December 31, 1962 was made to the Secretary of State.

The book value of the assets vested in the custodian, which were valued in accordance with bases explained in an addendum to the statement of assets and liabilities, decreased by \$571,000 to \$4,138,000 at December 31, 1962. A transfer of \$500,000 to the Minister of Finance for the war claims fund, and releases of \$311,000 to former owners or their beneficiaries, offset in part by an appreciation of \$256,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the regulations referred to above, the custodian is authorized to charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2 per cent of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the regulations.

All administration fees and any income received from vested assets which consist of or are converted into cash or government of Canada bonds are credited to the custodian's administration account, from which all expenses of the office are paid. As a result, the custodian has accumulated, from September 2, 1939 to December 31, 1962, a surplus of \$4,468,000—largely invested in government of Canada bonds.

The following is a summary of the income and expense of the custodian for the year ended December 31, 1962 together with the comparable figures for the preceding year:

	Year ended December 31	
	1962	1961
Income—		
Fees on assets released from administration	\$ 23,000	\$ 2,000
Interest on investments and bank deposits	207,000	194,000
Other income	8,000	3,000
	<hr/>	<hr/>
	238,000	199,000
	<hr/>	<hr/>
Expense—		
Salaries	110,000	106,000
Other expense	8,000	14,000
	<hr/>	<hr/>
	118,000	120,000
	<hr/>	<hr/>
Surplus for year	\$ 120,000	\$ 79,000
	<hr/> <hr/>	<hr/> <hr/>

The fees earned on the transfer to the Minister of Finance and the assets released to former owners, or their beneficiaries, to which previous reference has been made, account for most of the increase of \$21,000 for fees on assets released from administration.

You will see there that it is a decreasing operation in terms of size, but nevertheless it still is responsible for a sizeable amount of assets.

Mr. WINCH: May I ask one question? In your business of auditing the books in this case do you ask any questions as to why, after 19 years, this is still required?

Mr. HENDERSON: Yes; this is asked in the course of the work.

They are still charged with liquidating situations which, as you see, have existed for a long time, and the rate of that liquidation is slow.

Mr. WINCH: I am sorry, I have not put my question in the right way. Have you ever asked why, after 19 years, these matters have not now been completed—or is that not part of your job as Auditor General?

Mr. HENDERSON: Well, let me put it this way, Mr. Winch. We ask when settlement may be expected and the reasons for any long delays. The section here explains the status of the various cases still outstanding. The explanations are readily forthcoming, and if there were anything contained in them which, in my opinion, the house should be told, I would feel it my duty to do so.

Mr. WINCH: You have not reached that position yet?

Mr. HENDERSON: No. I regard this as a normal situation under the circumstances.

Mr. HARKNESS: Who is the custodian?

Mr. HENDERSON: He is presently an officer of the under secretary of state. He has a very small staff. It is a modest operation and well administered. They moved last year into smaller offices.

Mr. WINCH: Can I ask one further question? Is the hon. gentleman in a position to give us some indication as to the amount that is still involved in resettling claims, or adjustments?

Mr. HENDERSON: If you will notice, in the second paragraph of paragraph 174, the book value of the assets listed in the custodian, which were valued in accordance with the bases—that is, the bases explained in the statement—decreased during the year to a figure of \$4,138,000 at December 31, 1962; and that is the book value of assets that remained vested in the custodian.

This is not precisely the book value, in terms of cost as you would associate the term; there are certain things they do not take in; but that is

the value they have placed on it for what you might call administrative control purposes.

Mr. McMILLAN: Has the income of the staff improved with this profit?

Mr. HENDERSON: Yes, I believe it has.

You will see that their income in the year 1962 was \$238,000 and their expenses were \$118,000; so they show a surplus of \$120,000.

Mr. RYAN: Will you tell me what investments the custodian makes?

Mr. HENDERSON: I believe there is information on that in—

Mr. RYAN: I think it is in the second paragraph on page 137.

Mr. HENDERSON: Part of it is explained in the note. He collects interest on deposits and investments lodged with him.

I believe there is a fairly full statement.

The CHAIRMAN: It is largely invested in government of Canada bonds.

Mr. HENDERSON: Yes; they had \$1,800,000 in bonds and \$1,100,000 in cash at December 31, 1962.

Mr. WINCH: And where does the interest go?

Mr. HENDERSON: It goes into the income, again, of the custodian.

Mr. WINCH: Not into the federal treasury?

Mr. HENDERSON: He has two accounts. He has a vested assets account which is the control system, and he has the office administration account; and when the money goes from the office administration account it goes to the consolidated revenue account after payment of his expenses. He operates on the principle you see here.

Paragraph 175 deals with the exchange fund account, and is as follows:

175. *Exchange Fund Account.* The exchange fund account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53 now operates under part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the exchange fund for its financial year ended December 31, 1962 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to parliament, and in accordance with that requirement, it is now certified that the transactions in connection with the account for the year ended December 31, 1962 have been in accordance with the provisions of the act, and that the records showed truly and clearly the state of the account.

The following is a summary of the transactions in the account for the year ended December 31, 1962 compared with the transactions in the previous financial year:

	Year ended 1962	December 31 1961
Balance at January 1	\$ 2,162,606,000	\$ 1,929,536,000
Deduct:		
Paid into consolidated revenue fund in respect of earnings	32,606,000	32,536,000
	<u>2,130,000,000</u>	<u>1,897,000,000</u>
Add:		
Advances (net) received during the year .	521,000,000	233,000,000
Earnings on investments during the year (to be paid into the consolidated revenue fun)	35,227,000	32,606,000
	<u>2,686,227,000</u>	<u>2,162,606,000</u>
Balance at December 31		
Represented by:		
Canadian dollars	160,000	844,000
United States dollars and securities	1,941,310,000	1,128,605,000
Gold	763,169,000	987,296,000
Suspense account		3,000
	<u>2,704,639,000</u>	<u>2,116,748,000</u>
Surplus (Deficit)	18,412,000	(45,858,000)
	<u>\$ 2,686,227,000</u>	<u>\$ 2,162,606,000</u>

In the year under review the value of the United States dollar increased from \$1.04 11/32 Canadian at December 31, 1961 to \$1.07 23/32 at December 31, 1962 and the deficit of \$45,858,000 at December 31, 1961 was replaced by a surplus of \$18,412,000 at December 31, 1962. This gain of \$64,270,000 resulted from the following:

Net profit on sales of U.S. securities	\$ 2,846,000
Gain on sales of gold	2,095,000
Exchange valuation credits (net)	59,329,000
	<u>\$64,270,000</u>

It should be noted that the surplus of \$18,412,000 at December 31, 1962 would have been considerably larger at that date if losses accumulated in the account, and representing a cost of exchange management since its inception, had been written off in the central government accounts. In paragraph 141 of our report to the House of Commons for the fiscal year ended March 31, 1962 we recommended that provision be made for transferring annually to the consolidated revenue fund the realized profits or losses from trading operations and revaluation of holdings of gold and foreign currencies. This recommendation is now repeated.

This was discussed during the summer, and you will recall that it was dealt with by the committee in its sixth report, 1964, which was presented to the House on October 24 last.

Paragraph 176 has to do with the national gallery of Canada and is as follows:

176. *National Gallery of Canada.* The gallery was incorporated under the National Gallery Act. 1913, c. 33, now R.S., c. 186. Its objects and

powers comprise the development, maintenance, care and management of the national gallery, the acquisition of works of art and generally the promotion of the public interest in art in Canada.

Pursuant to section 9 of the National Gallery Act, the gallery's accounts were audited for the year ended March 31, 1963 and a report was addressed to the Secretary of State. A more detailed report to the board of trustees contained our comments and recommendations regarding various administrative weaknesses. Most of these weaknesses had been brought to the attention of the board in previous reports but the steps taken, although resulting in some improvement in 1962-63, for the most part proved to be ineffective. Since the year end, the gallery has added an intermediate administrative officer whose principal responsibility will be the implementation and effective operation of an integrated system of internal control.

The following is a comparative summary of expenditures for the past two years:

	Year ended March 31	
	1963	1962
Administration, operation and maintenance—		
Salaries and wages	\$ 348,000	\$ 328,000
Professional and special services (including security personnel)	155,000	161,000
Other	308,000	365,000
	<hr/>	<hr/>
	811,000	854,000
Purchases of works of art	138,000	243,000
Expenditure from trust funds	—	3,000
	<hr/>	<hr/>
	\$ 949,000	\$ 1,100,000
	<hr/>	<hr/>

The operating expenses of the national gallery are largely met from annual parliamentary appropriations, with the remainder paid from a special operating account. Funds for the acquisition of works of art are provided through the national gallery purchase account to which are credited moneys appropriated by Parliament for that purpose. Funds from the national gallery special operating account are also used to acquire works of art.

The 1962-63 public accounts record a charge of \$200,000 under *Vote 5* for a payment to the national gallery purchase account for the purpose of acquiring works of art. Of this amount, \$33,000 was not credited to the purchase account until August 1963 following the passing of the Special Appropriation Act 1963, assented to on July 22, and therefore could not be reflected in the gallery's financial statements for the year ended March 31, 1963. This additional amount increased the balance recorded in the purchase account as at March 31, 1963 to \$82,000.

As stated in last year's report, parliamentary control may be weakened by the supplementing of specific appropriations for purchases of works of art by expenditures from the national gallery special operating account, and the crediting of the special operating account with the proceeds from the sale of gallery publications, fees from exhibitions and lectures, and service charges when the costs of producing this revenue are mainly met from the parliamentary appropriation for operating expenses.

I am the auditor of the national gallery of Canada, and there is a comparative summary of its expenditures given for the past two years on page 139. We

have been reporting in some detail to the board of trustees and as you will see in the top paragraph on page 139 we had commented regarding certain administrative weaknesses and drawn them to their attention. The gallery has been seeking to correct these during the past year.

In the last two paragraphs on page 139 you will recognize the points we discussed when we were reviewing the question of Governor General's warrants. I stated how parliamentary control may be weakened by the supplementing of specific appropriations for purchases of works of art by expenditures from the national gallery special operating account, and the crediting of the special operating account with the proceeds from the sale of gallery publications. I think you will recall this discussion.

The CHAIRMAN: I think we might take a break for five minutes at this time. There are numerous committees sitting today and we have had only one reporter. I know that a lot of you have other committees to go to, but I would suggest that we take about a five minute break now, if it meets with your approval.

We only have a comparatively few paragraphs to deal with, and this might be an appropriate time; so we will recess for five or ten minutes.—Recess.

The CHAIRMAN: Well, gentlemen, I think we are all set to wind up, and we will come to order again.

We had finished with paragraph 176, I think. We will now deal with paragraph 177, which is as follows:

177. *National Productivity Council.* This council was established by the National Productivity Council Act, 1960-61, c. 4, with objects of promoting and expediting continuing improvement in productive efficiency in the various aspects of Canadian economic activity. Operations were conducted from a head office in Ottawa and regional offices in Halifax, Quebec, Toronto and Winnipeg.

The Economic Council of Canada Act, 1963, c. 11, enacted on August 2, 1963, provided for the repeal of the National Productivity Council Act and the payment of any amounts standing to the credit of the national productivity council, after the payment of the council's debts and obligations, to the Receiver General of Canada to be held and applied toward the payment of the expenses of the economic council of Canada.

The following is a summary of the income and expenses of the national productivity council for the year ended March 31, 1963:

Income—

Statutory grant	\$ 150,000	
Donations	86,000	
Government's contributions under section 16 of the act	83,000	
Interest	5,000	
		\$ 324,000

Expense—

Salaries and employees' benefits	131,000	
Donations to approved projects	119,000	
Travel	68,000	
Publicity	18,000	
Office equipment and expenses	15,000	
Professional services	14,000	
Other conference and seminar expenses	13,000	
Telephone, telegram, postage and express	13,000	
Rent and accounting services	7,000	
Other	2,000	
		400,000
		(76,000)

Deduct—

Travel and living expenses of council members provided by statutory appropriation (recorded above)	15,000	
Credits for rent and accounting services provided by the Government of Canada (recorded above)	7,000	
		22,000
Excess of expense over income		<u>\$ (54,000)</u>

The statutory grant was received under the provisions of section 15 of the National Productivity Council Act as the second payment authorized under the section, which directed the Minister of Finance to pay to the council, from the consolidated revenue fund, for each of the first three years after the coming into force of the act, the sum of \$150,000 and thereafter such amounts as may have been appropriated by parliament for the purpose.

Section 16 of the act provided that where the council, during the first three years of its existence, acquired by gift, donation or bequest any asset from a person other than Her Majesty, the Minister of Finance should pay out of the consolidated revenue fund, in addition to the amount paid under section 15 in any year, an amount equal to the value of the property so acquired. During the year the council received donations totalling \$86,000, of which \$83,000 was from sources other than Her Majesty and was accordingly matched by contributions by the government. The remaining \$3,000 was received from Her Majesty in right of several provinces and was not eligible for contributions under the provisions of section 16.

Section 19 of the National Productivity Council Act provided as follows:

The chairman of the council shall, within three months after the termination of each fiscal year, submit to the Ministers of Trade and Commerce and of Labour a report of all proceedings under this act for that fiscal year, including the financial statements of the council, and the Auditor General's report thereon, and the Minister of Trade and Commerce shall cause such reports to be laid before parliament within fifteen days after the receipt thereof or, if parliament is not then sitting, on any of the first fifteen days next thereafter that parliament is sitting.

No such report of proceedings under the National Productivity Council Act was tabled in parliament before adjournment on August 2, 1963. We were informed by officers of the council that a report on all proceedings under the act up to August 2, 1963, the date of repeal of the National Productivity Council Act, along with the financial statements and the Auditor General's report for the year ended March 31, 1963, was presented to the Minister of Trade and Commerce on August 2, 1963.

Mr. HENDERSON: As you know, the National Productivity Council has now been merged with the Economic Council of Canada; and, in fact, the reporting will be under the name of the Economic Council of Canada.

Is that correct, Mr. Stokes?

Mr. STOKES: It is a new productivity account, so it is succeeded by the economic council.

Mr. HENDERSON: I do not know if members have any questions on this. This is the first year of this change, and this will be dealt with in the 1964 report.

We now come to paragraph 178 which deals with public printing and stationery stores. It is in the following terms:

178. *Public Printing and Stationery stores.* Section 34(2) of the Public Printing and Stationery Act, R.S., c. 226, requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During 1962-63, as in previous years, such tests were made as were considered necessary to establish that the controls exercised by the department were operating satisfactorily. In addition, we participated in the physical inventory checking by departmental personnel. A report on the examination was made to the Minister of Industry.

At March 31, 1963 the inventories of stationery, printing materials and supplies held by the department totalled \$2,594,000, and compared with the inventories at the end of the previous year as follows:

	As at March 31	
	1963	1962
Stationery supplies	\$ 705,000	\$ 611,000
Typewriter and office machine parts	152,000	152,000
Paper	398,000	351,000
Printing and maintenance supplies	473,000	464,000
Printing units	342,000	362,000
Miscellaneous	72,000	62,000
Work in process	452,000	339,000
	<hr/>	<hr/>
	\$ 2,594,000	\$ 2,351,000

Mr. HENDERSON: As you see, the legislation requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". I report on this examination to the minister responsible—that is, the Minister of Industry.

Mr. WINCH: Did you say "an inventory of supplies"?

Mr. HENDERSON: Yes.

Mr. WINCH: How can you possibly, as Auditor General, examine the inventory of supplies of an operation like the queen's printer?

Mr. HENDERSON: I have asked the same question, Mr. Winch.

What happens is that the inventory is taken by their officers. Our approach is to examine the way in which it is taken, the efficiency of their procedures and generally to satisfy myself that when the inventory is taken proper procedures are being followed, and that it fairly presents the stock at the date of its examination.

I cannot do any more than that, because an auditor is, of course, not technically qualified to take stock in the orthodox service.

Mr. RYAN: Would this not imply that the Auditor General had power to have the proper facilities to check with the—

Mr. HENDERSON: Yes, the wording is broad. You are absolutely right.

We bring to this accepted auditing practices, as I am sure you can imagine.

Mr. RYAN: What is the usual, accepted practice when you have such a situation?

Mr. HENDERSON: It varies between firms. In the first place, it depends on the nature of the inventory. If there are units which are readily countable the auditor might make some test counts.

Mr. RYAN: Are there any spot checks made in your practice?

Mr. HENDERSON: In some of our audits we are able to physically count certain of the stocks where the units lend themselves to it, so to speak, but we are not in a position to say, for example, if we are looking at so many cartons, that the cartons that we are examining really contain what they purport to contain.

Mr. RYAN: Is it feasible or practical to employ some assistance to check this out thoroughly?

Mr. HENDERSON: If we had any reason to feel that this should be done then we would discuss it with the management and introduce such people on to the job.

Mr. RYAN: I take it that at the present time you do not feel there is any such need?

Mr. HENDERSON: Correct.

Mr. WINCH: I think this may be the time either to take a look at, or to ask the Auditor General for his comment on, an aspect that I have been interested in for some time, which is this: In view of your responsibility in auditing and, in a case like this, of having to state as to the correctness of an inventory, or in any aspect of a department like this—have you ever felt, or do you feel now, that you should have a staff personnel whereby you could have a man who could check the inventory on matters of this kind—on a broad aspect, of course?

Mr. HENDERSON: No, I have not considered this necessary thus far in the discharge of my responsibilities; although these are similar to the requirements of the Financial Administration Act concerning my responsibilities in seeing that public stores are properly maintained and accounted for.

We make test checks of the procedure surrounding those, the manner in which the inventories are checked out against the records, that is, the perpetual stock records which the departments or agencies may keep, and we seek to satisfy ourselves that they are being properly maintained. Beyond that we have not gone yet.

Mr. STENSON: Mr. Henderson, there has been an increase of 10 per cent from 1962 to 1963. Is this the average increase each year?

Mr. HENDERSON: That, to me, is about the increase you might expect.

You have to bear in mind that in 1963 there were some new departments involved, as, for example, the department of industry. I think the department of forestry had been started the previous year. I would not regard this as abnormal in a situation like this.

Mr. CARDIFF: I understand that up until recently there was a limit to the amount of stationery that a member could acquire. Now they tell me there is no limit, that they can have any quantity they wish. Is that right?

Mr. HENDERSON: I believe that is so, Mr. Cardiff. I would want to check that, but I believe there was some change made.

You are speaking of the stationery made available to members of the house?

Mr. CARDIFF: Yes.

Mr. HENDERSON: I believe some change was made along those lines.

Mr. RYAN: Mr. Henderson, you note in paragraph 178 that a report on the examination was made to the Minister of Industry. Would that be a privileged report, or would it be possible to have a look at it?

Mr. HENDERSON: I do not believe that is privileged, Mr. Ryan. It is a written report that I make to him, outlining the circumstances surrounding my check of the stock.

You have here the inventory proper which is contained in the report. This is a two or three page letter which I address to the minister when I have completed my work in accordance with this requirement.

I do not believe there would be any objection if members would like it placed on the record.

The CHAIRMAN: Would you like that, Mr. Ryan?

Mr. RYAN: Yes.

The CHAIRMAN: Yes; I think that Mr. Henderson, as Auditor General, with the responsibility which is cast upon him by the statute, would be free to have the document made available to this committee. I think we could have this made available, and, if so, we might make available the information required by Mr. Cardiff's question, and we could include it in our transcript.

Would that be all right, Mr. Cardiff?

Mr. CARDIFF: Yes.

Mr. HENDERSON: Paragraph 179 refers to the Queen Elizabeth II Canadian fund to aid in research on the diseases of children, and is as follows:

179. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c. 33, established this fund to assist individuals or organizations to undertake or carry on research into the diseases of children, and the causes, prevention and treatment of such diseases. A board of trustees consisting of a chairman and six other trustees is responsible for the management and administration of the fund. As required by the act, the national research council provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the board, whose head office is in Ottawa. A report on the audit of the fund's accounts for the year ended March 31, 1963, which contained no qualification, was made to the board and to the Prime Minister as required by the act.

The act provided \$1,000,000 for the fund and also permits the board to accept gifts for its purposes. A summary of the fund's transactions for the year ended March 31, 1963 compared with the preceding year is given below:

	Year ended March 31	
	1963	1962
Balance at April 1	\$ 1,003,000	\$ 1,058,000
Add:		
Interest on investments	57,000	56,000
Gifts	1,000	1,000
	<u>58,000</u>	<u>57,000</u>
	1,061,000	1,115,000
Deduct:		
Awards approved during year	12,000	112,000
Balance at March 31	<u>\$ 1,049,000</u>	<u>\$ 1,003,000</u>

Two categories of awards have been approved by the board of trustees, namely, "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children, and range in value from \$3,500 to \$5,000 per annum. During the year under

review two new and one renewal fellowships were approved totalling \$12,000. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the board of trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the fund. There were no appointments under this category during the year under review. The fund is presently giving support to three appointees of prior years. At March 31, 1963 the outstanding liability of \$95,000 in respect of these appointments was included in the total provision of \$111,000 for awards approved, appearing in the balance sheet of the fund as at that date.

The status of this is outlined in the next page.

Next we come to paragraph 180 which refers to Royal Canadian Mint stocks, as follows:

180. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of the departmental revenue and expenditure and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315 requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the Mint". Such an inspection was made at February 28, 1963 and a report thereon was made to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at February 28, 1963 amounted to \$21,407,000, comprising: gold, \$2,466,000; silver, \$18,420,000; nickel, \$71,000; bronze, \$450,000.

Here again I am sure Mr. Winch, particularly, will be interested in the requirement of section 20 of the Currency, Mint and Exchange Fund Act which requires that the Auditor General shall "—at least one in each year inspect the store of bullion and coin at the mint". We do make such an inspection. We are not qualified to say that the gold bar in fact is all gold, but we bring our best intelligence to bear on the subject and carry out this inspection, and I report on it each year to the deputy minister of finance.

I repeat, again, that we do not hold ourselves out to be technical experts in matters of this kind, but try to bring as much common sense to the job as possible.

Mr. WINCH: Do you count the bars?

Mr. HENDERSON: That is right. But I am saying that, in order to follow your line of thinking, the question arises whether the bars in front of us are gold, or—

Mr. RYAN: Surely there is some method of corroboration.

Mr. HENDERSON: We satisfy ourselves that they maintain a proper check.

Mr. CARDIFF: It would be difficult for you to tell how much brass was in it.

Mr. HENDERSON: This problem could arise.

Mr. WINCH: Do you ever take samples?

Mr. CARDIFF: Do you mean "take samples home"!

Mr. RYAN: What procedure do you use for verification? How do we know they are gold bricks? Surely there will be some evidence as to their genuineness?

Mr. HENDERSON: There is evidence on the books. We have noted the purchases. We can check out the purchases; we check the sales; we reconcile the opening inventory with the closing inventory; and we generally approach it having regard to the security control that exists in the mint.

Beyond that, as I explained—and I think perhaps Mr. Leblanc would confirm this—an auditor is not expected to go.

Mr. RYAN: Does the mint itself make any test?

Mr. HENDERSON: Yes; the mint keeps very accurate records itself.

If we had had any question that this was not so I would have applied a closer check or followed some other technique. We have to be basically satisfied with the adequacy of the security control and the procedures that are followed.

Mr. LEBLANC: Just to clear up this matter, do you ever have complaints of any sort from purchasers of the gold saying that it is not gold, or it is partly gold and partly copper?

Mr. HENDERSON: No, I cannot recall any, Mr. Leblanc.

Mr. LEBLANC: Consequently, we may adduce that actually there is gold there?

Mr. HENDERSON: Yes. Naturally this would alert us to the possibility or the necessity of making closer identification.

Mr. ROCK: Then, this material—the bullion, the gold bars, the nickel and the bronze—which is kept in the Canadian mint store—is this for the purpose of coinage?

Mr. HENDERSON: Yes.

Mr. ROCK: This has nothing to do with the holding of gold bullion for the balance of payments? This would be the Bank of Canada?

Mr. HENDERSON: Yes.

Mr. ROCK: Another type of gold security?

Mr. HENDERSON: Yes.

Mr. ROCK: This is strictly metal for coinage?

Mr. HENDERSON: For manufacturing purposes.

Mr. ROCK: Why do they have \$2,466,000 worth of gold bullion when they have not made any gold coins for years—or, at least, I do not think they have?

Mr. HENDERSON: I would have to check, Mr. Rock, to be precise, but there is a statement at page 11.26 in the public accounts for 1962-63 which gives a complete picture of the coinage and bullion operations, and, in particular, the gold purchase account showing the gold on hand at the commencement of the year, the gold purchased at various rates, and then the gold transferred to the Bank of Canada for the purpose of exchange fund account, and sundry sales, and the stock remaining.

They buy the gold and transfer it over to the Bank of Canada, and it moves in and out, and they retain what they require for the manufacture of coins.

Mr. ROCK: But this is the intriguing point to my friend and myself. Why do they hold it for the minting of coins when, to the best of my knowledge, we do not at any time mint gold coins and have not done so for many years. Why is it not transferred to the Bank of Canada?

Mr. HENDERSON: The stock at the close of the year here, which was 160,000 fine ounces, was approximately the same as at the beginning of the year, and its value, as you see here, is \$2,466,000.

I am sorry I cannot answer you.

Mr. ROCK: Would you, then, assume that it is just the fact that it has not yet been transferred?

Mr. HENDERSON: That could be the case.
I would be happy to find out the precise answer.

Mr. ROCK: We do not mint gold coins.

The CHAIRMAN: We can get the information from the mint.

Mr. ROCK: Could you find out whether they have had a stock of gold bullion for many years of about this amount, or if it has just been obtained in the last year or two for the purpose of possibly coining gold coins for the centennial year, or something like that?

Mr. HENDERSON: The stock, as I mentioned, was almost identical to the quantity held at the first of the year. It may be that they are in the inventory for that purpose, but I think the best thing to do would be for me to furnish this to the committee at the next meeting, and I would like to speak to the mint about it.

Mr. RYAN: Are we to understand that the mint gold is mined in Canada and the mint purchases it and turns it over to the Bank of Canada?

Mr. HENDERSON: Yes; the gold is transferred in and out for the purpose of the exchange fund account. The Bank of Canada purchases it from the mint and the mint purchases it from the producers.

Mr. WINCH: Is it stored in the mint and then is it transferred to the Bank of Canada?

Mr. HENDERSON: I believe the Bank of Canada stores its own gold.

Mr. LOISELLE: I just want to clear up this point. Is the Royal Canadian Mint buying gold for the Bank of Canada, or buying some gold for its stock?

Mr. HENDERSON: My understanding is that the Bank of Canada purchases its gold largely from the mint.

There might be some other sales. Would you like me to check that?

Mr. RYAN: What about dental gold and gold used in other manufacturing ways? Is it also obtained through the Royal Canadian Mint?

Mr. HENDERSON: I cannot answer that, but I will get that information.

Mr. WINCH: An amendment was made to the act about three years ago whereby you can sell gold on the open market.

Mr. HENDERSON: I believe you are allowed to do that.

Mr. WINCH: It was, I believe, three or four years ago.

Mr. LEBLANC: But for industrial purposes.

The CHAIRMAN: We can get a letter on this.

Could we go on to paragraphs 181 and 182?

Mr. HENDERSON: Paragraph 181 deals with the unemployment insurance fund, and is as follows:

181. *Unemployment Insurance Fund.* The Unemployment Insurance Act, 1940, c. 44, whose purpose was to provide for insurance against unemployment and to maintain a national employment service, established this fund as a special account in the consolidated revenue fund to which all contributions for insured employees and their employers and government of Canada contributions equivalent to one-fifth of the total employeee-employer contributions, together with interest on investments, were to be credited—and to which benefits and other payments under the Act were to be charged. The fund now operates under the Unemployment Insurance Act, 1955, c. 50 which, like the act it superseded, is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the governor in council.

Particulars of the unemployment insurance administration are given in paragraph 63.

Financial statements showing the state of the fund as at the end of the fiscal year and the operations of the fund during the year are prepared annually by the Unemployment Insurance Commission. In my 1960 report (paragraph 109) I drew attention to the fact that the act did not provide for these financial statements to be audited. The public accounts committee took note of this and in its fifth report 1961 (paragraph 82) recommended that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the act has not yet been amended, the commission has submitted its financial statements for the past two years to the audit office for examination, and the statements for the year ended March 31, 1963, together with my report thereon to the Minister of Labour, are reproduced in the public accounts, volume II, pages 17.16 to 17.18.

The following is a comparative summary of the fund's transactions for the past three years, together with the year-end balances at the credit of the fund:

	1960-61	1961-62	1962-63
Income—			
Contributions from employers and employees	\$275,273,000	\$277,789,000	\$286,430,000
Contributions from Government of			
Canada	55,055,000	55,558,000	57,286,000
Other income	10,043,000	6,889,000	2,570,000
Less: Loss on sale of securities ...	7,269,000	622,000	
	2,774,000	6,267,000	2,570,000
	<u>333,102,000</u>	<u>339,614,000</u>	<u>346,286,000</u>
Expenditure—			
Benefit payments	513,906,000	454,740,000	403,191,000
Interest on advances	403,000	2,961,000	
	<u>514,309,000</u>	<u>457,701,000</u>	<u>403,191,000</u>
Excess of expenditure over income ...	\$181,207,000	\$118,087,000	\$ 56,905,000
Balance at credit of the fund	<u>\$184,685,000</u>	<u>\$ 66,598,000</u>	<u>\$ 9,693,000</u>

The annual deficits shown above do not include the administrative expenses of the commission which are financed out of the parliamentary appropriations to the commission under the Department of Labour (see paragraph 63). Also not included are: the value of accommodation for the commission's regional and local offices throughout Canada, contributions to the public service superannuation account, accounting services rendered by the comptroller of the treasury and other services provided by government departments, all of which were estimated at \$9,754,000 for the year.

The deficit of \$56,905,000 in 1962-63 was lower than that of the preceding year by \$61,182,000. This substantial reduction for the second successive year is again attributable to fewer benefit payments and shorter benefit periods. The average monthly percentage of the insured population drawing benefit in 1962-63 was 8.1 per cent compared with

9.3 per cent in 1961-62 and 10.7 per cent in 1960-61. Initial benefit claims allowed in 1962-63 numbered 1,292,476 compared with 1,370,738 in 1961-62 and 1,546,414 in 1960-61 and the average number of benefit weeks paid was 13.4 in 1962-63 compared with 14.3 in 1961-62 and 16.4 in 1960-61.

The act provides that amounts in the fund that are not currently required shall be invested by the commission in obligations of, or guaranteed by the government of Canada. Over the years, securities in substantial sums were acquired during the summer months when contributions and other income exceeded benefit payments and were liquidated, as required, during the winter months when the flow of funds was reversed. Up to a point in 1961 the commission's tradings were exclusively in public issues of government of Canada bonds and, to a lesser extent, Canadian National Railways bonds. In the 1962 report (paragraph 200) we referred to a change in policy which has resulted in the takeover by the Department of Finance on September 29, 1961 of the entire portfolio of the fund at its book value of \$240,454,000 in exchange for the discharge of its liability to the Minister of Finance for loans outstanding together with the acquisition in an amount equivalent to the balance, of a special issue of government of Canada non-negotiable bonds redeemable at par subject to 30 days prior notice. The purpose of the takeover had been explained to the House of Commons by the Minister of Finance as being to remove from the bond market the fund's holdings of government securities which, because of their size and the volume of sales and purchases therein, were exerting an unstabilizing influence on the market. We also drew attention last year to the fact that the transfer of the securities at book value had relieved the fund of a loss on their disposal which could have amounted to \$34,486,000 based on their market value at the date they were transferred.

All security transactions of the fund in the year under review were in the special government of Canada issue and thus no losses on sales were incurred.

This has been the subject of recommendations in the fourth report 1964 presented on June 28 last, following up recommendations we made about a year ago, so that I do not think any time is needed on this.

Mr. CARDIFF: I think it is one of the best acts we have in the statute book

Mr. HENDERSON: This committee pointed this out in its report, and this is one of the recommendations that you have made that is awaiting consideration.

The CHAIRMAN: We made strong representations last year.

Mr. CARDIFF: I think it is one of the best acts we have in the statute book and it has become one of the most abused in the statute book.

Mr. HENDERSON: Well, it has departed, as my note points out, from the insurance principles on which it was originally based. Its coverage has got broader and broader. That is the trouble here.

The final paragraph, No. 182, deals with the Yukon territorial government, and is as follows:

182. *Yukon Territorial Government.* The Yukon Act, 1952-53, c. 53, as amended, provides for the appointment by the Governor in Council of a chief executive officer for the territory to be known as the commissioner and for the election of a council composed of seven members. The commissioner in council is empowered by the act to make ordinances for the government of the territory in those fields normally within provincial jurisdiction.

The accounts relating to the receipt and expenditure of territorial funds and of money appropriated by parliament for the territory are subject to examination by the Auditor General of Canada, in accordance with section 26 of the act. There is no requirement, however, for the preparation of annual financial statements, nor for their certification by the Auditor General as the statutory auditor. The Department of Northern Affairs and National Resources has advised that it proposes to recommend amending legislation to this effect. Pending the enactment of such legislation, the commissioner has submitted, for audit examination, the annual financial statements prepared by the territory for publication in its public accounts, and I have agreed to furnish audit certificates with respect to such statements.

The following is a summary of expenditure and revenue of the Yukon territorial government for the year ended March 31, 1963, with comparable amounts for the preceding fiscal year:

	Year ended March 31	
	1963	1962
Expenditure—		
Capital projects	\$ 3,817,000	\$ 1,748,000
Education	1,153,000	951,000
Roads, bridges and public works	961,000	894,000
Yukon Hospital Insurance Service	744,000	813,000
Health and welfare	480,000	404,000
Justice	330,000	—
Municipal and area development	277,000	285,000
Other expenditure	637,000	530,000
	8,399,000	5,625,000
Revenue—		
Federal grants	1,335,000	498,000
Liquor profits	922,000	875,000
Tax revenue	703,000	551,000
Licence revenue	259,000	221,000
Other revenue	197,000	170,000
	3,416,000	2,315,000
Expenditure recoveries:		
Capital projects	\$ 1,730,000	1,214,000
Roads, bridges and public works ...	564,000	575,000
Yukon Hospital Insurance Service .	471,000	421,000
Education	450,000	321,000
Health and welfare	160,000	140,000
Other recoveries	97,000	71,000
	3,472,000	2,742,000
	6,888,000	5,057,000
Excess of expenditure over revenue ..	\$ 1,511,000	\$ 568,000

The revised agreement between the territory and the federal government covering financial relations and the allocation of functions between the two governments for the five year period commencing April 1, 1962, which was based on the recommendations of the interdepartmental committee on federal-territorial financial relations, includes a provision

that the territory contribute towards the cost of policing and administration of justice. Justice expenditure of \$330,000 for which there was no counterpart in the prior year, resulted from this recommendation.

Loans payable to the federal government at the close of the fiscal year totalled \$5,431,000, an increase of \$3,296,000 from the previous year's total of \$2,135,000. Funds in the amount of \$2,833,000, borrowed by the territory to meet cash requirements for capital expenditure as provided in the revised agreement referred to above, formed the major part of this increase.

* * * *

I would like to record my appreciation to all members of the staff of the audit office for their loyalty and devotion to duty during the past year.

I might direct your attention to the comment in the paragraph at the top of page 145 where I point out that there is no requirement in the Yukon Act for the preparation of annual financial statements nor for the certification by the Auditor General as the statutory auditor. It simply says the Auditor General is the auditor and it stops at that point.

Now, the Yukon territorial government submits its accounts to me and I examine them. However, I took this matter up several years ago with the Minister of Northern Affairs and National Resources, and I asked him if it might be possible, when the Yukon Act was opened, that financial statements could be made a requirement; that is, that the Act could specify the kind of financial statements that the Yukon territories government should issue, because in the absence of any such specification in the act I must perforce accept whatever is tendered.

I think this is an important point if you wish to see comprehensive financial statements. In some of the more recent acts, such as the Expo. 1967 Act—this is a good example—this Act, is very specific in calling for balance sheets and statements of operations and listing the things which, in this case, the joint auditors are to report upon; and this, therefore, means that parliament is going to see the accounts of this corporation reflected in a very clear manner. I hope that this principle will commend itself to you as you consider other legislation, and that there will be a clause which will provide for comprehensive financial statements.

The CHAIRMAN: As a statutory requirement.

Mr. HENDERSON: I am not in any sense meaning this to be a criticism of the present statements of the Yukon territorial government. We have worked this out with them and their statements are today very comprehensive in terms of balance sheets and operating statements which they submit to us each year and which I certify; but both they and ourselves feel that it would be a sensible thing to record this right in the Yukon Act just as in the Financial Administration Act where you have spelled out what it is that the government of Canada has to produce and what I am to certify.

Mr. WINCH: This gives rise to one question: Under the Financial Administration Act is there a responsibility to submit all these financial reports to the House of Commons?

Mr. HENDERSON: That is right.

Mr. WINCH: On the broad principle, then, should the House of Commons not have been receiving statements from the Northwest Territories or the Yukon?

Mr. HENDERSON: The House of Commons does receive the statements of the Yukon territorial government, but because the act is silent as to the type of

financial statements it can be said to handicap, or it could handicap, the information that the house is going to get.

Mr. WINCH: Do you not have authority under the Financial Administration Act?

Mr. HENDERSON: It is clear so far as crown corporations are concerned. So far as crown corporations are concerned it is defined in the Financial Administration Act; but you are considering here what I describe as some of the special audits and examinations, and the accounts of the Yukon territorial government are in a different or special class. They are tabled in the house, but they do not fall into the class of a government department or of a crown corporation.

Mr. RYAN: I should think it would be well to bring the Yukon territorial government status into line with the other crown corporations.

I suppose there is another situation with respect to the Northwest Territories?

Mr. HENDERSON: At the present time they function as a part of the Department of Northern Affairs and National Resources.

Mr. WINCH: It does not have a similar set-up at all?

Mr. HENDERSON: No.

The CHAIRMAN: Well, gentlemen, I am very happy to say that this completes, for the first time in some years, a complete examination of the Auditor General's report.

Mr. WINCH: Could I also add that this is the first time that we have completely dealt with two reports in one session.

The CHAIRMAN: Yes, I think you are right, Mr. Winch; and while we will be meeting again in camera I want to extend my thanks to all members of the committee for their assiduous attendance so that this has been made possible. I think we will have something to say about this on another occasion.

Let me also say that we will be meeting once more for an in camera meeting to discuss the three reports, one by Mr. Ryan's subcommittee, the report of Mr. Tardif and the main committee report; and, if time will permit, we hope and request that the members of the committee can possibly discuss one or two extra-curricular matters dealing with the national harbours board and the St. Lawrence seaway. This, however, will be in addition to and not really part of the examination of the 1963 report.

With that, I want to thank you all and Mr. Henderson and his staff, and I hope we will meet so that this can be all wound up, and we will have three reports to present to the house at the same time.

Thank you, gentlemen.

APPENDIX 1

PUBLIC ACCOUNTS COMMITTEE 1964

Extract from Debates of the Senate—Monday, December 17, 1962—pages 450-1. To be included in the Minutes of Proceedings and Evidence of the Public Accounts Committee on November 17, 1964.

CROWN COMPANIES

AUDITING OF ACCOUNTS

Hon. A. Neil McLean inquired of the Government pursuant to notice:

- (a) What Crown companies in Canada have their accounts audited by the Auditor General of Canada?
- (b) What Crown companies in Canada do not have their accounts audited by the Auditor General of Canada?
- (c) What are the names of the auditors or auditing firms auditing the accounts of Crown companies in Canada and what is the amount per annum paid to each of them by the respective Crown companies and/or the Government of Canada?

Hon. A. J. BROOKS: The answer to the honourable gentleman's inquiry is as follows:

(a) Atomic Energy of Canada Limited, Canadian Arsenals Limited, Canadian Broadcasting Corporation, Canadian Commercial Corporation, Canadian National (West Indies) Steamships Limited, Canadian Overseas Telecommunication Corporation, Canadian Patents and Developments Limited, Cornwall International Bridge Company Limited, Crown Assets Disposal Corporation, Defence Construction (1951) Limited, Eldorado Aviation Limited, Eldorado Mining and Refining Limited, Export Credits Insurance Corporation, Farm Credit Corporation, The National Battlefields Commission, National Capital Commission, National Harbours Board, Northern Canada Power Commission, Northern Ontario Pipe Line Crown Corporation, Northern Transportation Company Limited, Park Steamship Company Limited, Polymer Corporation Limited and subsidiary companies, The St. Lawrence Seaway Authority.

(b) (1) Canadian National Railways, The Canadian National Railways Securities Trust, Central Mortgage and Housing Corporation, Trans-Canada Air Lines.

(2) The following public instrumentalities, not classed as Crown Corporations under the Financial Administration Act, are also not audited by the Auditor General: Bank of Canada, The Canadian Wheat Board, Industrial Development Bank.

(c) (1) The Canadian National Railway Company (including Canadian National Railways Securities Trust) and Trans-Canada Air Lines are audited by J. A. de Lalanne, C.A., Montreal, P.Q. A fee of \$100,000 plus certain disbursements for the year 1961, paid by the Railway Company and apportioned as follows: Canadian National Railways, \$85,000; Trans-Canada Air Lines, \$15,000.

(2) Pursuant to the Central Mortgage and Housing Corporation Act, the Minister, with the approval of the Governor in Council is required to appoint two auditors to hold office for a term not exceeding two years, to audit the affairs of Central Mortgage and Housing Corporation.

The present auditors of Central Mortgage and Housing Corporation are Mr. Maurice Boulanger, C.A., and Mr. Arthur A. Crawley, F.C.A., of the firms Boulanger, Fortie, Rondeau & Cie, Quebec City, and Arthur A. Crawley & Co., Ottawa. The present per annum fee is \$14,500 each plus travel expenses.

(3) The Canadian Wheat Board has its accounts audited by the firm Miller, MacDonald and Co., Chartered Accountants, Winnipeg, Manitoba. The amount paid by the Board is approximately \$46,000 per annum.

(4) The Bank of Canada auditors are W. R. Kay, C.A., and J. H. Rene de Cotret, C.A. Auditor's fees and expenses for 1961 were \$75,000. (See Bank of Canada Annual Report for 1961).

(5) Industrial Development Bank auditors are W. R. Kay, C.A., and J. H. Rene de Cotret, C.A. Auditor's fees and expenses for 1961 were \$14,686. (See Industrial Development Bank Annual Report for 1961).

APPENDIX 2

EXTERNAL AID OFFICE

OTTAWA, November 6, 1964.

Mr. A. B. Stokes,
Audit Director,
Office of the Auditor General,
Ottawa.

Dear Mr. Stokes:

In your letter of November 2 you forwarded a copy of the minutes of proceedings of the Standing Committee on Public Accounts on Thursday, October 22, and asked whether information could be supplied on the two questions raised, one by Mr. McLean and the other by Dr. McMillan.

As for the latter, the counterpart fund system has been in effect since the inauguration of the Colombo Plan in 1951. As you know, such funds are generated only in the case of consumer items such as foodstuffs and base metals.

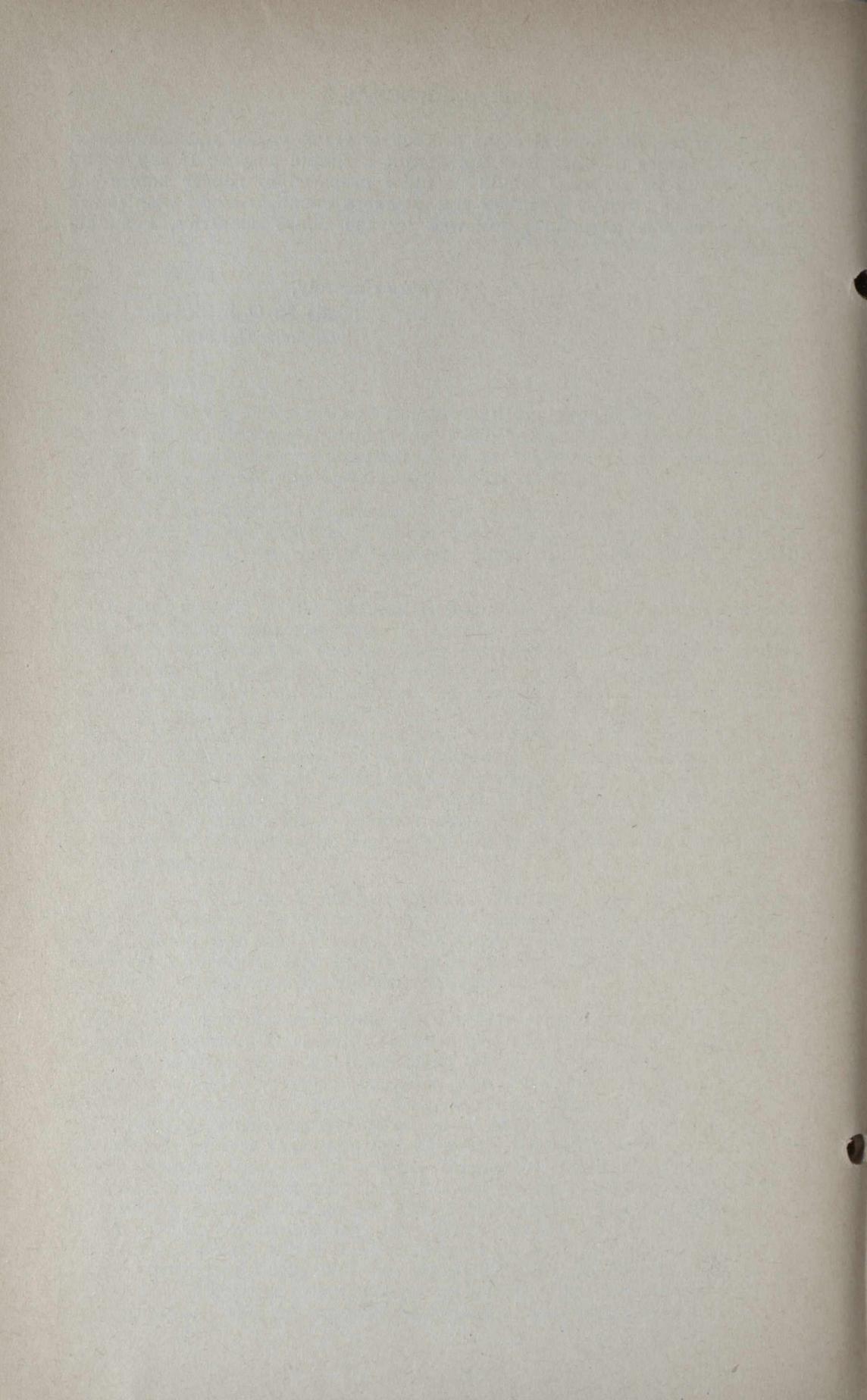
A brief answer to Mr. McLean is less easy, because the terms of loans offered by donor countries vary so greatly, not only between the various developing countries but also on loans extended to one particular country. For example, the interest rate charged on a loan to finance a revenue producing project will normally be higher than the interest rate on a loan intended to finance a road or a sewerage system. Also, different countries have various methods of calculating the interest rate. The British, for example, on some loans will strike the interest rate at 5½ percent but will include a waiver period on interest of perhaps ten years, which frequently has the effect of reducing the effective interest rate to about 3 percent. In the case of the United States, they have a sliding scale of interest rates and maturity periods which are determined by the nature of the project and by the economic position of the receiving country.

Insofar as Canada is concerned, there are two types of loans for the developing countries. One is our new "soft" loan program which, if approved by Parliament, will offer money on the same terms as the International Development Association. This type of loan is a part of the Canadian aid program and will be administered by the External Aid Office.

The other type of loan is under Section 21A of the Export Credit Insurance Act and is designed to enable Canadian producers of capital equipment to offer terms comparable with those being offered by the producers of similar equipment in other advanced countries. The interest charged is the rate at which the Canadian Government borrows money plus a service charge of ½ of 1 percent, which usually results in an interest rate of about 6 percent. The maturity periods vary from 8 to 20 years, depending on the nature of the project. Because they are in a sense commercial transactions and are administered in a different way than our aid funds, these monies are not a responsibility of the External Aid Office. Nevertheless, they do have an aid element in them because the long maturity period enables developing countries to obtain equipment which they would not be in a position to acquire on straight commercial terms. For this reason international forums such as the Development Assistance Committee permit advances on loans with a maturity in excess of five years to be registered as part of a country's aid effort.

You will see, therefore, that the procedures are so varied and complicated that Mr. McLean's question does not permit a simple answer. If any useful purpose would be served I would be quite prepared to appear before the Committee in an attempt to answer any questions members might wish to ask about the various procedures followed by the donor countries, including Canada.

Yours sincerely,
(Sgd) H. O. MORAN,
Director General.



HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

PROCEEDINGS

No. 28

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

WEDNESDAY, DECEMBER 2, 1964

INCLUDING SEVENTH AND EIGHTH REPORTS
TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Pilon,
Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	*Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack,
Clerk of the Committee.

*Replaced by Mr. Girouard on November 18, 1964.

ORDER OF REFERENCE

WEDNESDAY, November 18, 1964.

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

Attest.

LÉON J. RAYMOND,
The Clerk of the House.

STATEMENT OF WORK

1. Project Name: [Faint text]

2. Project Description: [Faint text]

3. Objectives: [Faint text]

4. Deliverables: [Faint text]

REPORTS TO THE HOUSE

MONDAY, December 7, 1964.

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

SEVENTH REPORT

1. By resolution of July 23, 1964, your Committee appointed a subcommittee on Surplus Assets Disposal for the purpose of reviewing in greater detail the report made on July 9, 1964 by the Auditor General to this Committee at its request relating to the sale of new and usable surplus materials of the Department of National Defence by Crown Assets Disposal Corporation during the fiscal year 1962-63.

2. The subcommittee consisted of the following members under the chairmanship of Mr. Tardif: Messrs. Hales, Winch, Côté (*Chicoutimi*) and Francis.

3. In requesting the Auditor General to assist in the review, the subcommittee suggested that steps be taken to engage the services of outside accountants either by means of separate engagement or by the process of secondment from other government departments and agencies. The latter method was followed and your Committee is indebted to the Canadian Broadcasting Corporation for its assistance in making the services of Mr. A. A. Rudy and other staff members available to carry out the work required under the direction of Mr. H. E. Hayes of the Office of the Auditor General.

4. The subcommittee held a number of meetings in the course of which it was assisted in its deliberations by the aforementioned individuals and by Mr. G. Y. Loughhead, Superintendent of Finance, Mr. J. A. Kidd, Chief Auditor and Mr. A. T. Smith, Superintendent of General Requirements, all of the Department of National Defence, to whom it wishes to express its appreciation for assistance rendered.

5. The members of the subcommittee were concerned at the large quantities of materials becoming surplus and with the relatively small percentage recovered from their sale as evidenced by the report made by the Auditor General to your Committee on July 9, 1964 which contained an analysis of materials with a cost valuation of \$35.6 million of new and usable surplus material declarations received by Crown Assets Disposal Corporation during the fiscal year 1962-63. This report indicated that the amount realized by the Crown from this \$29 million of materials was \$715,106.

6. Messrs. Hayes and Rudy were requested to select between 50 and 75 of the 212 surplus declarations reported on by the Auditor General on July 9, 1964 and subject them to an examination in depth from the standpoint of the Department of National Defence and also Crown Assets Disposal Corporation with the objective of making an assessment of:

- (1) the procurement operation of the Department of National Defence;
- (2) how expeditiously items were declared surplus;
- (3) Crown Assets Disposal Corporation's sales techniques, and whether the best price was obtained for the items sold.

7. In a joint report addressed to the subcommittee under date of September 24, 1964, Messrs. Hayes and Rudy detailed the results of their examination. A copy of this report was filed as an Exhibit.

8. The principal points brought out by this examination may be summarized as follows:

The Department of National Defence only maintains physical inventory quantities. The related costs of materials, supplies and equipment stored at supply depots, repair and overhaul contractors' establishments are not available. Nor are there reports available which would indicate: the cost of storing and handling such items; the related costs of accelerated depreciation, obsolescence and spoilage; and the cost of money invested in such inventories.

No evidence was found to indicate that Crown Assets Disposal Corporation conducted technical market studies to determine approximate fair prices for use as standards to assess the reasonableness of bids received or on which to base reserve bids. Nor are there any formal procedures for the guidance of personnel responsible for the inspection and valuation of items declared surplus. Inspection reports do not indicate the amount of market research that has been undertaken, or the alternative sales methods considered and the reasons for the selection of the method used.

In a number of cases Crown Assets Disposal Corporation had reclassified new and usable materials declared surplus by the Department of National Defence as scrap. The amounts involved had been included in the value of \$35.6 million reported upon by the Auditor General, yet had they been classified as scrap in the first instance no value would have been placed upon them. Examples of these are the Orenda engines with a declared value of \$1,827,000, and the Browning machine guns with a declared value of \$133,791.

An analysis of the nature of the items investigated revealed that many were of a specialized nature specifically designed to support combat forces in World War II, the Korean action, the mobilization reserves—which have since been discontinued on the changeover to the "forces in being" concept—and to maintain the effectiveness of our armed forces in peacetime.

The value of the items declared surplus by the Department of National Defence does not in all cases reflect the original cost to the Department.

The Department of National Defence (in common with other departments) makes no provision in its accounting records for depreciation or obsolescence chargeable as a cost to national defence nor are such costs reflected or detailed in the estimates. In the absence of such a provision, which would reduce inventory valuations in accordance with sound accounting principles, the valuation placed on equipment, stores items and on residual inventories declared surplus are frequently unrealistic.

9. The subcommittee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots, repair and overhaul contractors' establishments, is not available. In accordance with sound business practice it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

10. While the subcommittee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the subcommittee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the subcommittee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The subcommittee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

11. The subcommittee submitted the following recommendations:

- (1) that every effort be made by the executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department;
- (2) that effective with the fiscal year 1964-65 the Department of National Defence issue a statement listing or summarizing all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal of this equipment by Crown Assets Disposal Corporation; also the value obtained for other surplus material, etc., declared without value to the Corporation, and that such a statement be placed in the Public Accounts of Canada;
- (3) that the preparation of a statement similar to the foregoing be made a requirement for each department and agency of the Government declaring material surplus for the purpose of disposing of such material during each fiscal year and that such statements likewise be placed in the Public Accounts of Canada effective with the fiscal year 1964-65;
- (4) that the sales and inspection procedures of Crown Assets Disposal Corporation be revised with a view to improving sales techniques.

12. Your Committee carefully considered the report of its subcommittee on Surplus Assets Disposal and concurs in its findings and recommendations.

A copy of the relevant Committee proceedings (No. 28) is appended.

Respectfully submitted,

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

EIGHTH REPORT

1. The following report covers the work of your Committee from October 15, 1964 up to and including November 17, 1964 on which date it completed its examination of the Report of the Auditor General to the House of Commons for the year ended March 31, 1963.

2. During the aforementioned period your Committee held eight meetings in the course of which there were in attendance:

From the Department of Veterans Affairs—

Mr. Paul Pelletier, Deputy Minister

Dr. J. N. B. Crawford, Assistant Deputy Minister and Director General, Treatment Services

From the Department of National Health and Welfare—

Dr. G. D. W. Cameron, Deputy Minister of National Health

From the Canadian Pension Commission—

Mr. T. D. Anderson, Chairman

From the War Veterans Allowance Board—

Colonel W. T. Cromb, Chairman

From the Department of National Revenue—

Mr. David Sim, Deputy Minister, Customs and Excise

Mr. R. C. Labarge, Assistant Deputy Minister

Mr. J. G. Howell, Assistant Deputy Minister

Mr. A. R. Hind, Assistant Deputy Minister

From the Office of the Chief Electoral Officer—

Mr. Nelson J. Castonguay, Representation Commissioner and Acting Chief Electoral Officer

From the Office of the Auditor General of Canada—

Mr. A. M. Henderson, Auditor General

Mr. George Long, Acting Assistant Auditor General

Mr. A. B. Stokes, Audit Director

Mr. D. A. Smith, Audit Director

Mr. J. R. Douglas, Audit Director

Mr. H. G. Crowley, Audit Director

Mr. S. E. Chapman, Audit Director

Mr. F. A. Dixon

3. In concluding its examination of the Reports of the Auditor General for the fiscal years ending March 31, 1962 and 1963, your Committee invited the aforementioned witnesses to discuss a number of the matters contained therein relating to their particular responsibilities, and its report thereon is as follows.

Veterans' hospitals and institutions

4. In both his 1962 and 1963 Reports, the Auditor General drew attention to the rise in operating costs of veterans' hospitals and institutions over the past several years while at the same time the number of pensionable disability cases being cared for in these hospitals had declined. It was pointed out that although these hospital facilities were originally established to treat war service disability cases, today they are increasingly occupied by domiciliary

care cases (41% in 1962-63) and war veterans allowances recipients (22% in 1962-63) who for the most part are insured under provincial hospital insurance plans. The Committee noted that the annual cost of these facilities is presently to the order of \$54 million compared with \$34,500,000 in 1956-57.

The Committee discussed this subject with the Deputy Minister of Veterans Affairs at some length. The Deputy Minister explained many factors covering the administration and continued operation of these institutions and outlined the Department's policy in relation thereto, including the steps being taken aimed toward a gradual disposal of the facilities, always providing suitable alternative arrangements can be made for the treatment of veterans suffering from war service disabilities.

Your Committee expresses its general agreement with the practices being followed by the Department in seeking a solution to this problem.

Employment of part-time doctors by Department of Veterans Affairs

5. The Deputy Minister of Veterans Affairs and the Assistant Deputy Minister and Director General of Treatment Services outlined the manner in which part-time doctors are employed by the Department on a negotiated fee basis which permits the doctors at the same time to collect charges from paying patients in the veterans' hospitals. The Committee noted the Auditor General's view that such charges constitute public funds and therefore should be handled in accordance with the requirements of the Financial Administration Act.

The Committee noted that following a meeting between the Department and Treasury Board in June 1963, an Order in Council had been issued allowing part-time doctors to charge paying patients and authorizing them to continue to be paid on the basis of a fee for each half day of attendance or the equivalent thereof. In point of fact, the Department has never paid these doctors on the basis of actual time worked but uses the authority provided in the Order in Council largely as a convenient administrative device by which payments to different doctors could be varied to the degree their services are required in the hospitals. The Director General of Treatment Services agreed that whereas this provided the degree of administrative flexibility desirable from the standpoint of the Department's senior medical officers, it was not compatible with the basis of payment outlined in the Order.

Your Committee is of the opinion that the executive order should be amended and reworded so as to recognize and deal with the actual operating conditions as they exist and function in the hospitals, and recommends that the Department review the matter further with the Treasury Board with a view to giving effect to such an amendment at an early date.

Hospital construction grants

6. In the course of its consideration of the problems of financial control over hospital construction grants, the Committee was assisted by the Deputy Minister of National Health.

The Committee shares the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.

Improper authorization of use of a government-owned automobile

7. The Deputy Minister of National Health explained that the private use of a government-owned automobile by an employee, for four months, without

proper authorization resulted from an administrative failure. The Committee was pleased to learn that the Department has taken appropriate corrective action as outlined in the Deputy Minister's letter to the Auditor General of June 15, 1964, which is printed as an appendix to the Minutes of Proceedings of the Committee for October 22, 1964.

Awards under the Pension Act

8. The Committee noted the comments made by the Auditor General in his 1962 and 1963 Reports to the House concerning awards under the Pension Act and invited the Chairman of the Canadian Pension Commission to discuss them.

The Committee was greatly assisted in its consideration of this matter by the explanations furnished by the Chairman and submits the following recommendations designed to clarify the Act, as follows:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40(2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40(1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45(2) of the Act.

War Veterans Allowances

9. The Committee considered with the Chairman of the War Veterans Allowance Board the comments made by the Auditor General in his 1962 and 1963 Reports to the House relating to war veterans allowances.

The Committee noted that action was taken by the Board only in a limited number of cases to enforce the provisions of the Act and its regulations relating to penalties or imprisonment or both for the making of false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of the award. Although overpayments of

allowances arising chiefly from concealment of income or personal assets have not been large in relation to the total amounts of veterans allowances administered and paid by the Board, a number of the cases considered by the Committee suggest the need for more effective prosecutions with heavier penalties in those cases involving deliberate deceptions.

The Committee therefore makes the following recommendations:

- (a) the Committee, after taking note of the increasing number of over-payments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

Amendments to the Customs Act and the Excise Tax Act

10. The Committee considered references made by the Auditor General in his 1962 Report to certain practices followed by the Customs and Excise Division of the Department of National Revenue which are not in accordance with the specific provisions of the Customs Act. These related to the release of goods under Customs Collector's permission, sales of goods unclaimed at Customs, duties and taxes on surplus United States Government property sold in Canada, and the determination of 'sale price' for sales tax purposes.

The Committee recognizes that the practices followed by the Department are sensible and practicable and do not result in any loss of revenue to the Crown. It was assisted in its deliberations by the Deputy Minister of National Revenue for Customs and Excise who explained the underlying reasons for the practices being followed while at the same time recording his agreement that the practices should receive statutory sanction.

The Committee therefore wishes to make the following recommendations:

- (a) Release of goods under Customs Collector's permission—that the practice of the Department in releasing goods prior to the passing of a Customs entry and payment of duty be given statutory sanction by means of appropriate amendments made to sections 22 and 79 of the Customs Act.
- (b) Sales of goods unclaimed at Customs—that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.
- (c) Duties and taxes on surplus United States Government property sold in Canada—that an amendment be made to the Customs Act or to the Customs Tariff Act to provide statutory authority for the establishment of a composite rate to be applied to the proceeds of all

sales in Canada of United States Government property by Crown Assets Disposal Corporation.

- (d) Determination of 'sale price' for sales tax purposes—that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

General election expenditures

11. In the course of considering the comments of the Auditor General on general election expenditures contained in his 1963 Report, the Committee discussed various of the financial aspects of the administration of the last two general elections with the Acting Chief Electoral Officer.

Your Committee took note of the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

Your Committee wishes to record its support of this recommendation by the Chief Electoral Officer and expresses the hope that the amendment will be considered by Parliament at an early date.

Accounts not examined by the Auditor General

12. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House.

Your Committee believes that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

Your Committee therefore recommends:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government acting on the advice of the Auditor General.

Audit of the Office of the Auditor General

13. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommends that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 20 to 28 inclusive*) is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, December 2, 1964.
(42)

The Standing Committee on Public Accounts met this day, *in camera*, at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Fane, Harkness, Leblanc, Legault, Mandziuk, Muir (*Lisgar*), O'Keefe, Pilon, Rinfret, Rock, Ryan, Stefanson, Tardif, Tucker, Wahn—(17).

The Chairman tabled a letter from the Deputy Minister of Veterans Affairs dated November 24, 1964, enclosing orders in council relating to hospitalization of veterans; this letter was ordered printed as an Appendix to the record of this day. (*See Appendix 1*). (*Orders in Council identified as Exhibit 3*).

Mr. Baldwin then tabled a return from the Auditor General, dated December 1, 1964, replying to questions raised at sitting of November 17th concerning the Royal Canadian Mint; this letter was ordered printed as an Appendix to the record of this day. (*See Appendix 2*).

Also tabled was a report of the Auditor General to the Minister of Industry on the examination of the stock of stationery, printing materials and supplies. (*Identified as Exhibit 4*).

A "draft" report was presented by the subcommittee on Form and Content of Public Accounts, and after discussion, it was agreed to adjourn further consideration in order to hear later the Comptroller of the Treasury.

The Committee then considered a "draft" report presented by the subcommittee on Surplus Assets Disposal, and following its consideration was adopted, and the Chairman ordered to present it to the House as the Committee's Seventh Report.

The Chairman tabled a report which was submitted to the subcommittee on Surplus Assets Disposal by Messrs. H. E. Hayes of the Auditor General's office and A. A. Rudy, dated September 24, 1964. (*Identified as Exhibit 5*).

The Committee then considered its "draft" main report and following its consideration was adopted, and the Chairman ordered to present it to the House as the Committee's Eighth Report.

At 11.05 a.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

APPENDIX 1

DEPUTY MINISTER OF VETERANS AFFAIRS

OTTAWA, November 24, 1964.

G. W. Baldwin, Esq., M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa.

Dear Mr. Baldwin,

As you will recall, Dr. J. N. Crawford, Director-General of Treatment Services, and the undersigned, appeared as witnesses, on October 20th of this year, before your Standing Committee on Public Accounts while the latter was considering certain observations made by the Auditor-General in his latest two reports, more particularly paragraph 104 of his report for 1961-62 and paragraph 90 of his report for 1962-63, in which Mr. Henderson suggested that a re-appraisal of the role of the Department of Veterans Affairs in the operation of hospitals would be desirable. At your suggestion, it was agreed that our Department should provide the Committee with a report on the origins of the authority under which we provide hospitalization for veterans whose disability bears no relationship to wartime military service.

The responsibility of the state for the treatment of disabilities which have resulted from wartime service has been recognized since the early days of World War I. The Military Hospitals Commission was established in June, 1915 for this purpose. The responsibility is still being met at the present time.

Authority for the Department of Veterans Affairs or its predecessors to provide such treatment is contained in a number of Orders in Council. Until 1924, all these Orders limited the authority to the remedial treatment of service-incurred disabilities. P.C. 1653, dated 18 September, 1924 (Appendix "A"), provided authority for the provision of domiciliary care to pensioners with 20% or greater disability pensions, who had in addition a non-service disability which in total prevented remunerative employment, and who were unable to pay for such accommodation at their own expense.

The concept of provision of treatment for disabilities not related to military service had its real beginning in 1928. P.C. 1842, dated 18 October, 1928 (Appendix "B"), gave the Department authority to treat veterans who were disability pensioners, for disabilities not attributable to service, provided the veterans are unable to provide treatment at their own expense. P.C. 91, dated 16 January, 1936 (Appendix "C"), specified that such treatment would be confined to active remedial treatment, and would not be provided for chronic disease.

Until 1944, the treatment of disabilities not related to service was confined to indigent veterans who were also in receipt of a disability pension. In April, 1944, a Committee, headed by Brigadier Ross of the Canadian Legion, recommended an extension of benefits. P.C.1/4465, dated 13 June, 1944 (Appendix "D"), allowed the provision of active remedial treatment of non-service

diseases for veterans who saw meritorious service in a theatre of actual war or who were recipients of War Veterans Allowance.

Restrictions on the treatment of chronic disease were removed by P.C. 1953-415, dated 19 March, 1953 (Appendix "E"). Departmental records indicate pretty clearly that this step was taken in order to keep veterans hospitals relatively full and staff usefully occupied.

As a general comment, it should be borne in mind that the advent of government-supported hospital insurance throughout the country has changed significantly the nature of the problem to be faced with regard to the hospitalization of War Veterans Allowance recipients. The Department, of course, pays the insurance premiums, where applicable, for these recipients but all other hospitalization charges are paid for by the insurance plan whether the recipient is hospitalized in a D.V.A. institution or in a general community hospital.

I trust that the above, together with the appendices hereto, will provide you and the other members of the Committee with the information that was sought on October 20th.

Yours sincerely,
Paul Pelletier.

APPENDIX 2

AUDITOR GENERAL OF CANADA

OTTAWA, December 1, 1964.

Dear Mr. Baldwin,

At the last meeting of the Public Accounts Committee on November 17th, questions were asked by Messrs. Winch, Ryan, Cardif, Leblanc and Rock concerning the manner in which gold is handled by the Royal Canadian Mint. I undertook to secure the desired information and advise the Committee. This has been done and the subject matter of all of the questions dealt with in an explanatory memorandum which I am attaching for your review and tabling at the next meeting of the Committee.

At the same meeting of the Committee, Mr. Ryan asked if my report on our examination of the stock of stationery, printing materials and supplies, made to the Minister of Industry could be placed on the record in order that members might take note of the manner in which the work was carried out and how it is reported upon each year pursuant to section 34 of the Public Printing and Stationery Act. Accordingly I am pleased to enclose herewith a copy of my report to the Minister of Industry dated August 8, 1963 with respect to inventories on hand as at March 31, 1963.

There remains a further question to be answered arising out of the Committee's meeting on November 17, 1964. This had to do with Mr. Cardif's inquiry as to whether or not there is a limit to the amount of stationery that a Member may acquire. I replied that I would wish to check this and would advise the Committee. I will be sending this information to you as soon as it is available.

Yours sincerely,
A. M. Henderson.

G. W. Baldwin, Esq., Q.C., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

ROYAL CANADIAN MINT

The Royal Canadian Mint receives gold for two purposes, one classified as gold storage, the other as gold purchase.

Gold Storage is sent in by Mining Companies to be further refined and returned to the owners. It receives its name from the fact that it may be held for some time. The Mint collects fees for this service which is performed in accordance with regulations established by the Governor in Council P.C. 1961-532, April 13, 1961.

Gold Purchase represents gold bullion sold to the Mint by the Mining Companies. All producers receive a subsidy under the Emergency Gold Mining Assistance Act R.S. c.95 as amended when they sell their product to the Royal Canadian Mint or when it is exported from Canada in the form of ore concentrates. The particular section (Section 3(1) of Chapter 28, 1960 an amendment to c.95) reads as follows:

"3. (1) The Minister may pay to a person engaged in operating a gold mine a sum not exceeding an amount calculated in the manner prescribed in this section with respect to gold that is produced from the mine during a designated year and that, during the designated year,

(a) is sold to Her Majesty at the Royal Canadian Mint,
or

(b) is exported from Canada, in the form of ore or ore concentrates containing gold, and sold."

All transactions relative to the Purchase Account are processed through an Open Account the details of which are on page 11:26 of the Public Accounts for 1962-63.

When the gold is received at the Mint it is called a deposit and it is at once ticketed, numbered, etc. In the 1963 calendar year 5,421 such deposits were received. Assay reports identified with the deposits follow the course of the gold through the various stages of melting and refining until it becomes granulated or a bar. There is also a quantity of gold received in the form of scrap (jewellery and dental). After it is assayed, melted down and refined, the owner receives payment from the Mint.

In the audit all gold is weighed and/or counted taking into consideration the assay reports, deposits, etc.

Nearly all the gold in the Purchase Account is sold to the Bank of Canada for the Exchange Fund Account. There are no gold coins minted. The last \$5 and \$10 gold coins were minted in 1914 and the last British sovereigns in 1919. Gold medals may be struck for Associations, etc. Dental firms purchase their supplies from mining companies.

Stocks of gold may pile up at the Mint until the Bank of Canada request further shipments. However, the Mint cannot wait until the order comes in. They buy gold when and as, it is offered to them. That is the purpose of the Open Account.

The disposition of gold refined by the Mint, in the calendar year 1963 classified as Gold Storage and Gold Purchase is as follows:

STANDING COMMITTEE

GOLD STORAGE ACCOUNT
1963

	Fine Ounces
Fine gold on hand 1 January 1963	36,925:421
Receipts during year	803,908:769
	<hr/>
	840,834:190
Less: disposition per owners' instructions	811,774:023
	<hr/>
Fine gold on hand 31 December 1963	29,060:167
	<hr/>

GOLD PURCHASE ACCOUNT
1963

	Fine Ounces
Fine Gold on hand 1 January 1963 ..	165,861:525
Add:	
Receipts during the year	2,653,182:870
Gain on operations	1,614:000
	<hr/>
	2,654,796:870
	<hr/>
	2,820,658:395
Less:	
6,621 trade bars transferred to Ex- change Fund Account	2,644,703:576
Sales of fine gold	19:264
Trial plate for assay purposes	6:170
Medals, etc.	15:442
Sweep	7,777:437
Sales to sundry depositors	3,258:247
	<hr/>
	2,655,780:136
	<hr/>
Fine gold on hand 31 December 1963 .	164,878:259
	<hr/>

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964-65

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

PROCEEDINGS

No. 29

Including

NINTH REPORT TO THE HOUSE

respecting the form and content
of the Public Accounts

WEDNESDAY, March 10, 1965

WITNESS:

Mr. H. R. Balls, Comptroller of the Treasury.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Pilon,
Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
*Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Graffey,	Pigeon,	Winch—50.

M. Slack,

Clerk of the Committee.

* Replaced by Mr. Saltsman on February 24, 1965.

ORDER OF REFERENCE

WEDNESDAY, February 24, 1965.

Ordered.—That the name of Mr. Saltsman be substituted for that of Mr. Fisher on the Standing Committee on Public Accounts.

Attest.

LEON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

MONDAY, March 15, 1965.

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

NINTH REPORT

1. Your Committee appointed a subcommittee on the form and content of the Public Accounts on July 23, 1964, consisting of the following members under the chairmanship of Mr. S. P. Ryan: Messrs. Pilon, Southam, Prittie, Stefanson, O'Keefe, Cameron (*High Park*) and Rondeau. This subcommittee made a review of the form and content of the Public Accounts of Canada, during the course of which it consulted with the Comptroller of the Treasury and the Auditor General.

2. This subcommittee reported to your Committee in part as follows:

- (a) Your subcommittee has considered the form of the Public Accounts from the standpoint of clarity and conciseness of presentation, with particular emphasis on the needs of Members of Parliament and the public. It has reviewed the contents from the standpoint of necessity or relative importance of the material and the advisability of including it in the Public Accounts rather than in other documents, such as annual departmental reports.
- (b) In carrying out its assignment, your subcommittee has been guided throughout by the statutory requirements of the Financial Administration Act; it has also had in mind the comments and recommendations contained in the Fourth Report of the Standing Committee on Public Accounts tabled in the House of Commons on December 19, 1963, the report of the Glassco Royal Commission on Government Organization, the reports of the Auditor General and the June 1950 report of the United Kingdom Committee on the Form of Government Accounts, as summarized in the study paper attached to this report.
- (c) During the course of its consideration of possible deletions of detailed information from the Public Accounts, your subcommittee was informed that any information so deleted would continue to be available to Members of Parliament on request.
- (d) Your subcommittee is of the view that the form of the Public Accounts should be such as to facilitate the scrutiny of revenues in relation to tax and revenue laws, and of expenditures in relation to the Estimates and Appropriation Acts by Members of Parliament, the Public Accounts Committee and the public. It concurs in the recommendations of the Glassco Royal Commission on Government Organization that the form of the Public Accounts should be clear and uncluttered and that details should not be permitted to obscure matters of real importance, and of the United Kingdom Committee on the Form of the Government Accounts that the published accounts should serve to inform the public, as promptly and plainly as possible, of the essential facts about the national finances. Your subcommittee, moreover, notes with interest that the United Kingdom financial reports make no reference to the salaries or

travelling expenses of individual officers and employees, or to payments to contractors or descriptions and amounts of construction projects.

- (e) The Public Accounts of Canada for 1962-63 consists of three volumes comprising 1,430 pages (French version 1,459 pages) divided approximately as follows:

Volume I

Summary report and financial statements, 268 pages (French 277 pages)

Volume II

Details of expenditures and revenues by departments 1,006 pages
(French 1,026 pages)

Volume III

Financial statements of Crown Corporations 156 pages
(French 156 pages)

- (f) With a view to presenting more significant and relevant information to Parliament, your subcommittee gave consideration to
- (i) information that might be deleted in its entirety from the Public Accounts;
 - (ii) information that might be replaced by statements in summary form;
 - (iii) material that might be deleted from the Public Accounts if comparable information were to be included in the annual departmental or other reports; and
 - (iv) additional information that might usefully be included in the Public Accounts."

RECOMMENDATIONS FOR DELETION

3. Based on the above findings and observations, your Committee recommends that the following information be deleted from Volume II of the Public Accounts:

	Estimated savings
(a) listings of salary rates and travelling expenses of employees (Section 38)	92 pages
(b) listings of payments to suppliers and contractors (Section 39)	65 pages
(c) listings of names of persons on educational leave (e.g., Section 1.4). (See also para. 15)	3 pages
(d) listings of construction or acquisition of buildings, works and land by area, region, etc. (e.g., Section 7.11)	12 pages
(e) statements of assistance to gold mining companies (Section 19.15) on the understanding that the information continues to be included in the departmental report	5 pages
(f) statement of expenditures by staff post offices for salaries, etc., and statement of expenditures by postal districts and services (Section 27.4 and 27.8)	3 pages
(g) listings of contracts for construction or acquisition of buildings, etc., when the amount is less than \$100,000, and for cost plus contracts under \$10,000. The present listings are for amounts of \$10,000 or over (\$25,000 or over for defence contracts) and \$5,000 or over for costs plus contracts (e.g., Section 31.61 and Section 35.34)	149 pages
(h) distribution of expenditures by services and units of the Standards Branch (Section 34.7)	1 page
	<hr/> 330 pages <hr/>

Your Committee further recommends that listings of the travelling expenses of employees in excess of \$1,000 and of payments to suppliers and contractors in excess of \$100,000 be prepared annually for the information of the Committee.

4. Your Committee recommends that the following detailed information be replaced by statements in summary form:

	Estimated savings
(a) listings of professional fees by type of service, together with detailed listings of professional fees of \$2,000 and over (e.g., Section 1.13)	9 pages
(b) detailed listings of the acquisition of equipment; to be replaced by summarized listings according to type of equipment (e.g., Section 1.9)	8 pages
(c) details of expenditures for general elections and by-elections by electoral districts; a summary by provinces to be retained (Section 6.4)	12 pages
(d) listings of doctors receiving fees of \$1,000 or over and hospitals receiving \$5,000 or over; to be replaced by a summary by categories of service (e.g., Section 23.39) ..	5 pages
(e) details of expenditures by provinces and districts re any census of Canada; to be replaced by a summary listing by provinces (Section 34.9 to 34.38, 1961-62 Public Accounts)	28 pages
(f) listing of salaries of Judges by Courts; to be replaced by a summarized statement of salary rates (Section 16.4 and Section 16.5)	1 page
(g) distribution of revenues and expenditures by Penitentiaries; to be replaced by a statement by institution showing (1) revenue and (2) expenditure on (a) operation and maintenance and (b) construction, improvements and equipment (Section 16.17)	2 pages
	<hr/> 65 pages <hr/>

5. Your Committee recommends that the following material be deleted from the Public Accounts if and when substantially similar information is published in the annual reports of the appropriate departments:

	Estimated savings
(a) statements of payments of general health grants to provinces from inception (Section 23.8)	2 pages
(b) listing of grants to agricultural fairs, exhibitions, etc., (e.g., Section 1.19)	2 pages
(c) details of health grants (Section 23.10 to 23.28)	19 pages
(d) details of hospital construction grants (Section 23.20 to 23.37)	7 pages
	<hr/> 30 pages <hr/>

6. In making the foregoing recommendations regarding the deletion of information from the Public Accounts, your Committee understands that the information so deleted would continue to be retained in the accounting records maintained in the Office of the Comptroller of the Treasury and would ask the Minister of Finance to take the necessary steps to ensure that it would be available to Members of Parliament on request.

7. Your Committee has been informed that the cost of printing a page of the Public Accounts is \$25. The recommended deletions would eliminate approximately 400 pages from each of the English and French versions, with a resulting saving in printing costs alone of some \$20,000.

RECOMMENDATIONS FOR REARRANGEMENT OF INFORMATION

8. Your Committee recommends that in Volume I the explanatory notes to the schedules to the statement of assets and liabilities, which are now presented immediately following the schedules to which they refer, be grouped together and printed at the end of the schedules, with appropriate reference to the schedule and item, e.g., for Item 1 of schedule M, the note would be described as M-1, etc.

RECOMMENDATIONS FOR THE INCLUSION OF ADDITIONAL INFORMATION

9. Your Committee gave consideration to the inclusion of additional important information in the Public Accounts along the lines suggested by this Committee and the Auditor General.

10. In its Fourth Report 1964, presented to the House on July 28, 1964, in paragraphs 30-32, this Committee requested the Auditor General to keep it informed as to the progress of a study being made for the purpose of having all costs of financial assistance to persons on educational leave assembled in one place so that Parliament might be better informed as to the total cost of this particular phase of the educational programme designed to increase the capacity of public servants. Your Committee expresses the hope that this study will be completed shortly so that the total educational leave costs may in future be shown with respect to each department in Volume 2 of the Public Accounts, commencing with that for the fiscal year 1964-65.

11. In its Sixth Report 1964, presented to the House on October 20, 1964, in paragraph 26, the Committee recorded its agreement with the Auditor General's observation that it would be informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts of Canada each year. Following consideration of this recommendation by the Comptroller of the Treasury, your Committee was pleased to be advised by the Comptroller of the Treasury that arrangements are under way for the inclusion of such a summary in the Public Accounts effective for the fiscal year 1964-65.

12. Your Committee recommends that the following additional information suggested by the Comptroller of the Treasury be included in the Public Accounts:

- (1) In Volume II, the overall summaries of expenditures and revenues by departments to be published at the beginning of the volume, the totals of which would agree with the amounts included in the Statement of Expenditure and Revenue shown in Volume I.
- (2) In Volume II, for each department there be included a statement similar to that now presented in the Estimates, showing the approximate or estimated value of major services provided to the department, the cost of which is not included as a charge to the departmental appropriations. This statement would include:
 - (a) accommodation provided by the Department of Public Works or in the department's own buildings;
 - (b) accounting and cheque issue services provided by the Comptroller of the Treasury;

- (c) contributions to the Superannuation Account charged to the Department of Finance appropriations;
 - (d) employee surgical-medical insurance premiums charged to Department of Finance appropriations;
 - (e) employee compensation payments charged to Department of Labour appropriations; and
 - (f) carrying of franked mail by the Post Office Department.
- (3) A similar statement showing the services provided to other departments for which no reimbursement is received also to be included for each department.

13. The above plan to include a statement in each departmental section showing the approximate or estimated value of major services provided without charge is only a preliminary step. It is understood that the ultimate aim would be to apportion these service costs to the relevant votes or services.

14. Your Committee recommends that the following additional information suggested by the Auditor General be included in Volume II of the Public Accounts:

- (1) effective for the fiscal year 1964-65, a statement of all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal by Crown Assets Disposal Corporation; and
- (2) effective for the fiscal year 1964-65, a statement detailing the amount of losses incurred as a result of the accidental destruction of or damage to assets which would normally be covered by insurance had such coverage existed.

15. Your Committee recognized in the course of the discussions with the Comptroller of the Treasury and the Auditor General that the possibility exists that the inclusion of further additional information in the Public Accounts might be desirable from time to time and endorses their suggestion that this be placed in the Public Accounts by the Comptroller or be brought forward by the Auditor General for discussion and consideration by this Committee.

16. Attached to this report is a copy of a study paper prepared by the Comptroller of the Treasury for the use of the subcommittee and which forms part of this report.

17. Your Committee expresses its sincere appreciation to the Comptroller of the Treasury, the Auditor General, and their officials for their patient and expert advice and assistance throughout its deliberations.

A copy of the relevant Committee proceedings is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman

STUDY PAPER PREPARED BY THE COMPTROLLER OF THE TREASURY

The Financial Administration Act

1. Sub-section 1 of section 64 of the Financial Administration Act requires that an annual report, called the "Public Accounts", shall be laid before the House of Commons by the Minister of Finance on or before the 31st day of December, or if parliament is then not in session, within fifteen days after the commencement of the next ensuing session. Sub-section 2 provides that the Public Accounts shall be in such form as the Minister may direct and shall include:

- (a) a report on the financial transactions of the fiscal year;
- (b) a statement certified by the Auditor General of the expenditures and revenues of Canada for the fiscal year;
- (c) a statement certified by the Auditor General of such of the assets and liabilities of Canada as in the opinion of the Minister are required to show the financial position of Canada as at the termination of the fiscal year;
- (d) the contingent liabilities of Canada; and
- (e) such other accounts and information as are necessary to show, with respect to the fiscal year, the financial transactions and financial position of Canada, or are required by any Act to be shown, in the Public Accounts.

2. Recently, recommendations have been made by the Auditor General, the Public Accounts Committee and the Royal Commission on Government Organization that changes be made in the form of the Public Accounts. Moreover, in the United Kingdom in 1950, the Committee on the Form of Government Accounts considered and reported on the matter. These recommendations and reports are summarized in the paragraphs that follow.

The Auditor General's Report

3. The Auditor General in his Report to the House of Commons for the fiscal year ended March 31, 1963, suggested that further consideration should be given towards summarizing or otherwise reducing the number of detailed listings now included in the Public Accounts and, on the other hand, additional information should be disclosed in the Public Accounts.

Fourth Report of the Public Accounts Committee

4. In its Fourth Report, tabled in the House of Commons on December 19, 1963, the Standing Committee on Public Accounts made the following comments with respect to "The Form of the Public Accounts".

11. The Committee expressed satisfaction that the Public Accounts volumes for the fiscal year ended March 31, 1961, had been arranged in the manner recommended by the Committee in its Fifth Report 1961 and that these improvements had been continued in the Public Accounts for the year ended March 31, 1962.

12. The Committee noted that further consideration might be given to summarizing or reducing a number of the detailed listings in the Public Accounts so as to present more significant and relevant information to Parliament. It also felt that consideration might usefully be given to the inclusion of additional important information along lines suggested by the Auditor General.

13. As time has not permitted consideration of the foregoing by any sub-committee convened for the purpose, the Committee recommends that this be undertaken during the next session of Parliament.

Recommendations of Royal Commission on Government Organization

5. The Glassco Royal Commission on Government Organization also considered the form and content of the Public Accounts. After referring to the recommendations of the 1961 Public Accounts Committee, it reported as follows:

38. The Public Accounts were improved by the changes, but acceptance of the proposed new form of the Estimates would make further improvements possible. However, the explanatory sections for each vote in the Estimates would not need to be repeated in the Public Accounts.

39. Furthermore, excessively detailed listings are now given of payments to Members of the Senate and the House of Commons, to civil servants receiving \$8,000 or more per annum and to suppliers and contractors paid \$5,000 or over (\$25,000 in the case of National Defence). This parochial practice is expensive and has outlived any usefulness.

40. Details of items not shown separately in the Estimates should be presented only to explain significant variations between appropriations and expenditures, or between revenues forecasted and realized. Unless the following information is sufficiently important to be detailed in the Estimates, it should be deleted from the Public Accounts:

- (a) allotments maintained solely for operating purposes;
- (b) construction and other contracts;
- (c) purchases of land;
- (d) grants and other assistance payments and
- (e) listings of other payments, including salaries, traveling expenses, professional fees, educational leave, names of suppliers and contractors.

40. The Public Accounts is not a control document, but a means of reporting to Parliament on the financial stewardship of departments and the Executive, and on the essential facts about the national finances. The incorporation of much of the detail now included cannot be justified on the grounds that the publication of such information acts as a restraint on individuals in the public service. The remedy lies in a revision of existing internal controls. The Auditor General's report on extravagance and abuses within the public service is more likely to be effective.

43. The form of the Public Accounts should be clear and uncluttered. Details should not be permitted to obscure matters of real importance. The present form lays such stress on details that it is exceedingly difficult to separate the wheat from the chaff.

44. The annual reports of departments and agencies include financial statements, but these do not often duplicate the Public Accounts since they reflect the natural divisions of departments. The statements of many agencies and at least one department are prepared on an accrual basis. These annual reports have often narrative and statistical detail supporting the financial information in order to explain the department's programmes.

45. In the Public Accounts, greater use should be made of tables, with explanatory notes where necessary to aid interpretation.

52. The recommended elimination of material from the Public Accounts is not designed to withdraw useful information from parliamentary review, but rather to reduce the bulk of the document so that an accounting can be rendered in a clear, concise manner that conforms to the highest standards of financial reporting. Furthermore, by eliminating unnecessary detail, more useful information might be added which would be of value to Parliament and would provide a better accounting in areas now inadequately covered.

53. For example, many departments carry on operating activities, and the appropriation accounts kept on a cash basis do not adequately reflect the financial results of these activities. This has been partially corrected in some instances by the use of revolving funds, which are described in the next chapter, but these funds usually record only direct costs with no provision for departmental overhead or the amortization of capital costs.

54. In this report, your Commissioners have recommended the adoption of accrual accounting for department purposes, but it is not recommended that the government's accounts be altered from the present cash basis. Therefore, the appropriation accounts will continue to be reported on a cash basis in the Public Accounts.

55. However, the costs of individual activities can now seldom be determined from the Public Accounts. The adoption of programme budgeting and accrual accounting, and the inclusion of the costs of services now provided free by other departments, will permit financial results to be presented in a manner similar to that followed in commerce and industry. The form of such statements is clear, concise and widely understood. Presentation of departmental accounts in this form will provide Parliament with information of far more value than any of the material that your Commissioners suggest be deleted.

The U.K. Committee on the Form of Government Accounts

6. In November 1947, the United Kingdom Government appointed a Committee on the Form of Government Accounts. In its final report, published in June 1950, the Committee discussed the purpose of government accounts.

“ . . . government accounts are called upon to serve a variety of purposes, some of which could never have been envisaged when the present system was designed. Accordingly, we think it well to set out the various purposes to which our attention has been directed. They fall into five groups:

- (a) first and foremost is the provision of what may be called “accountability” accounts, that is to say records suitably devised for the scrutiny of receipts and payments in relation to the estimates, by the Public Accounts Committee, the Comptroller and Auditor General, the Treasury and the responsible officers in the various departments, in order to ensure the authenticity of each item and its accordance with the sanctioning of parliament. This is the basic requirement of all government accounting, and it is a necessity for a democratic order that nothing be done to impair the means of control exercised by the House of Commons over public spending.
- (b) Secondly, the published accounts should serve to inform the public, as promptly and plainly as possible, of the essential facts about the national finances. For reasons already indicated, this objective has grown in importance, particularly in the last forty years, but for

associated reasons, it has become all the more difficult to fulfil. A fundamental part of the problem is how to achieve simplicity in final accounts representing a great complexity of operations.

- (c) Thirdly, some critics argue that it is not enough, when expenditure has reached the scale recorded in modern times, to ensure that nothing is spent without parliamentary authority. The Accounts of a given department, they suggest, should also be so designed as to furnish material on which the responsible officers of that department, and of the Treasury can judge whether a particular service is being provided at the minimum cost within the requirements of efficiency.
- (d) Fourthly, as in business, so in government, accounting material is now-a-days thought to have useful qualities as one of the guides available in formulating policy and carrying it out. The acceptance by government of responsibility for maintaining healthy conditions in the national economy—particularly for securing a “high and stable level of employment”—and the scale or range of government operations make it imperative that close watch should be kept upon the immediate and secondary effects of government outlays, the raising of revenue, borrowing or the repayment of debt. In this process, much reliance must be placed upon analysis of government accounts.
- (e) Finally, more advanced requirements are being urged in the interest of skilled interpretation of the position and prospects. For our part, we accept it as desirable that experts outside the government service should be provided with material adequate for analysis of past events and current trends and assessments of the future. As to the past events and current trends, two particular demands should be noted: that of the monetary analyst, to whom cash movements and the influence of government operations on monetary conditions are of primary importance; and that of the more general economist concerned with such matters as the maintenance of equilibrium between saving and capital investment, and the amount of new investment at home or abroad undertaken by the government or its agencies. As to the future, it is argued—primarily in the interests of a regard for the taxable capacity of future generations and the burdens to be borne by them—that a system of accounts should be installed which would assess and display clearly the capitalized long-term and other deferred liabilities of the government (including actuarial computations of pension and similar commitments). Indeed, some would go further and advocate also the recording of fluctuations in the current value of government assets of every kind.”

7. The United Kingdom Committee went on to point out that the mere recital of these groups of purposes—whether or not every one of the questions asked of government accounting is capable of satisfaction in any manner that will convey a definable meaning—is sufficient to engender grave doubts whether all of them could be met by the automatic outcome of a single set of accounting processes and records. It noted that it had been pointed out to it that while an accurate account, subject to audit, is indispensable for the purposes of parliamentary control, what may be called accounting statistics are sufficient for some other purposes.

8. The United Kingdom reports present a concise accounting for expenditures from parliamentary grants. Moreover, and perhaps of greater importance,

they are designed to give Members of the House of Commons information on matters that they might wish to have studied in more detail in the course of the deliberations of the Public Accounts Committee. On the premise that the annual financial report should not only present an adequate accounting of parliamentary grants, but should also point out any unusual features resulting from the administration of those grants, some of the features that the United Kingdom report brings to attention are

- (1) explanation of the causes of variations between expenditures and grants;
- (2) notes on particular features of the accounts;
- (3) accounts of grants-in-aid and funds;
- (4) details of loans, gifts, extra contractual payments, ex gratia awards and unvouched expenditures;
- (5) losses and compensation payments; and
- (6) write-offs and claims abandoned.

9. On the other hand, the United Kingdom report makes no reference to the salaries or travelling expenses of individual officers and employees, payments to contractors, or descriptions and amounts of construction projects.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 10, 1965
(43)

The Standing Committee on Public Accounts met this day, *in camera*, at 9.35 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Forbes, Francis, Harkness, Leblanc, Muir (*Lisgar*), O'Keefe, Nowlan, Regan, Ryan, Stefanson, Tucker, Wahn (14).

In attendance: From the office of the Comptroller of the Treasury: Mr. H. R. Balls, Comptroller of the Treasury; Mr. Walter Johnson, Director, Accounting Services Branch and Mr. J. S. Sutherland, Chief of the Public Accounts Division. And Mr. G. A. Long, Acting Auditor General.

Mr. Baldwin made an oral report of the meeting of the steering subcommittee of February 23 and advised that the Auditor General would submit a "follow-up" report to the Main Committee, and also that if time permitted, officials of the St. Lawrence Seaway Authority would be called.

The Committee resumed consideration of the "draft" report presented by the subcommittee on form and contents of the Public Accounts.

The Chairman called Mr. Balls, who in turn introduced his officials, Messrs. Johnson and Sutherland.

Mr. Balls made a statement relating to the background of the study by the subcommittee, and was examined thereon.

At 11.00 a.m., the consideration and amendment of the "draft" report still continuing, the Committee adjourned until 3.30 o'clock this afternoon.

AFTERNOON SITTING (44)

The Committee resumed, *in camera* at 4:00 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cardiff, Côté (*Chicoutimi*), Forbes, Leblanc, Legault, Mandziuk, Muir (*Lisgar*), O'Keefe, Nowlan, Pilon, Rondeau, Ryan, Saltsman, Stefanson (16).

In attendance: Same as at morning sitting.

The Chairman introduced Mr. Saltsman, a new member of the Committee.

The Committee resumed discussion of the "draft" report on the form and content of the Public Accounts with Mr. Balls supplying additional information, and following its consideration and amendment, was adopted and the Chairman ordered to present it to the House as the Committee's Ninth Report.

The Chairman thanked the members of the subcommittee for their diligent efforts.

At 4:30 p.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

