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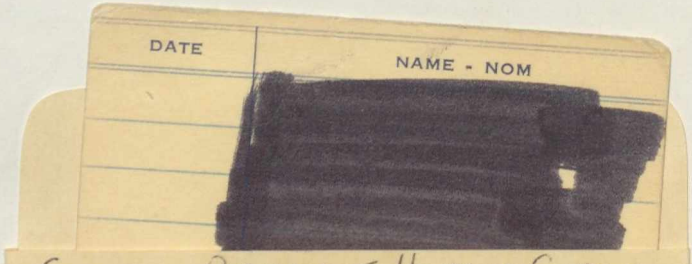

CANADA. PARLIAMENT. HOUSE OF COMMONS.
STANDING COMM. ON PUBLIC ACCOUNTS,
1960/61.

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HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Public Accounts (1960), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, FEBRUARY 22, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General for Canada, and Mr. K. W. Taylor, Deputy Minister of Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24696-7—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark,	Drysdale,	Pickersgill,
Beech,	Dupuis,	Pigeon,
Bell (*Carleton*),	Fisher,	Pratt,
Benidickson,	Grenier,	Robichaud,
Bissonnette,	Hanbidge,	Rouleau,
Bourbonnais,	Hellyer,	Smith (*Simcoe North*),
Bourget,	Keays,	Smith (*Winnipeg-North*),
Brassard (*Chicoutimi*),	Lahaye,	Spencer,
Broome,	Macdonnell,	Stefanson,
Bruchési,	McGee,	Stewart,
Campeau,	McGrath,	Tucker,
Chown,	McGregor,	Valade,
Coates,	Martel,	Villeneuve,
Danforth,	Morissette,	Winch,
Denis,	Morton,	Woolliams,
Deschatelets,	Nugent,	Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, December 2, 1960.

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

Messrs.

Allmark,	Dupuis,	Pigeon,
Beech,	Grenier,	Pratt,
Bell (*Carleton*),	Hales,	Regier,
Benidickson,	Hanbidge,	Robichaud,
Bissonnette,	Hellyer,	Rouleau,
Bourbonnais,	Keays,	Smith (*Simcoe North*),
Bourget,	Lahaye,	Smith (*Winnipeg North*),
Brassard (*Chicoutimi*),	Macdonald (*Kings*),	Spencer,
Broome,	Macdonnell,	Stefanson,
Bruchési,	Macnaughton,	Stewart,
Campeau,	McGee,	Tucker,
Chown,	McGrath,	Valade,
Coates,	McGregor,	Villeneuve,
Danforth,	Morissette,	Winch,
Deschatelets,	Morton,	Woolliams,
Denis,	Nugent,	Wratten—50.
Drysdale,	Pickersgill,	

(Quorum 15)

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

THURSDAY, January 19, 1961.

Ordered,—That the name of Mr. Martel be substituted for that of Mr. Macdonald (*Kings*) on the Standing Committee on Public Accounts.

WEDNESDAY, February 1, 1961.

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

24696-7—1½

WEDNESDAY, February 15, 1961.

Ordered,—That the Report of the Canada Council for the fiscal year ended March 31, 1960, laid before the House on July 13, 1960, 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 and II, and the Report of the Auditor-General for the fiscal year ended March 31, 1960, and the financial statements of the Canada Council and the Report of the Auditor-General thereon for the fiscal year ended March 31, 1960, be referred to the Standing Committee on Public Accounts.

MONDAY, February 20, 1961.

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

Attest.

Léon-J. Raymond,
Clerk of the House.

REPORT TO THE HOUSE

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

FIRST REPORT

Your Committee recommends:

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

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

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, February 1, 1961.
(1)

The Standing Committee on Public Accounts met at 10.05 a.m. this day for *organization purposes.*

Members present: Messrs. Bell (*Carleton*), Brassard (*Chicoutimi*), Campeau, Chown, Danforth, Hales, Keays, Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, Martel, Morton, Pigeon, Robichaud, Rouleau, Smith (*Simcoe North*), Spencer, Stefanson, Stewart, Tucker, Valade, Villeneuve, Winch, Wratten—(25).

On motion of Mr. Chown, seconded by Mr. Wratten, Mr. Macnaughton was elected Chairman.

Mr. Macnaughton took the Chair and thanked Members for again extending to him the honour of the post.

On motion of Mr. Stewart, seconded by Mr. Martel, Mr. Hales was elected Vice-Chairman.

The Orders of Reference were read.

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

Resolved,—That a recommendation be made to the House to reduce the quorum from 15 members to 10 members.

On motion of Mr. Chown, seconded by Mr. Valade,

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

On motion of Mr. Macdonnell (*Greenwood*), seconded by Mr. Keays,

Resolved,—That a subcommittee on Agenda and Procedure, comprising the Chairman and 6 members to be named by him, be appointed.

Following a brief discussion concerning possible future business and agreement that meetings be scheduled for 9.30 a.m. on Wednesday mornings commencing February 15, 1961, the Committee adjourned at 10.15 a.m. to the call of the Chair.

WEDNESDAY, February 22, 1961.
(2)

The Standing Committee on Public Accounts met at 9.37 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Bruchési, Chown, Danforth, Denis, Deschatelets, Fisher, Hales, Keays, Lahaye, Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, Martel, Morissette, Morton, Pratt, Robichaud, Rouleau, Smith (*Simcoe North*), Spencer, Stefanson, Stewart, Villeneuve and Winch—29.

In attendance: Mr. A. M. Henderson, Auditor General for Canada; Mr. I. Stevenson, Assistant Auditor General; and Messrs. B. A. Millar, J. R. Douglas,

D. A. Smith, G. R. Long, A B Stokes, and Mr. D. H. McMillan, Secretary; Mr. K. W. Taylor, Deputy Minister of Finance; Mr. J. A. MacDonald, Assistant Secretary, Treasury Board; and Mr. J. O. Hodgkin, Assistant Comptroller of the Treasury.

On motion of Mr. Hales, seconded by Mr. Martel,

Resolved—That, pursuant to its Order of Reference of Wednesday, February 1, 1961, the Committee print 750 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

The Chairman announced the composition of the Sub-Committee on Agenda and Procedure as follows: Messrs. Hales, Chown, Morissette, Pickersgill, Stewart and Winch.

The following Report was read to the Committee as the First Report of the Sub-Committee on Agenda and Porcedure, and copies distributed to Members of the Committee:

Your Sub-Committee met on February 8th and decided unanimously to recommend the following program for consideration:

(1) that the Committee meet Wednesday mornings, at 9.30 a.m., preferably in Room 112N;

(2) that there be a "follow-up" on the action taken by the various departments respecting the Committee's recommendations in previous years, and that the Auditor General be requested to prepare a memorandum along these lines for submission;

(3) that the Committee examine the Report of the Auditor General for the fiscal year ended March 31, 1960, along with Public Accounts volumes 1 and 2; with particular reference to

Polymer Corporation Limited
National Research Council of Canada
Defence Research Board and the
Canadian Broadcasting Corporation

(4) that the Committee examine the Annual Report of the Canada Council and the Auditor General's Report thereon for the fiscal year ended March 31, 1960.

It was decided to ask the Clerk to distribute on Monday, February 20th, copies of the Auditor General's Report in English and in French.

A request having been received from the Department of Finance, that certain witnesses be heard with regard to matters arising out of the Committee's 1960 Report, it was decided to invite Messrs.

K. W. Taylor, Deputy Minister,
H. R. Balls, Comptroller of the Treasury,
J. A. MacDonald, Assistant Secretary, Treasury Board,
Carl Allen, Director, Estimates Section, Treasury Board,

to the first meeting of the Committee, and hear them, subject to the consent of the general Committee.

On motion of Mr. Winch, seconded by Mr. Danforth, the Report was adopted.

Mr. Henderson was introduced to Members of the Committee, and, in turn, introduced Messrs. Stevenson, Millar, Long, Stokes, Smith, Douglas and McMillan.

The Auditor General tabled a "Follow-up" report, on recommendations made by the Committee at the last Session of Parliament. Copies were distributed to Members.

Mr. Taylor was introduced and commented upon the form of Public Accounts and certain recommendations made by the Committee in its 1960 Report.

Messrs. Henderson, Taylor and MacDonald were questioned.

Moved by Mr. Spencer, seconded by Mr. Stewart,

That the Chairman appoint a sub-committee comprised of 7 Members to confer with the Auditor General and bring in recommendations as to specific items and details that might usefully be eliminated from "Public Accounts".

Following discussion, the motion was allowed to stand.

On motion of Mr. Morton, seconded by Mr. Stewart,

Resolved—That the Report tabled by the Auditor General be printed as Appendix "A" to the Minutes of Proceedings and Evidence of this day. (*See Appendix "A"*)

At 11.03 a.m. the Committee adjourned to meet again at 9.30 a.m. on Wednesday, March 1, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, February 22, 1961.
9.30 a.m.

The CHAIRMAN: Gentlemen, I now call to order the first regular meeting of the Public Accounts Committee.

I see an item on the agenda, "Chairman's opening remarks". My opening remarks will be very short and, I hope, to the point. There will be a slight change this year in the purposes and the objectives of this committee, and I am sure we will work together co-operatively and very constructively.

It is my pleasure to welcome to the committee Mr. Gordon Allmark, a new member, and to welcome back Mr. Marcel Bourbonnais.

In accordance with custom there should be a motion to establish the number of printed copies. Has anyone a motion?

Mr. HALES: Mr. Chairman, I would like to move that we print the same number as last year, namely, 750 copies in English and 250 copies in French of the minutes of proceedings and evidence.

The CHAIRMAN: Have we a seconder?

Mr. MARTEL: I second the motion.

The CHAIRMAN: All those in favour? Contrary, if any?

Motion agreed to.

The CHAIRMAN: Our clerk, Mr. O'Connor, who is new this year on this committee, has distributed in English and French the auditor general's report for the fiscal year ending March 31st, 1960, and I think you should have received it by now.

In accordance with the request of Mr. Pigeon, we have asked to be present, Miss Paulette Cyr, who is a member of the translation staff.

Also, in accordance with a resolution adopted at our last meeting held on February 1, the following gentlemen have been appointed members of the subcommittee on agenda and procedure: Messrs. A. D. Hales, vice-chairman, Gordon Chown, Emilien Morissette, J. W. Pickersgill, R. D. C. Stewart, Harold Winch, and myself.

Your steering committee met on February 8, and drafted their first report, which I am going to ask our Clerk to read. It is for your consideration, adoption, amendment, or rejection.

The CLERK OF THE COMMITTEE:

FIRST REPORT OF THE SUB-COMMITTEE ON AGENDA AND PROCEDURE

Your sub-committee met on February 8 and decided unanimously to recommend the following program for consideration:

(1) that the committee meet Wednesday mornings, at 9.30 a.m., preferably in room 112N;

(2) that there be a "follow-up" on the action taken by the various departments respecting the committee's recommendations in previous years, and that the auditor general be requested to prepare a memorandum along these lines for submission;

(3) that the committee examine the report of the auditor general for the fiscal year ended March 31, 1960, along with public accounts volumes 1 and 2; with particular reference to

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K. W. Taylor, deputy minister,
H. R. Balls, comptroller of the treasury,
J. A. MacDonald, assistant secretary, treasury board,
Carl Allen, director, estimates section, Treasury Board,

to the first meeting of the committee, and hear them subject to the consent of the general committee.

Alan Macnaughton,
Chairman,
Public Accounts Committee.

Mr. WINCH: I move the adoption of the recommendations.

The CHAIRMAN: It has been moved. Have we a seconder?

Mr. DANFORTH: I second the motion.

The CHAIRMAN: All those in favour? Contrary, if any?

Motion agreed to.

The CHAIRMAN: The Auditor General is here, with his supervisors and, anticipating the approval of the first report of the steering committee—and perhaps I went a little too far—I asked him to prepare in advance a follow-up report on the recommendations and suggestions made last year by this committee. He has done this, and I would appreciate it if the Clerk would have them distributed to the various members.

Mr. Henderson, have you an opening statement to make? If so, would you care to introduce your supervisors?

Mr. A. MAXWELL HENDERSON (*Auditor General of Canada*): Mr. Chairman and members; it affords me particular pleasure to meet with you again this year.

In accordance with the practice I followed last year, Mr. Ian Stevenson, the assistant auditor general, is with me, and over here, on my right, I have my audit supervisors. I would ask them to rise momentarily while I introduce them. They are: Mr. B. A. Millar, who is in charge principally of national defence; Mr. G. R. Long, who is associated with the revenue departments; Mr. A. B. Stokes, who handles most of our crown corporation work; Mr. D. A. Smith, who deals with the large expenditure departments; Mr. J. R. Douglas, who handles principally the welfare expenditures—dominion-provincial expenditures, and the like; and Mr. D. H. McMillan, who is acting as secretary of our group for the purposes of these meetings. It is our pleasure to be at the service of the committee throughout the sittings this year.

As the chairman has mentioned, I prepared a follow-up memorandum in regard to the action taken by departments and agencies on the committee's 1960 recommendations. I am sorry that it is only now being made available to you. The suggestion was made last year that memoranda be distributed in advance, but this, unfortunately was not practical at this particular time.

Arising out of this follow-up memorandum, I am referring particularly to two of the subjects which you discussed last year which you might care to mark. They are paragraphs 3 and 4, which deal with the form of the public accounts on page one, and paragraphs 7 and 8 covering the treatment of receipts for services rendered, which is described as the estimate study. I am referring just to these two particular subjects, because when these questions came before the public accounts committee last year, I suggested that officials of the Department of Finance be asked to appear. However, unfortunately this could not be arranged at that time. Therefore, I again made the request this year, and it is with particular pleasure that I note the presence here this morning of Mr. K. W. Taylor, the Deputy Minister of Finance, and a number of his associates.

I understand that Mr. Taylor has a statement to make concerning these two matters. Of course, there are a number of other matters, relating to the Department of Finance, which you will recognize in the follow-up memorandum, in which I give the details of the action, if any, taken since we last met.

I think those are all the points I have to make, Mr. Chairman. No doubt, in due course, members will have some questions on the follow-up memorandum, and I will be able to answer these after you have had an opportunity to look at it in more detail.

The CHAIRMAN: Gentlemen, I am going to suggest that we sort of get off the rails for a minute; but, of course, with an objective in view.

Under normal conditions, I suppose we should ask Mr. Henderson to read through his follow-up report, which happens to consist of at least seven pages. However, we have with us this morning the Deputy Minister from the Department of Finance, together with various assistants and advisers from his department. Mr. Taylor is a gentleman who is very much in demand by the government. As his time is quite limited, I think it would be of assistance to him if I pointed out, in this follow-up report, so far as we are concerned, the various paragraphs which perhaps directly concern him. Mr. Taylor has requested that he appear before us as a witness with regard to matters arising out of our 1960 report.

Instead of going through Mr. Henderson's report paragraph by paragraph, which would take considerable time, may I suggest to you that we ask Mr. Taylor if he would like to be heard now, and if he has anything to say with regard to the recommendations and suggestions made by this committee last year. Would that be agreeable to the members of the committee?

Agreed to.

Mr. MACDONNELL: Mr. Chairman, shall we have Mr. Taylor take us through these accounts later on? In other words, shall we have our attention drawn to various matters in it? Speaking for myself, I feel I need a good deal of instruction in regard to the things for which I should be looking. Is that a reasonable request?

The CHAIRMAN: Yes. I think I can point that out very quickly.

We did refer in our report last year to the form of public accounts. I will give you just the headings.

Mr. MACDONNELL: Well, do not bother now. That may come up later.

The CHAIRMAN: I think we at least should flag his attention to these things: form of public accounts, treatment of receipts for services rendered,

interest on temporary investment of university grants funds, inactive loans and investments, share of loans to fishermen, superannuation account, permanent services pension account. These are all referred to in this dossier, and I am sure that Mr. Taylor will know what to do with them.

Mr. K. W. TAYLOR (*Deputy Minister of Finance*): Mr. Chairman and gentlemen, I am very glad to be here, and we will be glad to serve the committee in every possible way.

I regret that Mr. Balls, Comptroller of the Treasury, has to be out of town today. He is out west, but will be back later on this week. Mr. Balls had an appointment of several months' standing which he could not very well cancel. Mr. Hodgkin, Assistant Comptroller of the Treasury, is here. Mr. Balls will be very glad to attend any later sessions of the committee, if the committee so desires. Mr. Steele, Secretary of the Treasury Board, is also over in Europe on a short trip, but I have Mr. MacDonald, the Assistant Secretary of the Treasury Board, here today.

As the authors and compilers of the public accounts, the officers of the Department of Finance always will be glad to attend any of those sessions where you feel we can be helpful in explaining matters which are of interest to the committee.

As you have said, Mr. Chairman, we have been invited to report upon actions that have been taken in regard to the final report of the committee of the 1960 session. Perhaps I might just run down the points which you, Mr. Chairman, have just mentioned.

Paragraphs 12 to 15 of the report of last year deal with the form of public accounts. This is a matter on which the Comptroller of the Treasury and his senior staff are most competent to speak in detail. However, I would like to make three general comments.

The form of the report of the public accounts is, necessarily, very closely linked with the form of the appropriation acts which, in turn, of course, is based upon the form of the estimates and the supplementary estimates. The form of the estimates is a matter in respect of which we shall be glad to supply further detailed information at a later session, if the committee so desires.

As to the contents of the report, with the growth of government activities and government expenditures, the size and the bulk of the report inevitably tend to grow larger each year, and in some of the detailed pages the size of type gets smaller. I was looking over some of the earlier reports and found that before the war public accounts would run to 50, 70 or 90 pages, whereas they now run to over 1,000 pages.

The purpose of the report is to put before each member of parliament a precise and detailed account of how the money which they have voted was, in fact, spent. This is information to which, traditionally, members of parliament are, of course, entitled, and it has been the view of each Minister of Finance under whom I have served that the degree of detailed information set forth in the public accounts should not be reduced unless the house clearly indicates that such details are neither required nor desired. I recall a time some twenty years ago when it was customary to publish in the accounts the names and salaries of every permanent civil servant, from the most junior stenographer up to deputy ministers; but, about twenty years ago, it was decided to put on a $3,000 limit. As a result of that decision, we did not list those with less than $3,000 a year and I recall that there were two or three rather vigorous protests from back-benchers in the House to the effect that they were being denied information they required. Since that time there have been certain modifications in the details in the public accounts which have been introduced, I think without exception, on the recommendation of the Public Accounts Committee, as endorsed by the House.

Having regard in particular to paragraphs 14 and 15 of last year's report, this year we have ceased to print travel expenses of those public servants whose salaries are below $8,000 a year and, while I have not had the chance to read the Auditor General's follow-up report, I do notice that he quotes from the comptroller of the treasury a statement as to the policy of ministers in the past with regard to the reduction of detail printed in the public accounts.

The third general comment I shall make on the format of our accounts is that some years ago we introduced a general review and summary in the front of the public accounts. This has been moderately enlarged and expanded over recent years by the addition of summary tables, charts and graphs, and is designed to give a clear overall picture of the main aspects of budgetary and cash expenditures. That covers about 80 pages, and after that come the detailed accounts, department by department.

Turning to the next point, Mr. Chairman, I should like to say that when I prepared my notes for today's committee meeting I had not seen the follow-up report of the Auditor General and some of my remarks may be duplicating his. Second class mail is a matter of interest to the Minister of Finance and treasury board. We can give further information on that later, if it is so desired; but I should point out, as the Auditor General observes in quoting from the Deputy Postmaster General, this is a matter upon which representations have been made to the O'Leary Commission and I am inclined to presume that the committee and the government would like to see the Commission's views on this matter before they make any firm decisions regarding possible changes.

Dealing with paragraphs 19 to 21 of last year's committee report—treatment of receipts for services rendered—this is a highly complex matter and, at a later session, we shall be glad to put before the committee the various considerations involved. Perhaps I should add also that I am aware this is a matter upon which the Glassco Commission is taking a very active interest, and is making a detailed survey of the principles and practices related to it.

The next few paragraphs in your last year's report deal with rather detailed and specific matters and I do not think there are any general comments I need make. This covers paragraphs 24 down to 31 but, if there is any information which we can supply, we shall be glad to do so.

On paragraphs 32 and 33—unpaid accounts charged to new fiscal year—there are two principles involved. Since we operate government accounts essentially on a cash basis it is, of course, right and proper that expenses incurred during a given year should be paid in the same year but, on the other hand, there is an even more important principle, indeed, a matter of law, that no money shall be paid out without explicit authority from Parliament. The issue referred to in these paragraphs results chiefly from the failure of an operating department to file a request in time for supplementary estimates to be included in the supplementary votes. We have now explicitly reminded the department concerned, in fact, all departments, that they should of necessity take great care to check their estimates towards the end of the year and, where they are likely to be short of funds, they should file a request for supplementary estimates to be included in the final supplementary votes.

The next item, sir, is the interest on temporary investment of university grants funds—paragraphs 34 to 36. Shortly after your report was tabled in the house last July, I drew it to the attention of the Canadian Universities Foundation, which is the successor to the National Conference of Canadian Universities, and we also asked the law officers of the Crown for an opinion. In due course we received such an opinion which was to the effect that, on balance, the money ought to be returned to the Receiver General. At the Minister's

direction, I then wrote a formal demand—if I may call it that—to the Universities Foundation requesting the return of approximately $109,000, which covered two years, the year referred to in your last report and the succeeding year. The Canadian Universities Foundation replied, putting forward further facts, considerations and explanations. These were then reviewed by the minister and, because of the additional facts and views put forward, the matter has been referred once again to the law officers of the crown and we are presently awaiting a further opinion from them.

The next point I wish to deal with, sir, is the Canso Causeway, paragraphs 37 and 38. The government of Nova Scotia has now paid to the government of Canada the sum of $4,900,000, in round figures, which is the amount of our interim billing to the province. There are still discussions in progress on the final settlement and some questions have arisen as to what one might call the marginal elements of cost in the construction of the Causeway. I just want to report that the government of Nova Scotia has paid to the Receiver General the amount which has been formally billed to them, but the account is not yet finally closed. The next two paragraphs are not directly concerned with the Department of Finance nor, I think, with Treasury Board.

On paragraphs 41 to 44—inactive loans and investments—the general position is that, in our view, these loans to Greece and Roumania are properly recorded as inactive assets in our statement of assets and liabilities. Any action by Parliament to write them off would have the effect of indicating to the debtors that they are regarded by Canada as bad debts and, while this would not affect the legal obligation of these debtors to repay the loans, nor would it extinguish the debts, it would probably indicate the fact that Parliament did not expect ever to be paid and the debtors could hardly be expected to act other than in the light of your committee's suggestions.

Mr. MACDONNELL: Should we reserve any questions to the end?

The CHAIRMAN: I think you might as well ask questions as we go along, if that suits Mr. Taylor.

Mr. MACDONNELL: May I ask a word or two as to the history of these loans, when they were made, and what action has been taken?

Mr. TAYLOR: The essential facts, Mr. Macdonnell, are set out in the factual paragraphs of the report for last year. The loan to Greece was for $7½ million. It was made in 1919.

There was a renegotiation in 1923, and repayments were made on account up to 1931 at which time Greece owed us $6½ million.

At that time it was agreed, due to the existing world-wide economic crisis, that demand for repayment of principal and interest would be temporarily suspended, and no action has been taken since that time.

I would like to make one further comment in connection with the Greek loan. We have heard through unofficial sources that the government of Greece has, on more than one occasion in recent years, contemplated bringing together all its creditors. We, of course, are a very minor one, when compared with their other international debts. We have heard that they were contemplating doing this with a view to renegotiation.

We ave drawn this to the attention of the Department of External Affairs, but no action in this direction has been taken by the government of Greece. If such a meeting were called, we would of course be in the group as one of the creditors of the Greek government. So while we have received no payment from the government of Greece since 1931, the debt is still outstanding, and there certainly is the possibility that this matter may reach a situation where some negotiations of a worth while nature may take place.

Mr. CHOWN: I have one question: Does the legal liability for these debts to be paid remain unextinguished under international law? I take it this has been the advice you have received from your law officers of the Crown? I wondered if there might be some limitation of legal liability in connection with it.

Mr. TAYLOR: I recall that about 40 years ago the government of France made a public statement that they did not propose to try to collect from the United States certain debts which were incurred by the United States through General Lafayette in the 18th century.

I am not speaking as a lawyer, but I do not believe there is any statute of limitations which applies to international debts.

The CHAIRMAN: Does that apply to Cuba?

Mr. TAYLOR: In the case of Roumania, as the facts which are set out in the last report indicate, there was a partial payment of interest right up until 1939.

We had advanced to Roumania some $20 million in 1919. It was a form of export credit financing after the first World War.

This was renegotiated in the 1920's, and the actual bonds or debentures do not mature until 1968. But no interest has been paid since 1939.

We have no direct contact with Roumania. We have no diplomatic relations with that country. But again, there may develop a situation similar, for example, to that of Yugoslavia, Poland and Czechsolovakia who have negotiated credit purchases of wheat or other commodities. In negotiating these credits we have taken advantage of the occasion to clear up certain other economic problems which exist between the two countries. While we have no information that the Roumanians are likely to approach us, we cannot look too far into the future.

In the case of Roumania the principal of the debt does not fall due for another seven years.

I shall conclude this section by saying that many years ago we deleted these Greek and Roumanian debts from the active assets and transferred them to the inactive assets, just as some years ago we transferred our post-World War II loans to the government of China from the active assets to the inactive assets category.

The next two paragraphs deal with the share of loans to fishermen. I refer to paragraphs 45 and 46. I think all I can say with propriety here is that the committee may wish to wait until they see the final supplementary estimates for this year.

The CHAIRMAN: This is referred to in the following report in paragraph 21 and 22.

Mr. TAYLOR: I do not think it would be proper for me to suggest what the government intends to do, but the matter is under consideration.

In connection with the superannuation account and the permanent services pension account, the principle involved is the same in both cases. We have an opinion from the Deputy Attorney General which points out in effect that superannuation payments under an act of parliament are a matter of right, and that they are in fact paid out of the consolidated revenue fund.

The superannuation account is an account: it is not a fund. It is designed primarily to show to Parliament and to the public what in fact our liabilities are.

The Minister of Finance is required under the Financial Administration Act to show such assets and such direct and contingent liabilities as in his opinion are required in order to give a true and fair view of the financial position of Canada.

The conclusion of the recommendation in the opinion of the Deputy Attorney General is that the form of the public accounts is consistent with the Financial Administration Act and with the Superannuation Act.

The CHAIRMAN: If I might interrupt, that opinion is to be found in appendix "A" of the follow-up report in the last four lines.

Mr. TAYLOR: That covers what I thought the committee would be interested in, that is, matters which have a fairly direct bearing either on the Department of Finance as a department, or on the Treasury Board which, of course, has a much broader responsibility than the Department of Finance in the narrower sense.

As I have said, sir there are further details. I have with me today Mr. Hodgkin and Mr. MacDonald who can answer as to the details. We shall be very happy to serve the committee by attending later sessions on some of these more basic problems to which I have referred very briefly.

The CHAIRMAN: Gentlemen, Mr. Taylor certainly will not object to answering any questions he feels he is able to.

Mr. TAYLOR: No, not at all.

The CHAIRMAN: Has anyone any questions at this stage? I have a few, but I do not want to monopolize the time.

Mr. SMITH (*Simcoe North*): With respect to the form of the public accounts, which is the first item dealt with, has Mr. Taylor any comments he would like to make concerning further changes in that form?

Mr. TAYLOR: No sir. In paragraph 4 of the Auditor General's follow-up report there is a statement from the Comptroller which reflects the views of the minister, that neither the minister himself nor his officials should make recommendations.

The minister feels strongly—and this is true of all the other ministers under whom I served in the last twenty years—that the public accounts constitute an established source of detailed information to members. The minister is not prepared on his own initiative to deprive members of information which they may feel they want.

If members collectively should express views that certain classes of details in the public accounts, are unnecessary the minister will give those views most careful consideration.

If members of the committee, sir, wish to ask what would be the savings by excluding this, or what is the purpose of including that, we would be glad to answer such factual questions. But as officials, we would not be prepared to recommend to this committee the deletion of any facts from the public accounts.

The CHAIRMAN: Mr. Taylor, if I may cast a dart in here and there, let me say that this committee, in the last two or three years, if I remember correctly, has said that the public accounts are too bulky, and that it is difficult for the ordinary layman to find his way among all the details given.

On one occasion at least they have suggested that such detail is not politically or factually important, and they have so recommended to your Department. I see that our recommendation to the Minister of Finance last year was to continue to give consideration to the form and content of the public accounts, with a view to eliminating any which he thinks of little significance.

I might say that the last two Auditors General, if I am not mistaken, have so suggested and recommended and that in our follow-up report it is noted that, as of December 8, 1960, inquiry was made by the Auditor General to the Comptroller of the Treasury. Part of the reply was that "the Minister of Finance indicated to myself that he was not prepared to make, or have offi-

cials make any recommendation that would reduce the amount of information available to members, but that he would be glad to give careful and sympathetic consideration to any recommendations—and these are the important words—"that carried the support of the committee as a whole". Last year we had a unanimous report and recommendation that some of this detail should be eliminated.

I think we have to recognize it is the minister who decides the matter, but if the recommendations of this committee are to have any force and effect, do you not think that very careful consideration indeed should be given?

Mr. TAYLOR: I think what Mr. Balls' statement means is that the Minister does not find very helpful a recommendation, even a unanimous recommendation, that the report should be cut down in size. Last year the committee suggested the deletion of the long lists amounting to ten or a dozen pages in a single department which recorded the names of persons who received less than $8,000 a year in salary but who had expenses exceeding $500. The Minister gave instructions to delete that particular class of items. Again, although I cannot speak officially for the Minister, my understanding is that he would be glad to give consideration to specific recommendations to cut out this or that class of information. However, I think last year or the year before the Comptroller did advise this committee what the savings would be if certain things were deleted.

Mr. MACDONNELL: Mr. Chairman, I wonder if anyone else has the same feeling I have. When I see this book my heart sinks. I just say to myself "Am I going to delve into that and get information out of it". If I am honest with myself I say "No, I am not". Is it necessary to have this ladled out to everybody? I expect the expense in itself is not inconsiderable. On the other hand, I sympathize with the Minister. If he keeps back any information we know how it can be used politically—"here is somebody trying to hide something from the public". Do we need all this? Is there any practical way we can boil it down? I suspect there are a lot of persons like myself who shy away from this and do not make any real use of it.

Mr. TAYLOR: Some three or four years ago we did make available the first 90 pages bound separately. That is the general review which gives the information in which the general public is interested. We made that available to anyone who asked for it, such as the press gallery and others, who said they did not want these thousand pages. We did receive some criticism, however, for having separated the two parts of the report.

Mr. SMITH (*Simcoe North*): You mentioned something about making it more intelligible to a layman. Is the real purpose of the public accounts to make it intelligible to a layman, or is it to provide information for persons who are more or less knowledgeable of what is going on and who are looking for specific information or specific pieces of information rather than broad detail. Take, for example, the question of a ship contract. I might know it was awarded to a certain shipyard at a certain figure. I might become interested in knowing more specific details and how much extras were approved for that ship. Is not one of the real prime purposes of the publication to provide information for a person who is looking for a specific piece of information other than a general coverage of how and where money was spent in a multi-million dollar figure.

Mr. MACDONNELL: I am wondering whether or not there is any practical approach here whereby information could be made available for anyone to get it without having it pushed out in this volume. Is it reasonable to ask the Auditor General who after all, is a skilled and experienced man if there is a common sense approach to this. I do not think this is common

sense. I think we have stuck to this for the reason that, from a political point of view, every scrap of information must be given.

Mr. TAYLOR: The public accounts of Canada is primarily a document submitted to Parliament. Whether or not the general public likes it is a matter of indifference. Its purpose is to give Parliament all the information Parliament wishes to have on the way in which the government has spent the money which Parliament appropriated for its use. On the other hand, any member of Parliament can ask any question. He can ask what is the name of the stenographer in a certain post-office, and her salary. That is not in the public accounts. If a member wants such information he can put the question on the order paper and the information will be supplied.

Mr. WINCH: Is it not possible to cut down a lot of this material? I agree with Mr. Macdonnell that this just scares you as soon as you get it. Is it not possible to eliminate a lot of the detail which may be of interest to one of a dozen members here. If they want the information then there is the order paper where they can ask the question. Could we not do a great deal more in respect of the individual instead of going to the expense of putting all the information in this book.

Mr. TAYLOR: That is something every Minister I have served under thinks is a matter for the House as a whole, and that it is not for him to recommend what should be deleted.

Mr. WINCH: If I have particular information I want I am not going to look in this book, I will put it on the order paper.

Mr. HALES: Some years ago they did have a sort of abridged, or introductory, 90 pages or so to this public accounts book. What was the reception to that and why did you discontinue it? I think you were on the right track when you did that?

Mr. TAYLOR: You might say it was done informally. The document formally tabled, of course, was the complete document. We did this chiefly, I might say, for the press gallery so that they would not have to carry around this ten or twelve pounds of weight. We bound the first 90 pages in a separate blue cover.

Mr. HALES: Following up on that, I think what the committee has in mind is something along that line which would cut the distribution of this huge document. You could publish what you did at that time. This would save a tremendous cost. I do not know what the distribution of this is; I will ask about that later.

Mr. SMITH (*Simcoe North*): Would you mind asking now how many of these are printed?

Mr. WINCH: And the cost?

Mr. HALES: What I had in mind is the value of the distribution, how much it cost?

Mr. TAYLOR: Mr. Johnson has the information but he has stepped out for a moment.

Mr. HALES: In his absence perhaps we might discuss the system which you had a few years ago which was discontinued.

Mr. BENIDICKSON: Does anyone know how many pages are in this book? There are alphabetical sections but there is no total at the end. Does anyone know actually how many pages are in the book?

Mr. TAYLOR: A couple of years ago it was over 1,200. I have not counted it up this year.

Mr. CHOWN: Following up Mr. Smith's line of inquiry I would like to ask if requests come in from economists and experts, such as the Canadian Tax

Foundation and so on, asking for this volume *in toto*. I am wondering if the requests are in sufficient volume by themselves to warrant the printing of this complete and detailed volume.

Mr. TAYLOR: There would be some demand for that. Twenty-five or so years ago I was an economist. I recall on a number of occasions going to the library to dig out the detailed journals of the house and to examine various aspects of the public accounts. Certainly the Canadian Tax Foundation does make use of it.

Mr. MACDONNELL: Would any economist in his senses really ask for this? Would he not write to the Dominion Bureau of Statistics or some other source to get the information.

Mr. TAYLOR: I think I am right in saying a copy of this is deposited in all the major university libraries across Canada.

The CHAIRMAN: The Queen's Printer advertises this at a price of $15.00 for the two volumes.

Mr. SMITH (*Simcoe North*): Could I ask a question concerning the abbreviation of the public accounts. This balances estimates and monies voted?

Mr. TAYLOR: Yes.

Mr. SMITH (*Simcoe North*): How are you going to avoid publishing a very full public accounts for your records and your archives so as to know what was done in some fairly detailed fashion. You have your estimates of last year for your records and archives. Will you not require most of this information in any event. One can balance the other.

Mr. TAYLOR: Yes, and of course the major expense in a broad sense is the compilation. The actual printing cost is about $65,000.

Mr. SMITH (*Simcoe North*): If you have to print one, you might as well print a thousand?

Mr. TAYLOR: Yes. As you all know, the main cost of printing precedes the first run-off; and once you have run 25 copies you can run 500 or 800 copies with only a very, very modest increase in cost.

Mr. PRATT: Mr. Chairman, I think it might be a good idea if we sent one of those copies to each and every individual constituent.

The CHAIRMAN: Mr. Henderson is next. Did you have any comments, Mr. Henderson?

Mr. HENDERSON: Mr. Chairman, I really do not have any comment. My position on this was put before the committee last year and it is in my report to the House of Commons this year. I would explain, with due deference to our witness this morning, I probably am prejudiced or biased, but I do have a full appreciation of the problem with which I am sure the officials in the Department of Finance are faced, and I would express the hope that the unanimity of this committee on the subject will be again reflected in its report as a result of its meetings this year.

There are two items of information that might interest the members, while we are on this subject. I have had occasion in the past year to go through the public accounts of other countries in the British Commonwealth and I have not found any which turned out accounts the size of Canada's. In fact, the United Kingdom's is about twice the size of my own report here and the same is true of Australia. It is even slimmer. I am sure it is a very fertile field to look through when the Department is endeavouring to save money, if you operate on the theory that there is no use putting out a report that people are not going to read.

I had a rather interesting letter from the Canadian Manufacturers Association on this very subject. It had to do with the reference I made in my

report. I may be a little bit ahead of myself on this, Mr. Chairman, but perhaps members may recall that in paragraph 10 I made the statement that:

> . . . the listings of suppliers and contractors receiving $10,000 and over through each department might be eliminated from the public accounts in favour of simply providing the information on specific request.

That is to say, if you want to know something you ask or, as Mr. Winch said, you put it on the order paper. They go on to say:

> The information contained in public accounts in the above connection is of very little detailed use. A potential supplier or an unsuccessful tenderer always likes to know the price at which a contract covering goods in which he is interested was awarded. This detailed information may be had for the asking from the Department of Defence Production, but from no other department of government. Public accounts, as you well know, details the names of suppliers but not the products supplied, and the information in public accounts is therefore of little if any use to a potential supplier or an unsuccessful tenderer.
>
> If the other departments would adopt the policy of the Department of Defence Production, furnish information on request in respect of contracts awarded, such a policy would meet with great favour by industry and, as stated in your report, the information presently contained in public accounts could well be eliminated.

That was an interesting sidelight on the question asked today on the listing of the suppliers and what use was made of them. I would therefore express the hope that we might have some further discussion of this matter throughout the meetings, leading to a further expression of unanimity.

Mr. HALES: Following up my line of thought, we cannot do it this morning but I was wondering if at our next meeting the Department of Finance could bring to us the abridged form that we had—what year was it, Mr. Taylor, 1943 or so?

Mr. TAYLOR: Three or four years ago. It was, I think, about 1957 or 1958.

Mr. HALES: Bring that abridged form before us so that we might see it, and some costs and so on, so we can compare it with what we are doing now. I think we can look into that.

Mr. MACDONNELL: There would be a good chance of people reading that and using it, whereas there is no chance of their reading this.

Mr. TAYLOR: The supplementary document was not a different document; it was merely the first 90 pages of the regular document.

Mr. HALES: Did that serve the purpose for the press gallery and general demands?

Mr. TAYLOR: Yes, we had words of appreciation from several sources; we had criticism from certain other sources.

I can now answer, if I may, Mr. Hales' question about the number of copies. Of this year's report, the 1960 report, there were printed 1,981 English copies and 224 French copies, for a total of 2,205.

Mr. HALES: And the cost?

Mr. TAYLOR: They were distributed as follows: 548 were distributed within the government service, to departments, to treasury officers, to the Auditor General's office and so on. The balance, 1,657 copies, were handled by the Queen's Printer. That includes the distribution to members of Parliament, both the House and the Senate, and includes a distribution to the recognized libraries across Canada. It also includes, of course, sales.

Mr. WINCH: How many would you sell on the average?

Mr. TAYLOR: We would have to get information from the Queen's Printer on that.

Mr. WINCH: Could you also find out what the revenue is on that in any specified year?

Mr. TAYLOR: I gather the committee would like the cost. I have told the committee it is of the order of $65,000 but I can give that more precisely. We can also find out from the Queen's Printer the volume of sales over the last two or three years and put that before the committee.

Mr. MORTON: Mr. Chairman, in this discussion it seems to me there are really two ideas that are coming out. One is, what are the appropriate forms of public accounts to be presented to this committee as a public accounts committee, so as to check against estimates and so on to fulfil the functions of this committee. Secondly, what is the form of report that would be readable by the public generally, and those who are interested in the accounts. It seems to me that this detailed account is perhaps not of interest generally, and therefore arises the demand for this sort of summary. Is our problem not one to obtain some sort of summary which could be published in a broader sense for those who are interested? Should it not be a form of report that comes to this committee for purposes of checking the accounts as against the estimates, to see that the accounts or expenditures of government have been properly performed so that this committee can properly examine any details there might be?

Mr. BENIDICKSON: I presume we are going to discuss this thoroughly in the course of our sittings this session; we are not going to dispose of this by any means at this time, or is this the major item before us at today's sitting?

The CHAIRMAN: This was supposed to be the major item. It is becoming more than that. The idea was to save the time of the Deputy Minister; but of course he would come back, I am sure.

Mr. TAYLOR: In past years I have appeared before public accounts committees for six or eight sittings. I might also say there have been sessions when we have been asked to explain detailed items in section (K) or section (R) and so on.

Mr. WINCH: Do not put ideas into our heads.

Mr. FISHER: I would like to ask Mr. Henderson something about the British practice. It relates to what Mr. Morton brought up about providing something to this committee. Is not the British public accounts committee in fact broken down each year into sections that specialize in certain periods?

Mr. HENDERSON: It is my understanding, Mr. Fisher, that it is. It meets in camera—it is a smaller committee. I think information is only published when its report is tabled.

Mr. FISHER: You do not know what information is provided to these committees by the treasury officials?

Mr. HENDERSON: I believe there is an individual certification there by the Comptroller and Auditor General of the United Kingdom on the outlays from each department's appropriations, as distinct from the way we do it; and he is a constant adviser and witness before the committees. They also bring in people from the various departments as they deal with those departments.

Mr. FISHER: The question I have in mind is, as to whether we should have a sub-committee here. I do not know how many members they have on their sub-committees, but I understand they usually consist of seven members, with a working group of about five. It is reasonable to assume that a working

group of that size looking at a detailed part of the estimates could obtain information from the sub-agency, but with a larger committee such as this, it would be much more difficult.

Mr. HENDERSON: I think it would be difficult. If you wanted to form a sub-committee of three or four members to come back to the committee with some proposition, I take it there is nothing to prevent you forming one.

Mr. FISHER: The next point I wanted to ask you, or ask the chairman is: have you or has he been in touch with the only man I know of who specializes in a study of the public accounts in the public accounts committee, in regard to this matter, and that is professor Ward?

The CHAIRMAN: The answer is yes, professor Ward has been in the office many times both demanding and giving me advice. We will eliminate the word "demanding", and say "requesting". He is a dynamic character; that is what I meant to say.

To answer your first question, if I can: as I understand it, the British public accounts committee consists of 15 persons of whom two are regular civil servants. The Auditor General or his equivalent in Britain, is the chief prosecutor, shall I say, and the meetings are held in camera. The average attendance is about six to eight. They go into matters very thoroughly. The material is prepared very thoroughly by advisers to the committee and if there is anything which should be kept secret, it amounts to less than one-half of one per cent. The rest is published eventually in a series of reports—not one report but a series issued every few months. It has been operating that way for the last hundred years.

Mr. FISHER: And do they cover the spectrum of government activity? Do they have the spectrum rationalized so that they cover so much?

The CHAIRMAN: The various members of the committee of 15 or 12 specialize in various subjects. The chairmanship itself, nominally, is such that while it is presided over by a member of the opposition, in effect he vacates the chair and frequently either a government member or opposition member takes it. There is no political complex at all.

Mr. FISHER: Have you seen in the way their committee works that it has advantages over this committee?

The CHAIRMAN: I have so stated in public several times, that I think this committee should be reduced in size. I have made various other suggestions too, purely as a private member, I hasten to add for my own protection.

Mr. FISHER: Have you had discussions with other members who are in favour of this particular suggestion?

The CHAIRMAN: Yes; Mr. Fisher this morning has mentioned it.

Mr. FISHER: One last question. On the matter of the public accounts record as it comes before us, it is fair to say, is it, Mr. Chairman, that there has been no regularity in the approach over the decade of the Public Accounts Committee to what might be called the general responsibility?

The CHAIRMAN: In Canada?

Mr. FISHER: Yes.

The CHAIRMAN: I think it is fair to say that up until four years ago this was the so-called crime committee of the House of Commons. Sometimes it would meet, but not regularly of necessity.

Mr. FISHER: So in essence, if we followed your suggestion or the committee should arrive at the stage where it was carrying out a motion on the thing you were suggesting, it would be almost completely a new concept?

The CHAIRMAN: No, I would say it would be a development of the proper concept.

Mr. SMITH (*Simcoe North*): Following Mr. Fisher's question about the practice in the United Kingdom, does Mr. Henderson know whether or not the department has any publication that might supplement their public accounts? For example, is there any secondary publication or document prepared for the public accounts committee, we will say, who are investigating the Department of Transport or one of the ministers of government? Is there a secondary document, a departmental document prepared, not just a departmental witness coming and giving information?

Mr. HENDERSON: The ones I have seen are more or less comparable to the types of reports that are being put out by our own departments, their annual reports, except that they invariably show their votes and financial figures at the back in tabular form. They are annual reports.

Mr. SMITH (*Simcoe North*): Do those departmental reports jibe with their estimates?

Mr. HENDERSON: The figures do, yes.

Mr. SMITH (*Simoe North*): The figures do?

Mr. HENDERSON: Yes, they carry the certificate of the Auditor General, because that is the way he works, by the departmental appropriations.

Mr. FISHER: May I comment on that through my own knowledge from working with British parliamentary papers?

Mr. SMITH (*Simcoe North*): Are you a member there?

Mr. FISHER: Unless they have changed in the last few years, the military accounts that are produced, in connection with the army and navy are extremely full, I think much fuller than ours, and they are produced by that department. But in so far as the other departments are concerned, there is a remarkable similarity between their annual reports and our departmental reports, except I understand there is a committee of civil servants that tries to develop a common pattern of reports.

You see, if you take our annual reports, they range in size from something quite large down to something quite small. You can notice how awkward it is when you go into the library to check the bindings of these annual reports of agencies. They do work out a common size, a common approach and a common layout, so there is a similarity all the way through.

Mr. SMITH (*Simcoe North*): It might mean that while the public accounts might be reduced in size, generally they might find their way back into departmental reports, and you would end up with the same form of publication you started out to produce.

Mr. FISHER: Quite possibly.

Mr. MCGEE: I was wondering if the Deputy Minister would care to comment on the representation of the Canadian Manufacturers' Association concerning the possibility of finding out what a competitive bid was and what would be involved in that, specifying the particular item to which the dollar value applied?

Mr. TAYLOR: Shall I ask Mr. MacDonald to reply to that?

Mr. J. A. MACDONALD (*Assistant Secretary to the Treasury Board*): I can simply say I do know there is a different practice in those departments which believe in and follow this method and those which follow the practice of not revealing the other bids, but which feel they are doing this in response to the wishes of the bidders. In many cases companies that have been very much off the mark do not like to see their off bid obtained. It is something, though, that we would be happy to explore. Contracts and contractual practices are matters in which the Treasury Board does take an interest, and on which it does give directions. We could ask for a report and have them give in their own words the reasons why they practise these different methods. But I recall it has come

up from time to time, and some departments feel that when they have opened tenders at public openings they just report the figures as a matter of course, Other departments feel it is a matter of confidence and feel they should not disclose the unsuccessful bids—that the tenders were accepted in confidence.

Mr. McGEE: That is not the question I had in mind. I was more concerned with what I inferred from the Auditor General's summary of the representations from the Canadian Manufacturers' Association, that the specific item is not listed. There is the payment of a certain amount of money to a certain company which does not necessarily indicate the total value of the single item.

Mr. HENDERSON: The nature of the supplies in question?

Mr. McGEE: Yes.

Mr. MacDONALD: That again is one of those questions about the amount of detail you put in your public accounts. It is in the reverse direction. I think the people wanting the information would more or less know what the items were, because some of these contracts are quite complex. Again however it would be a matter of the wish of the committee, as far as that matter is concerned, if that additional information were desired.

Mr. McGEE: What I am trying to find out is how much more elaborate or how much more complicated would it be to have that information, assuming the information is of some value? I am interested in what it would involve to have it included.

Mr. MacDONALD: In some instances there would be a small descriptive item. It might be purchases of aircraft, which might suffice; but some people might think that was not very clear, and would want more elaborate information. A contract for service might require very little description, but some contracts we have are very lengthy.

Mr. SPENCER: I wonder if I could make a suggestion. Last year the committee unanimously made a report on the basis that we felt the accounts are altogether too bulky, contained too much detail, and so on, and should be reduced in size. Mr. Taylor has told us this morning that the Department of Finance is not as much interested in a general recommendation of that kind as they are in a specific recommendation,—in other words, to point out specifically all the details there are in the accounts which could be eliminated.

Now, I do not think lengthy discussion in a committee of this size is going to come up with an answer to that question. I would suggest, and would so move, Mr. Chairman, that you name a subcommittee of seven to confer with the Auditor General, who has already given this matter a great deal of study, and bring into this committee as a whole a recommendation as to the specific items and details in the public accounts as now published which, in the opinion of that subcommittee, might usefully be eliminated. Then perhaps we could get somewhere in the way of making a specific recommendation to the Department of Finance as to what we think could usefully be done to reduce the bulk of these accounts. I would so move.

The CHAIRMAN: Mr. Spencer, before we put that as a motion, I would ask Mr. Taylor to comment on it, because the legal position, as I understand it, is that the Minister of Finance is in absolute control of what he will or will not do. It might be useful to hand this recommendation to him, but perhaps Mr. Taylor should comment on it first.

Mr. TAYLOR: I would make one point first, Mr. Chairman. I hope I have not given the impression that neither the Minister nor the Department wishes to reduce the size of the public accounts. Personally, I would be delighted to see the public accounts reduced in size.

The point is that Ministers of Finance traditionally have been unwilling to be put in the position where they may be charged with withholding information from the House. If the committee will make specific recommendations as to what types and classes of information are neither useful nor desirable, and their report is endorsed by the House I am sure the Minister would give that most careful, and I think sympathetic, consideration.

On the other point; as you said, Mr. Chairman, the form of the public accounts is the responsibility of the Minister of Finance, and I would think that it might be well to consult with him direct or through his Parliamentary Assistant as to the best way of approaching this problem, which is a very real one.

Mr. BENIDICKSON: Mr. Chairman, I think we ought to go pretty slowly on a proposition of this kind. I think it is a very healthy thing in our country for the public to know that aboveboard and in the light of day they can get the kind of information available in this volume. If you will just look at the Public Works section, section AD, there are 120 pages in that. I would like the members to suggest that items in there they feel are not too helpful to them in connection with their work as members of Parliament and, in addition, what items are not items the public should know. I feel that $65,000 is nothing compared with the possible savings that develop from the fact that people in the country at large do spot things in the public accounts. In consequence they write to us, ask questions, and frequently because of that certain practices that may not be desirable or may not be completely efficient are eradicated; and I think savings arising from the observations of the public at large perhaps many, many times pay for the actual cost of the accounts.

Mr. SPENCER: Sixty-five thousand dollars is only the cost of printing.

Mr. BENIDICKSON: But the work is done anyway. The work has to be done. You have got to have most of the information in your bookkeeping done in the department. The suggestion is made from the Auditor General specifically and I just throw it out for discussion. He does say that perhaps we should eliminate any reference to suppliers who have been paid more than $10,000 per year. Public works is a very interesting department because it is a spending department. It is of great interest, I think, to the public at large and to the members of parliament to see the 120 pages with respect to public works. Just about six pages would be eliminated if we were to eliminate references to purchases over $10,000. I think it is in this field where the inquiries and curiosity of the public are likely to make sure that we have the fullest possible list of invitations for tendering, and all this kind of thing. We have had a number of inquiries every session from competitive businessmen who see that one of their competitors did business with the government. They know that they perhaps quoted on that same job and found that the ultimate figure was beyond the original tender price. It is that kind of inquiry that prompts us as members of Parliament to put questions on the order paper to find out what the extras were for. I think this kind of inquiry is a very healthy procedure, resulting in saving many, many times the cost of the compilation of this kind of information.

Mr. SMITH (*Simcoe North*): I think possibly if we appointed a subcommittee at this time we might assume they are likely to think they are looking at it from the point of view of saving, and that they ought to reduce the size of the public accounts. I think if we had an investigation we might look at it in a different light.

The savings are going to be minute, having regard to the amount of money the government spends. If we are going to investigate the form of public accounts, we should do so from the point of view of trying to make them more intelligible and more efficient, rather than that of asking our-

selves how we can cut the size of the public accounts, or how we can shave $15,000 off the $65,000. In the first place, I think we should have more information as to other public accounts before we start setting up a subcommittee.

Mr. McGEE: Mr. Chairman, apparently you have been deluded as to the unanimity of the committee. Mr. Benidicskon has burst forth this morning with great splendor. I wonder whether this concurrence in the recommendation that you described as unanimous was in fact that way?

Mr. WINCH: I also think, although it is not quite on the same subject, it is time for adjournment.

The CHAIRMAN: Gentlemen, there are two points. I would like to suggest that Mr. Spencer delay his motion to the next meeting, so that we can have further discussion. In order not to disappoint the members we should have at today's meeting a motion to approve the printing of the follow-up report of the Auditor General.

Mr. MORTON: I so move.

Mr. STEWART: I second the motion.

Motion agreed to.

Mr. CHOWN: Might I make one more suggestion, which I have been trying to get in for fifteen minutes. I wonder if Mr. Taylor, on his own motion or somebody on his behalf, could produce some information on the mechanics of preparing this public accounts report, the number of staff involved. I would be interested, and I think the committee would, in knowing something about it?

Mr. TAYLOR: Mr. Balls, the Comptroller, will be here at the next meeting and he can give you the information. Almost all the information in the public accounts has to be compiled anyway. So, it is largely a matter of putting on extra clerical staff to prepare the copy for the Queen's Printer, proofreading, and so on. I know in Great Britain, when the officials of the Treasury are appearing before the Public Accounts Committee, they will often have two or three suitcases full of documents and files and records which are not printed, but they all have to be compiled.

The CHAIRMAN: The next meeting will take place on March 1.

APPENDIX "A"

Suggestions and recommendations made by the Standing Committee on Public Accounts in its Third Report, 1960, to the House of Commons, together with comments by the Auditor General regarding action taken by departments and other agencies

1. In its Third Report, 1960, presented on July 20, 1960, suggestions and recommendations were made regarding action that might be taken by five departments and two other agencies with respect to some of the matters that the Committee had considered in the course of its meetings.

2. Extracts from or summaries of the suggestions and recommendations made in the above noted, together with comments by the Auditor General regarding the action that has been taken by the departments and other agencies concerned, are now given in this memorandum.

The Form of the Public Accounts

3. The Committee, after having made particular reference to the tabulations of travelling expense payments to employees whose salaries are below $8,000 per annum, recommended that the Minister of Finance "continue to give consideration to the form and content of the Public Accounts with a view to eliminating material that is of little significance".

4. *Comment by the Auditor General:* In the 1959-60 Public Accounts, travelling expense payments to employees with salaries below $8,000 per annum were not included. On December 8, 1960, I inquired of the Comptroller of the Treasury if any other changes had been made and he replied in the negative on December 30th, stating:

> In the past when I appeared before the Public Accounts Committee I stated in answer to requests from the Committee for proposals for further reduction in the Public Accounts that the Minister of Finance had indicated to myself that he was not prepared to make or have officials make any recommendations that would reduce the amount of information available to Members but that he would be glad to give careful and sympathetic consideration to any recommendations that carried the support of the Committee as a whole.

Second-Class Mail

5. The Committee noted that it was informed that the handling of second-class mail was estimated by the Post Office Department as having cost $28,000,000 in 1958-59 (up $4 million from 1956-57) while revenues were $6,000,000 (the same as in 1956-57). The Committee commented that it "recognizes that as no revenue accrues from the handling of second-class mail originating abroad, and because of other factors, rates for mail originating in Canada may not be set at a level designed fully to recover the estimated cost of handling second class mail", but went on to state that it was "disturbed at the annually increasing cost of handling second-class mail". The Committee, while "having in mind the desirability of continuing to assist the distribution of Canadian publications", recommended that the department "review the problem to the end that a more realistic policy be adopted".

6. *Comment by the Auditor General:* Following an enquiry on December 8, 1960, as to the action that had been taken by the Post Office Department with regard to this observation by the Committee, I received a communication dated December 20th from the Deputy Postmaster General informing me as follows:

> Since receiving the above mentioned report (Public Accounts Committee, Third Report, 1960) we have given consideration to this situation. As you are aware, however, rates of postage on publishers' mailings are fixed by statute and any changes in rates would require legislation.

As you are also aware, a Royal Commission has been appointed to examine the whole question of Canadian periodicals. We understand that this Commission is currently studying the position and problems of Canadian magazines and other periodicals arising from competition with similar publications largely edited outside of Canada. Possibly, therefore, the government may wish to withhold any action pending the receipt of the report of the Royal Commission.

TREATMENT OF RECEIPTS FOR SERVICES RENDERED

7. The following observations were included in the Committee's report:

In the Committee's view the proposition that appropriations be voted on a net basis, with the Estimates Details showing gross estimated requirements, less forecast revenues (with the understanding that—in order to avoid supplementing an appropriation—any excess of actual over forecast revenues would be credited to Revenue rather than to the appropriation) should be seriously considered.

The Committee was advised that the question of the structure of the Estimates generally is under active study by the Department of Finance, and accordingly recommends that the question of voting appropriations on a net basis be given careful consideration in this study. The Committee was glad to be informed that officials of the Department of Finance will consult with the Auditor General during the study of these problems.

8. *Comment by the Auditor General:* The members of the Committee will recall that shortly after the question of the treatment of receipts for services rendered had been considered by the Committee last year, I advised them of a meeting I had had with officials of the Department of Finance on April 1, 1960 when I was informed that in due course they would consult with me in connection with the study of the structure of the Estimates.

As I had not received any further word from the Department on this matter, I inquired of the Deputy Minister of Finance on December 8, 1960 the extent to which the study had progressed since my meeting with the officials in April. Although I received a letter from the Deputy Minister of Finance on January 16, 1961 advising me regarding certain of the other matters dealt with in this memorendum. I have no information yet regarding the progress of the Estimates study referred to.

REIMBURSEMENT TO CONTRACTOR FOR STATE TAX

9. The Committee took note of a payment in excess of $180,000 that had been made to a California contractor to reimburse him for State tax paid, where liability for the tax would not have arisen had the contract provided for transfer of title at the time of export rather than on receipt of progress payments. The following observation was included in the Committee's report:

The Committee was informed that the State has agreed to a refund of part of the moneys paid and that the balance is still under review. In the event that the full amount is not recovered, the Committee is of opinion that an important point in international relationships will arise and feels that the Government should take appropriate action to make certain that the Canadian people are not burdened by reason of a quibble.

10. *Comment by the Auditor General:* The reply of the Deputy Minister of Defence Production of December 27, 1960 to my inquiry of December 8th as to what action had been taken towards recovery of the amounts included:

The California State Auditor's Report on tax liability indicates exemption from tax in two areas under the contracts, i.e. the Termination Inventory disposed of in the State of California, and the material shipped by common carrier outside of the State.

There is a third category on which tax exemption is possible but which still could be subject to tax under the State of California law, namely Termination Inventory brought to Canada. It is on this material that we are endeavouring to reduce the tax. This might possibly be achieved if exemption could be obtained on such material as may be Disposed of or reduced to scrap prior to use. It is our opinion to issue a cetrificate for that purpose.

However, some difficulty has been experienced in segregating, and determining the fate of, the Termination Inventory brought into Canada. As soon as advice clarifying this situation has been received from the Department of National Defence, the certificate will be forwarded to the State of California.

NATIONAL DEFENCE SURPLUS CLOTH INVENTORIES

11. The Committee's report noted that it had inquired regarding the results of the departmental survey of these inventories and that it was informed that Executive authority had been provided for the declaration as surplus, through Crown Assets Disposal Corporation, of 3,755,000 yards of cloth regarded as being in excess of an estimated five years' requirements. The Committee recommended that "consideration be given by the Government to whether surpluses such as the foregoing could be made available for areas of international disaster, or for distribution through relief agencies and relief camps".

12. *Comment by the Auditor General:* Of the 3,755,000 yards of cloth authorized for surplus declaration, 2,471,000 yards were, in fact, declared surplus through the Crown Assets disposal Corporation in July 1960. I am informed by the Corporation that government departments were circularized regarding this surplus stock and that some sales have resulted therefrom, but I have no information of any distribution having been made in the manner suggested by the Committee.

INTEREST ON TEMPORARY INVESTMENT OF UNIVERSITY GRANTS FUNDS

13. The committee's report stated that income earned on funds invested by the National Conference of Canadian Universities, between the receipt of funds from the Minister of Finance and payment of grants to universities, had been retained by the Conference. This was noted as being in addition to the agreed service charges deducted from the grants to cover the costs incurred in carrying out its functions under the agreement with the Minister. The Committee had inquired whether, since the agreement made no provision for the disposition of investment income, it should not have been returned by the Conference to the Receiver General, and it was informed that the matter was currently under review by the law officers.

14. *Comment by the Auditor General:* I have been advised by the Deputy Minister of Finance in his letter of January 16th in reply to mine of December 8, 1960, that he wrote to the Canadian Universities Foundation informing it that in the Department's opinion the sum of approximately $109,000 should be repaid to the Receiver General. In reply, the Canadian Universities Foundation put forward further argument and considerations and these were referred to the Deputy Attorney General for opinion. The Department is awaiting his reply.

RECOVERABLE OUTLAYS ON CANSO CAUSEWAY

15. The Committee reported that it had noted that no payment had been received from the Province of Nova Scotia toward its share of the cost of the Canso Causeway and that it had learned that the matter was currently in abeyance pending receipt by the Department of Transport of an opinion of

the Department of Justice with regard to the contention of the Province that no payment was due until the final cost of the project had been determined.

16. *Comment by the Auditor General:* The Province forwarded a cheque to the Department of Transport on July 7, 1960 in the amount of $4,870,987, being the interim payment which had been demanded by the Department from the Province on account of its share of the cost of the Canso Causeway. In the circumstances, no opinion was obtained by the Department from the Deputy Minister of Justice with regard to the contention of the Province.

RECOVERY OF DEBTS DUE TO THE CROWN BY DIVERSION OF PART OF PENSION

17. The report made reference to instances having been observed where amounts had been withheld from current pension payments under section 38 of the Pension Act and applied in reduction of debts arising from previous overpayments, and it stated that: "Having regard for the fact that section 38 of the Pension Act permits the award only of an amount necessary to provide a maintenance, the Committee's view is that it is inconsistent to recover debts from these pension payments. The Committee feels, however, that the Canadian Pension Commission should exert every reasonable effort to ensure, through appropriate investigation, that improper payments are not made. Where public money is irregularly paid out in instances such as these, the effort to recover might properly be limited to the earned income and the assets of the debtor. The Committee favours any uncollectible amount remaining being reported for write-off action under section 23 of the Financial Administration Act or other statutory authority."

18. *Comment by the Auditor General:* In reply to my letter of December 8, 1960, requesting information with regard to this matter, a communication was received from the Chairman of the Canadian Pension Commission, dated February 8, 1961, which included the following information:

(*a*) While the Commission has in the past followed the practice of setting up overpayments and recovering from current payments at so much per month, we would much prefer to simply reduce the amount of pension according to the existing financial status of the pensioner and in accordance with section 38(5) of the Pension Act. I have on previous occasions suggested that overpayments of this nature should be recovered under the terms of the Financial Administration Act.

(*b*) A great majority of overpayments are caused by a pensioner having been previously employed and being entitled to receive Unemployment Insurance Benefits, the receipt of which is not reported to the Commission. Previously the Commission relied merely on the statement of the applicants as to their age but has now changed that policy and requires official proof of age on all initial applications for pension under sections 38 and 39 of the Act. Similar action is being taken with respect to cases in which pension is already in payment, and a liaison system has been adopted with the Chief Contributions Officer, Unemployment Insurance Commission, and Regional Contributions Officers, to ensure as far as possible that information given on original applications and subsequent reviews regarding employment and Unemployment Insurance Benefits is correct. In addition, a new type of application and review form has been created to secure additional information with regard to income.

(*c*) For the past two years overpayments deemed uncollectible have been referred to the Secretary, Department of Veterans Affairs, for write-off in accordance with the provisions of the Financial

Administration Act. I may say that where no pension is in payment but there is a possibility an avenue of recovery might occur within the foreseeable future, the accounts remain dormant. An index of such cases is maintained by the Chief Treasury Officer, Department of Veterans Affairs, for future action under section 23 of the Financial Administration Act. In a small number of cases where no pension is in payment outstanding overpayments have been refunded by the debtor voluntarily in a lump sum. In other similar cases overpayments are being refunded voluntarily by instalments commensurate with the income of the debtor, and in some cases of a deceased debtor claims have been filed against the estate if such action appeared justified.

INACTIVE LOANS AND INVESTMENTS

19. Reference was made in the Committee's report to the balances due in respect to loans made to Greece and Roumania in 1919 in order to facilitate the purchase of Canadian goods and with respect to which there were outstanding balances of $6,525,000 and $24,329,000, respectively. The Committee expressed the opinion that "the current status of these loans should be reviewed".

20. *Comment by the Auditor General*: The Deputy Minister of Finance advised me in his letter of January 16th that in the view of his Department the loans to Greece and Roumania are properly recorded on the Statement of Assets and Liabilities, and he pointed out that any action by Parliament to write them off would have the effect of indicating that the amounts were regarded as bad debts.

SHARE OF LOANS TO FISHERMEN

21. The Committee's report made reference to amounts representing Canada's share of the balance of loans made in 1953 to lobster fishermen, through the governments of Nova Scotia (121,978) and Prince Edward Island ($69,353), and noted that the Department of Fisheries' understanding is that "the governments concerned are of the opinion that the cost of further collection efforts would not be warranted by the results likely to be achieved", and the Committee went on to recommend that the government seek parliamentary authority to write off the balances owing.

22. *Comment by the Auditor General*: The Deputy Minister of Finance informed me in his letter of January 16th that Treasury Board officials are discussing this matter with the Department of Fisheries with a view to having an appropriate item included in Supplementary Estimates to provide parliamentary authority to write off the balances owing in respect of these loans.

SUPERANNUATION ACCOUNT

23. The Committee's report referred to the $139,000,000 which was included in the balance at the credit of the Superannuation Account at March 31, 1959, as a result of a bookkeeping entry made a number of years ago. The report stated that the Committee had noted that this bookkeeping entry had been made without parliamentary authority, and it expressed the opinion that "credits to the Account should be limited to amounts provided under the Public Service Superannuation Act or by parliamentary appropriations".

24. *Comment by the Auditor General.* In reply to my inquiry of December 8th, the Deputy Minister of Finance informed me on January 16th that the Deputy Attorney General was asked for an opinion "on the manner in which the Superannuation Account was presented in the Public Accounts, having regard to the comments of the Auditor General in his report for 1959 and the

report of the Committee on Public Accounts that was tabled in the House of Commons on July 20, 1960". A copy of this opinion was provided to me and is reproduced as an appendix hereto (Appendix A).

PERMANENT SERVICES PENSION ACCOUNT

25. The Committee's report took note of the fact that a bookkeeping entry similar to that made in relation to the Superannuation Account had been made during 1958-59 crediting the Permanent Services Pension Account with $326,300,000 and recording an offsetting charge to a "deficiency account" on the assets side of the Statement of Assets and Liabilities. The report likewise noted that the bookkeeping entry had been made without parliamentary authority and expressed it as the Committee's opinion that credits to the Permanent Services Pension Account should be limited to amounts provided under the Canadian Forces Superannuation Act or by parliamentary appropriations.

26. *Comment by the Auditor General*: In the Department's view, the opinion given by the Deputy Attorney General in the case of the Superannuation Account (Appendix A) applies equally to the Permanent Services Pension Account.

CROWN ASSETS DISPOSAL CORPORATION

27. In the course of its examination into the operations of this Crown corporation, the Committee required the tabling of a report dated December 11, 1959 prepared by the Management Services Division of Price Waterhouse & Co., Montreal, containing 57 recommendations designed to improve the efficiency of the Corporation and result in gross savings estimated to total $80,600.

Following its review of this report and its examination of officials of the Corporation, the Committee recommended "that since the report clearly disclosed areas where improvements could be made and savings effected, the President of the Corporation and the management consultants should meet with the Auditor General to determine the validity of the various recommendations and to implement those recommendations decided upon, without further reference to the management consultants retained unless absolutely necessary, and that the Auditor General report to the Committee next year on the results achieved".

The Committee also recommended "that consideration be given by the government as to whether the function of disposing of surplus Crown assets could be more efficiently performed by a division of the Department of Defence Production."

28. *Comment by the Auditor General*: In accordance with the recommendation of the Committee, I have held discussions with the President of the Corporation and with the management consultants for the purpose of determining the validity of the various recommendations set forth by the management consultants in their report of December 11, 1959. These discussions culminated in a meeting held in my office on November 24, 1960 attended by the President, other senior officials of the Corporation and representatives of the management consultants. As a result, 45 of the original recommendations were agreed to and have been adopted, one is under trial, one is no longer applicable and 10 were set aside as unsuited to the Corporation's purposes.

A copy of the memorandum in this connection submitted by Price Waterhouse & Co., on December 20, 1960, addressed to the President of the Corporation, is attached hereto (Appendix B). In this connection, Price Waterhouse & Co. point out that it would be extremely difficult without conducting

a searching investigation to place an estimate of the savings likely to be achieved on the greater part of the recommendations adopted. However, Schedule II to Appendix B attached does show that revised estimated savings in the light of the Corporation's experience to November 24, 1960 should aggregate $33,950.

I have no information regarding the results of any consideration that may have been given by the Government to the policy question of whether the disposal of surplus Crown assets could be more efficiently performed by a division of the Department.

THE CANADA COUNCIL

29. The Committee noted in its report that it had been informed that the profits and interest earned on the University Capital Grants Fund had not been allocated either to the provinces or to the universities. It expressed the view that decision should be reached on the question of this allocation without further delay and expressed satisfaction at being informed that the Council was giving consideration to the matter.

30. *Comment by the Auditor General*: The Canada Council is being guided by an opinion given by its counsel, Messrs. Beament, Fyfe, Ault & Hutton, which states:

> It is my opinion that Section 17(2)(b) [of the Canada Council Act] does not involve making at any time a division of this Fund between the several provinces. This Fund is at all times one Fund to be so administered.
>
> It is my opinion that there is no room for suggesting that calculations (for the purpose of determining increases in provincial limits) based on interest earned by the Fund or profits realized by the Fund should be made otherwise than on the basis of population as provided in the said Section 17(2)(b) which refers merely to 'amounts credited' to the Fund. From what I have already said it is also clear that the Council has no discretion in this matter.

Appendix A

DEPARTMENT OF JUSTICE

OTTAWA, December 30, 1960.

EAD:AS

190088

Re: Calculation of Public Service Superannuation Account and Permanent Services Pension Account

Dear Mr. Balls,

I understand that you wish to have my opinion on the manner in which the Superannuation Account is presented in the Public Accounts, having regard to the comments of the Auditor General in his report for 1959, and the report of the Standing Committee on Public Accounts tabled in the House of Commons on July 20th.

Sections 10, 11 and 12, et seq. of the Public Service Superannuation Act prescribe the payments to which persons who cease to be employed in the public service, and others, are entitled. There is no indication in the Act as to how the payments shall be made, except section 31, which provides that

payments shall be made out of the Superannuation Account. Having regard to the fact that the Superannuation Account was originally established as an account in the Consolidated Revenue Fund, and was continued by subsection (2) of section 3 of the Public Service Superannuation Act, I should think that section 31 must be construed as authorizing the payment of benefits under the Act out of the Consolidated Revenue Fund.

The Superannuation Account was not, I understand, established originally as a separate fund out of which benefits might be paid, but rather as an account designed to reflect the financial position of Canada in relation to the Civil Service Superannuation Act originally, and later the Public Service Superannuation Act. The amount of the benefit payable to any particular person is prescribed by the Superannuation Act itself and, as indicated above, the authority for paying such benefit out of the Consolidated Revenue Fund must be found in section 31. The total amounts payable and the limit of the amounts that may be paid out of the Consolidated Revenue Fund are therefore determined by the provisions of the Public Service Superannuation Act, rather than the Superannuation Account.

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.

Yours truly,

(Sgd.) E. A. Driedger.
Deputy Attorney General of Canada.

H. R. Balls, Esq.,
Comptroller of the Treasury,
Ottawa.

Appendix B

PRICE WATERHOUSE & CO.

Canada Cement Building,
Phillips Square,
Montreal 2.
December 20, 1960.

Louis Richard, Esq.,
President and General Manager,
Crown Assets Disposal Corporation,
Ottawa, Ontario.

Dear Mr. Richard:

We submit this memorandum on the report dated December 11, 1959 on our survey of the management organization and operating & administrative practices of Crown Assets, prepared as a result of our meeting with you in Ottawa on November 24, 1960 under the Chairmanship of the Auditor General of Canada, with a view to recording our understanding of the outcome of the discussions that took place at that time between you and your officers and our representatives.

It appears from the attached Summary of Disposition of Recommendations (Schedule I) 45 of the recommendations have met with approval, 1 (#34) is under trial, while 1 (#56) is no longer applicable because of changes now taking place in the office space occupied by Crown Assets. These 47 items therefore require no comment.

The remaining 10 items may conveniently be classified under Organization (#2, 3, 4 & 5), Xerography (19 & 22) and Accounting Methods (31, 32, 36 & 40). In considering them we recall to mind that until the meeting of November 24 took place we had not had the opportunity to discuss the details of our recommendations with the officers of the Corporation. From the discussions at the meeting on November 24 it appeared that these 10 remaining recommendations are likely to be determined by the Company as not suitable for its purposes.

In the light of the care and attention that has clearly been given by the Corporation to the 57 points that arose from our survey, we doubt whether the expenditure of further time and costs on consulting services to determine the feasibility of the remaining 10 items is warranted. However, as of course you know, our representatives are available for any further discussions that you may consider desirable.

In acordance with the suggestion of the Auditor General of Canada, we attach a statement (Schedule II) of estimated savings revised in the light of reports of the Company's experience to date in the implementation of our recommendations, showing a total of $33,950. This amount represents savings that can fairly be attached directly to certain of the accepted recommendations, the numbers of which are identified. Without conducting a searching investigation, we cannot establish with any degree of accuracy the savings which might be attributed to the remainder of the accepted recommendations, Nos. 1, 7 to 13 incl., 15 to 17 incl., 20, 23 to 25 incl., 27, 30, 33, 42, 45, 47 to 55 incl., and 57.

We take this opportunity to express our keen appreciation of the remarks you were pleased to make during the meeting on the benefits that have been gained by Crown Assets arising out of the survey.

Yours very truly,

(Sgd.) Price Waterhouse & Co.

Enc.

c.c. A. Maxwell Henderson, Esq., O.B.E., C.A.,
Auditor General of Canada

SCHEDULE I

CROWN ASSETS DISPOSAL CORPORATION

SUMMARY OF DISPOSITION OF RECOMMENDATIONS REPORTED BY THE CORPORATION AT A MEETING HELD ON NOVEMBER 24, 1960

Disposition	Total of Recommendations	Recommendation No.
Approved to Date	45	1, 6–18 incl., 20, 21, 23, 24–30 incl., 33, 35, 37–39 incl., 41–55 incl., 57
On Trial:		
(Processing of sales invoices)	1	34
Not Approved to Date	10	
Organization		
Eliminate supply division	—	2
Close Toronto office	—	3
Centralize admin. services	—	4, 5
Xerography application	—	19, 22
Accounting methods and procedures		
Receipts to customers	—	31
One-write system (partial implementation)	—	32
Replace bookkeeping machine by manual methods	—	36, 40
No Longer Applicable:		
(reallocation of office space)	1	56
Total Recommendations	57	

SCHEDULE II

CROWN ASSETS DISPOSAL CORPORATION

STATEMENT OF REVISED ESTIMATED SAVINGS IN THE LIGHT OF THE CORPORATION'S EXPERIENCE TO NOVEMBER 24, 1960

Recommendation No.	Subject	Estimated Savings
		$
6	Assistant Comptroller Personnel Officer	19,200
14, 18, 21 and 29	Commodity Sales Records	5,200
	Shipment Clearances	2,700
26, 28, 35, 37, 38, 39, 41, 43, 44 and 46	Accounting	6,850
		33,950

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Public Accounts (1960), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, MARCH 1, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General for Canada, and Mr. K. W. Taylor, Deputy Minister of Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24698-3—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark,
Beech,
Bell (*Carleton*),
Benidickson,
Bissonnette,
Bourbonnais,
Bourget,
Brassard (*Chicoutimi*),
Broome,
Bruchési,
Campeau,
Chown,
Coates,
Danforth,
Denis,
Deschatelets,
Drysdale,
Dupuis,
Fisher,
Grenier,
Hanbidge,
Hellyer,
Keays,
Lahaye,
Macdonnell,
McGee,
McGrath,
McGregor,
Martel,
Morissette,
Morton,
Nugent,
Pickersgill,
Pigeon,
Pratt,
Robichaud,
Rouleau,
Smith (*Simcoe North*),
Smith (*Winnipeg North*),
Spencer,
Stefanson,
Stewart,
Tucker,
Valade,
Villeneuve,
Winch,
Woolliams,
Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 1, 1961.
(3)

The Standing Committee on Public Accounts met at 9.34 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Bissonnette, Brassard (*Chicoutimi*), Broome, Campeau, Chown, Danforth, Drysdale, Hales, Keays, Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, Morissette, Morton, Pickersgill, Pigeon, Smith (*Simcoe North*), Spencer, Stefanson, Stewart, Tucker, Villeneuve, Winch and Wratten—28.

In attendance: Mr. A. M. Henderson, Auditor General for Canada; Mr. I. Stevenson, Assistant Auditor General; and Messrs. B. A. Millar, G. R. Long and A. B. Stokes; Mr. K. W. Taylor, Deputy Minister of Finance; Mr. J. A. MacDonald, Assistant Secretary, Treasury Board; Mr. H. W. Johnson, Director, Account Inc. Services, Comptroller of the Treasury; and Mr. Carl Allen, Director, Estimates Section, Treasury Board.

Agreed,—That meetings be tentatively scheduled for March 8th, 15th and 22nd and April 12th, witnesses from Polymer Corporation Limited to be heard on the latter date.

On motion of Mr. Spencer, seconded by Mr. Stewart,

Resolved,—That the Chairman appoint a Sub-Committee comprised of 7 Members to confer with officers of the Department of Finance and the Auditor General for Canada to review the form and contents of Public Accounts.

The Chairman announced that the following Members will comprise the Sub-Committee: Messrs. Deschatelets, Macdonnell (*Greenwood*), Robichaud, Smith (*Simcoe North*), Spencer, Stewart and Winch,—Mr. Spencer to serve as Chairman.

Mr. Taylor answered questions asked at a previous meeting of the Committee, and was further questioned.

A bound copy entitled "Public Accounts of Canada—Part 1, Survey and Financial Statements", containing a general summary of Public Accounts, was tabled and Messrs. Taylor, Henderson and Johnson further questioned.

The Committee considered, paragraph by paragraph, the "Follow-up Report" of the Auditor General, and questioned Messrs. Henderson, MacDonald and Stevenson.

The Chairman was instructed to consult with the Deputy Postmaster General on second-class mail and with the President of Crown Assets Corporation and with the Deputy Minister of the Department of Defence Production, with reference to the acquisition and disposal of certain fabric for use in the manufacture of Army uniforms.

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The Committee commenced a study of the "Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1960" and Mr. Henderson was further questioned.

At 10.55 a.m. the Committee adjourned to meet again at 9.30 a.m., Wednesday, March 8, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, March 1, 1961.
9.30 a.m.

The CHAIRMAN: The meeting will come to order now that we have a quorum. We were discussing among ourselves this morning dates for forthcoming meetings, trying to program the work of the committee. According to the calendar, we should meet on March 1st, 8th, 15th and 22nd and, assuming the Easter recess is March 29th to April 10th—I do not know that, but assuming it to be so—our next meetings would then be on April 12th, 19th and so on.

If we could get through the follow-up report and the Auditor General's report by the Easter recess, it might even be possible to issue an interim report on that section of our work. That would be an innovation which might relieve us from a lot of work at the end of the committee's sittings. Also, in order to assist Polymer Corporation, which is No. 1 on our list, we can give them a tentative date, about April 12th, to appear before us, do you think that would meet with the pleasure of the committee?

Mr. CHOWN: Agreed.

The CHAIRMAN: This is just a hope at the moment, but we may well be able to do it. Is Mr. Pigeon here?

Mr. PIGEON: Yes.

The CHAIRMAN: We have asked Mr. N. F. W. Gates, of the interpretation branch, to be here.

Mr. PIGEON: Thank you very much.

The CHAIRMAN: And if there is anything you want interpreted, let me know.

Mr. PIGEON: Yes, and I shall advise you of the occasions when I do not expect to be here.

The CHAIRMAN: That would be a help.

At the last meeting we had a motion from Mr. Spencer, which we delayed until today. Is Mr. Spencer here?

Mr. SPENCER: Yes.

The CHAIRMAN: Your motion was not put to the committee, and I think now would be a good time to do it. Is the wording of the motion satisfactory in its present form, Mr. Spencer?

Mr. SPENCER: I understand it has been suggested that, in addition to this subcommittee meeting with the Auditor General, they also meet with the representatives of the Department of Finance. If that is desirable, then I have no objection to amending my motion so as to include it. However, Mr. Chairman, may I say that if there is any serious objection to a study being made of these accounts, with a view to reducing their bulk, then I think now is the time for that objection to be expressed because, if the subcommittee takes up the matter, it will involve a lot of work, and it would not be the wish of myself or anyone else in this committee that members should spend a lot of time going over these accounts if, in the final analysis, there is going to be objection to a reduction in the size of the accounts. I also believe that the approach to this matter should be strictly non-partisan and, if there is

a sincere desire to accomplish this, I think a subcommittee can accomplish it and bring in a report which would meet with the approval of the committee as a whole.

Mr. WINCH: I think the proposal made by Mr. Spencer at the last meeting was an excellent one. This is a job that has to be undertaken and, if it is going to be undertaken by a small committee which will report back to the general committee, then I do not think we should worry too much at the moment as to whether or not anyone outside ourselves wants this study made. It is our responsibility to decide what studies should be made and, when we bring in our recommendations, then it is up to the departments concerned whether or not they agree with them.

Mr. SMITH (*Simcoe North*): From Mr. Spencer's statements I gather his motion stipulates that the subcommittee's terms of reference are to study the possibility of reducing the size of the public accounts. In my opinion, Mr. Chairman, that is rather tying the hands of the subcommittee before they start work. If we are going to meet only for the purpose of reducing the size of the accounts, then I do not think we can say at present that the general committee, or the House, will support our recommendations. However, if the committee are going to meet for the purpose of studying the public accounts with a view to bringing in a wider report, that might make their work more intelligible. I do not think the subcommittee should meet only for the purpose of bringing in a report which would state that the public accounts should be "x" number of pages. That is limiting the objectives of the subcommittee.

Mr. R. A. BELL (*Parliamentary Secretary to the Minister of Finance*): I suggest we might defer discussion on this until there are representatives present from the official opposition. I think it would be unfortunate to pass such a motion with no representative of the official opposition present. Of course, I exclude the chairman of the committee, who is completely impartial.

Mr. WINCH: The effective opposition is here.

The CHAIRMAN: This rather puts me on the spot, but I can say without hesitation that I think the official opposition, so-called, would go along with the motion. Though it is not really my province, I was about to suggest that the wording of Mr. Spencer's motion might be slightly improved.

Mr. WINCH: Do you not want to have those words "so-called" struck from the report?

The CHAIRMAN: Yes, by all means. I was going to suggest that the motion should read that a subcommittee, comprised of seven members, confer with the Department of Finance—because, after all, that is the basic department—and the Auditor General, and consider whether any recommendations should be made with regard to specific items and details that might usefully be eliminated from the public accounts. Would that cover the situation?

Mr. SMITH (*Simcoe North*): To get back to my original point, are we only going to deal with the elimination of items, or are we going to be able to discuss with the Department of Finance a possible improved format of the accounts, which might reduce the number of pages, or might lead to the possibility of their being presented, in two volumes? If the subcommittee are only going to deal with the elimination of accounts, then I think their terms of reference are much too narrow, and I do not think we could serve any useful purpose as a subcommittee.

The CHAIRMAN: Would you care to draft a motion, Mr. Spencer?

Mr. SPENCER: I would go along with that, Mr. Chairman. Certainly it was my intention or desire that the accounts be more intelligible, if it were possible to make them so. It may be that in recording my motion it was expressed in

a particular form; but I think the subcommittee should have pretty wide power, and that it should not be restricted in its inquiry by this motion. I would certainly concur in any suggestion to broaden it as to the format, or as to the form and content of the accounts.

The CHAIRMAN: You have all heard the motion. Those in favour will please signify? Those against?

Mr. MCGEE: The newly arrived member of the committee may have a question to ask.

Mr. PICKERSGILL: Mr. Chairman, I was just going to ask you what the motion was.

The CHAIRMAN: It is on page 7 of the evidence. Slightly elaborated, it is a motion to set up a subcommittee for the purpose of considering the form, in consultation with the Department of Finance.

Mr. PICKERSGILL: The form of what?

The CHAIRMAN: The form of the public accounts.

Mr. DRYSDALE: Form and content.

The CHAIRMAN: Yes, form and content. All those in favour? Contrary? I declare the motion carried.

I am very glad to suggest to you now that the chairman of that subcommittee be Mr. Spencer, assisted by Mr. Macdonnell (*Greenwood*), Mr. Stewart, Mr. Smith (*Simcoe North*), Mr. Deschatelets, Mr. Robichaud, and Mr. Winch.

Would that meet with the pleasure of the committee?

Agreed.

Mr. Balls was supposed to be here this morning. I spoke to him yesterday afternoon, when I learned he had an important meeting with Mr. Lesage, the Premier of Quebec, for this afternoon. Because the meeting was so important we suggested that he keep his reservation on the plane, on the condition, however, that he cooperate fully with this subcommittee. He said that he intended to cooperate, and that he would be very happy to assist in any possible way.

Mr. Henderson, the Auditor General, I presume would also cooperate?

Mr. A. M. HENDERSON (*Auditor General For Canada*): I shall be very pleased to cooperate, Mr. Chairman.

The CHAIRMAN: We had a few questions unanswered at our last meeting. Mr. Chown was asking about the mechanics of preparing the public accounts. I wonder if there is someone here prepared to answer that question now?

Mr. K. W. TAYLOR (*Deputy Minister of Finance*): Mr. Chairman, I have the answers to all the questions which were raised.

One question asked was as to the amount of work involved in the preparation of the public accounts. Mr. Balls has handed me a statement giving the estimated man hours involved in the preparation of the public accounts, excluding the cost of printing, which I have separately.

The total estimated figure in man hours, for compilation, typing, editing, proofreading and translation adds up to about 34,000 man hours, or roughly 17 man years. And the cost is estimated at about $93,500.

The cost of printing of the 1960 public accounts was slightly over $62,000.

Another question which was asked, sir, was as to the sales of the public accounts. We are informed by the Queen's Printer that the total sales of the 1958-59 accounts—we do not have the final figure of sales for 1959-60—were 816 copies in English, of a total value of $4,080, and 62 copies of the French edition, with a total value of $310. That includes sales both to the public as well as to government departments.

Mr. DRYSDALE: Do they both pay the same price?

Mr. TAYLOR: I believe so. The printing bureau does not maintain the detailed distribution of sales as between government departments and the general public, but it is estimated that about 25 per cent of the sales were made to the general public, and about 75 per cent to government departments.

I was also asked what was the total number of pages in the public accounts. The pages add up to 1,309, of which 94 pages consist of the general summary; then there are 71 pages of general tables, most of which are required by statute. In addition there are 17 pages of index, while 148 pages cover the balance sheets, revenue and expenditure statements, and Auditor General's certificates of the 30 crown companies. Then there are the 35 government departments and agencies, which cover 979 pages. That is an average of 28 pages per department although it varies from as low as 3 pages for the Auditor General, and three pages for the Board of Broadcast Governors, up to 128 pages for the Department of Transport, 120 pages for the Department of Public Works, and 92 pages for the Department of National Defence.

I made one slight error in my evidence last week. I find that the comptroller's office does bind separately the general summary each year, largely for the convenience of government departments. I have brought with me half a dozen copies, 5 in English and 1 in French, of the general summary, including the statutory tables, which add up to about 140 pages. These are not widely distributed, but they are made available upon request. This year, so far, we have bound 144 copies in English and 5 copies in French, although more could be bound if there were a clear indication that they were wanted.

Mr. DRYSDALE: May I ask a question in clarification. When the evidence was given as to the number of copies you said that 816 copies in English cost $4,080. How is that price broken down? I understood the price was $15 a set.

Mr. TAYLOR: It was $5. The Queen's Printer raised the price this year to $15.

Mr. DRYSDALE: Has the size increased?

Mr. TAYLOR: The price has been far below cost. Even at $15 it does not balance the total cost.

Mr. HALES: Did Mr. Taylor tell us the total number printed. We have the number sold.

Mr. TAYLOR: Last week I gave the figure for 1959-60. I can repeat it. There were 1,981 in English and 224 in French, or a total of 2,205.

Mr. HALES: I was thinking of the number not collected for. The difference between that and the 878 which were sold is about 1,300 which are handed out and not collected for.

Mr. TAYLOR: I have here the sales to date for the 1959-60 volume. Perhaps I might give that. Of this year's accounts, 486 copies including English and French were distributed and used by the comptroller's office. As you know, the comptroller has treasury officers in every government spending department, not only in Ottawa but all across the country. Each of the principal treasury officers has a copy. There were 225 copies, of which 25 are French, distributed free of charge, I think mostly to libraries across the country. Then, 969 are held for sale and 525 were distributed to Members of Parliament and Senators.

Mr. CHOWN: Could you tell us how many volumes of the 1958-59 are unsold or undistributed at this time?

Mr. TAYLOR: You would have to ask the Queen's Printer for that, sir.

Mr. CHOWN: May I ask if the cost of printing the summary which was tabled this morning is included in the figure of $62,000 which was the cost of the larger volume.

Mr. TAYLOR: The cost of printing is included in the cost of printing the entire volume. The cost of separating and binding the 149 copies which have been bound so far is $394.26. That was the bill from the Queen's Printer for separating and binding these copies.

Mr. CHOWN: Might I ask a supplementary question. In your view is it possible to ascertain the number of persons who are directly involved in the preparation of these public accounts? You gave us the man-hours involved, but I would like to know the number of persons directly involved in the preparation of these accounts on a full-time basis.

Mr. TAYLOR: I will ask Mr. Johnson for the details.

Mr. WALTER JOHNSON (*Director of Accounting Services, Comptroller of the Treasury*): There is no one involved on a full-time basis.

Mr. TAYLOR: This is a peak-load operation.

Mr. CHOWN: It is distributed right through the service.

Mr. TAYLOR: It is practically all done in the comptroller's office.

Mr. PIGEON (*Interpretation*): Are these volumes at a price of $15 sold at cost price, or does the Printing Bureau make a profit to balance the loss on the sale of certain volumes?

Mr. JOHNSON: No.

Mr. PIGEON (*Interpretation*): I think the English language volumes are printed first and the French afterwards. What is the delay in printing in respect of the French?

Mr. JOHNSON: There was a two-week delay last year. A few years ago it was about seven months.

Mr. PIGEON: I offer my congratulations.

Mr. JOHNSON: The translation takes a while and the indexing is a problem.

Mr. PIGEON: You probably have less sales in French than in English.

Mr. JOHNSON: Very much so.

Mr. MACDONNELL: May I go back to the subject of the functioning of this committee. Something has just occurred to me. Presumably the Glassco Commission will be considering this in the course of its work. I am wondering if we are not going to be a fifth wheel if we do the same work the Glassco Commission is doing, presumably with very well qualified and organized assistance. Suppose the Glassco Commission comes in with a suggestion for a drastic change in the method of organizing the public accounts, where do we stand?

Mr. WINCH: Since when did you have an inferiority complex, Mr. Macdonnell?

Mr. MACDONNELL: Always, since I have been here with the C.C.F.

The CHAIRMAN: The Glassco Commission may not be reporting for several months and we expect to be reporting in a few weeks.

Mr. TAYLOR: The Glassco Commission undoubtedly will be working in this field, but I would suppose that the focus of interest will differ somewhat between the Glassco Commission and a subcommittee of this committee.

Mr. MACDONNELL: Is there any reason why we should not work in conjunction with them and find out what they are doing?

Mr. HENDERSON: In a discussion I have had with senior officials of the Commission I raised the very question you did. They say that they will be following the work of this committee with considerable interest and if anything this committee does will save them work, so much the better.

Mr. PICKERSGILL: I would like to raise a point in respect of Mr. Macdonnell's inquiry. The Glassco Commission is set up to consider the operations of the government and surely the public accounts are the accounts submitted by the Government to Parliament. To have a Commission set up by the government to interfere with the relations between the Government and Parliament would be a very dubious situation indeed. It is peculiarly the function of this committee to consider the public accounts and I think it would be a waste of the energy of that commission to bother itself very much about this. This is really the accounting to Parliament and not part of the operations of the Government.

The CHAIRMAN: Mr. Taylor, were there any other answers you wanted to give?

Mr. TAYLOR: Although I think I have covered all the questions, sir, I might make one other general comment.

The form and content of the public accounts has been modified from time to time over recent years, and I certainly believe that the form and the content still could be further improved. I believe, as one of the members of the committee remarked, that it might result in the expansion of some sections, and in the contraction of other sections. We have modified over the years Part I of the report, which is the general summary, and have tried to improve its clarity and usefulness as a general summary.

If I may make one further comment, the United Kingdom public accounts differ very considerably from ours in their form, and in other ways. However, they publish in separate volumes a great deal of detail. For example, I have here some of their departmental or sectional reports, and I would just like to point out that if you bound all these together in one volume they would be a pretty fair size.

The CHAIRMAN: Gentlemen, we were considering certain paragraphs in the follow-up memorandum.

Mr. FISHER: If I may ask one last question, Mr. Chairman.

The CHAIRMAN: Proceed.

Mr. FISHER: I would like the committee, when they are dealing with this, to look into the matter of the cost of answering parliamentary questions. I raise this matter because I think it is related. I basically do not care what is cut out of public accounts as long as I, as a Member of Parliament, can get that information by putting a demand on the order paper. However, this raises the question that if a great deal of information sought by the Members of Parliament is going to be cut out we may be chucking out one cost and creating another. I wonder if the committee would look at that particular aspect of the matter and bring forth some ideas in that connection. Perhaps they could secure some random examples of what it costs to collate the kind of information in public accounts for an M.P.'s question, or question on the order paper.

Mr. BEECH: Mr. Chairman, would the committee go into the question of the possible duplication? I ask this question because we get a lot of these reports and we find the same information in these reports as in public accounts. I wonder if that is necessary.

Mr. HENDERSON: Mr. Beech, if I may offer an observation on that, I would suggest that the principal duplication consists of the reproduction—in the particular annual report which you have there which I think is the Canada Council one—of its financial statement, with my certificate?

Mr. BEECH: Yes.

Mr. HENDERSON: The remainder of the report is an account of the operations of the Council, their work and accomplishments during the year. As such, I imagine it is of widespread interest to a vast body of people.

Under the act, the Canada Council is required to table an annual report in Parliament in the same way as the crown corporations are required to do. Of course, the accounts of the crown corporations are reproduced in Part II of the public accounts, and you will find them all together there. That is the only actual duplication.

Mr. BEECH: Is this true of all crown corporations?

Mr. HENDERSON: Yes. The bulk of their report consists of an account of their actual operations during the year, and they complete it by putting in their financial statements. However, I would not think that too serious an element of duplication.

The CHAIRMAN: Gentlemen, could we proceed with this follow-up report. Mr. Taylor, I am showing you a list of items to ensure there is nothing further you want to add.

Mr. TAYLOR: There are two or three of these items about which you may wish, at a later stage, to have more detailed information, either before the full committee or the subcommittee. I think I am right in saying that we have nothing further to add at the present time.

The CHAIRMAN: Would you like to be released at this time?

Mr. TAYLOR: Well, if I may be excused, I would be glad to get back to a different kind of work.

The CHAIRMAN: You mean the lowering of taxes?

Gentlemen, are there any other questions you wish to ask of Mr. Taylor and his associates at this time? If not, I would like to take this opportunity of thanking you very much, Mr. Taylor. I hope to see you again.

We have dealt, in effect, with paragraph number 3 of the follow-up report of the Auditor General. I presume you have a copy in front of you.

Could we proceed now to paragraph 5, second class mail? You will recall that for two or three years the committee was very disturbed at the increasing amount of second class mail. Of course, the matter is receiving at the present time close study by a Royal Commission, and the Auditor General makes a report to that effect.

Mr. FISHER: Could I ask a question?

The CHAIRMAN: Yes.

Mr. FISHER: In what way is the Royal Commission dealing with this particular problem? I ask this question because in following the hearings and the evidence of the Royal Commission it does not appear clear to me that the Commission is accepting the responsibility of making a definite recommendation in regard to second class mail, except in so far as it may give American publications an advantage.

Mr. HENDERSON: Mr. Fisher, I cannot answer your question specifically. Of course, my reference here is a quotation from the Deputy Postmaster General's letter in which he makes that suggestion. I think Mr. Taylor made a similar reference to this at the last meeting, and suggested that possibly an outcome of the Royal Commission's work could have some bearing on this postal problem.

Mr. WINCH: Could I ask whether an inquiry could be made of the Commision as to whether or not they are going into the phases which are of interest to this committee?

Mr. FISHER: I have looked into it and I cannot see any authority in their terms of reference to make recommendations. Although I am not legally trained, it seems to me they are considering the position of Canadian publications vis-a-vis the American publications. A number of persons who made submissions before the Commission brought in this question of mail, and certainly second class mail. I do not think that Commission is set up to give an outright recommendation in connection with the recovery of more of the cost of this service. I say it would be very improper if it did. That is why I would like to have a definition from the commission of just what they are going to cover, not the recommendations, but what they see their responsibilities will be.

Mr. SMITH (*Simcoe North*): It seems to me it might have been the Deputy Postmaster General, who later might not have had as clear an understanding of the purpose of the Royal Commission as he ought to have had, because anything that the commission can recommend that would affect second class mail surely would be only incidental to the main purpose. It might be that we should ask the Postmaster General for clarifications of his explanation, which does not seem to be as full as it ought to have been, rather than ask the Commission to say what I think we should ask the Postmaster General, who is a person with whom we have communicated, to explain what he means by that reference in his letter.

Mr. FISHER: For the information of the committee, you might be interested in this. In the estimates last year I kept chivying Mr. Hamilton for more information on this so-called clause and he said that he would provide me with some information, which he did. I got a very long letter analyzing some of the factors in the cost and where the expense lay, an estimate of how to handle various pieces, and so on. I provided this information to the Toronto *Star* which was interested in it and was presenting a brief to the Royal Commission. I want to pinpoint this. The particular evidence they brought forward in connection with mail costs was dismissed very cavalierly by the head of the Royal Commission. I have forgotten the exact words, but it was in effect: we are not particularly interested in that; that is not connected with the problem we are dealing with. That is why we need to know more.

The CHAIRMAN: What is your suggestion?

Mr. FISHER: Mr. Winch suggested we get clarification from the Royal Commission as to just what kind of responsibility they feel they have in this matter.

The CHAIRMAN: From the Royal Commission or from the Deputy Minister?

Mr. FISHER: From the Royal Commission.

Mr. SMITH (*Simcoe North*): Have we any powers to question what a Royal Commission should do? Can we go to the Commissioner and say: let us have a ruling on this particular thing? The only way we can do it is to go back to the Postmaster General and say: we feel this letter is not as clear as it might have been.

Mr. WINCH: I think out of courtesy the Commission would let us know.

Mr. SMITH (*Simcoe North*): It is a matter of propriety rather than courtesy.

The CHAIRMAN: To solve the issue we can ask the Deputy Minister of the Post Office Department if he would care to come, and we could address a letter to the Commission.

Mr. SMITH (*Simcoe North*): We might wait until we heard from the Deputy Minister.

The CHAIRMAN: Would that be suitable?

Mr. WINCH: If we get action it is always suitable.

The CHAIRMAN: Paragraph 7: treatment of receipts for services rendered.

Mr. BELL (*Carleton*): That is one which we might defer to a later meeting. This is an important one in which Mr. Pickersgill has taken an interest. As Mr. Taylor indicated at the last meeting, it is under active study. The Secretary of the Treasury Board has been doing a great deal of work, as has the Assistant Secretary, Mr. MacDonald, who is here. There will be an opportunity, I think a little later, to give a pretty detailed presentation to the committee on this subject.

Mr. J. A. MACDONALD (*Assistant Secretary to the Treasury Board*): We would prefer to put a reply in the context which bears on this, rather than try to take that particular point, if the committee will agree to it.

Mr. PICKERSGILL: Mr. Chairman, I entirely concur in doing this. We want the considered view. I do not think there is any use in having a half-baked examination.

Mr. HENDERSON: Would there be any way in which I could be kept informed of the progress of the department on this? It has a bearing on a number of things, including discussions that will take place in this committee and in its sub-committee on the format of the public accounts.

The CHAIRMAN: Mr. MacDonald, could you cooperate?

Mr. MACDONALD: We fully intend to. Our present state at the moment is that we have been working as officials and we have not been able to put some of these things before our Minister. We also wish to have the opinion of the Countroller of the Treasury and the Auditor General.

Mr. WINCH: Could we ask for a more detailed explanation of this? I find this rather confusing and fail to understand what the Auditor General refers to as "quibble", why the situtation has been allowed to continue and has not been brought to a conclusion.

Mr. HENDERSON: I do not follow your point.

Mr. WINCH: That the matter be brought to a conclusion on this matter of the payment of tax.

The CHAIRMAN: You are speaking of No. 9?

Mr. WINCH: The chairman called No. 9. I was not jumping the gun.

Mr. MORTON: You were ahead of our thinking.

Mr. HENDERSON: The word "quibble" was the committee's own language in its 1960 report. As you see from what the Deputy Minister of Defence Production said, the matter has not yet been straightened out and I propose to keep in touch, and to follow this up. But these things could be expected to take some time.

Mr. WINCH: But you have no further information since that which you received on December 8?

Mr. MACDONALD: We have some additional information from the Department which suggests that there have been some rebates; but there will be an amount of the tax which will not be relieved, possibly running to some $52,000.

Mr. WINCH: Basically that is what I was going to try to come to. Now, we have the reason as to why they say that $52,000 will not be recoverable.

Mr. MACDONALD: It appears to be based on a legal technically which was not foreseen at the time the contract was entered into, and as a consequence of which the Department has now altered their practice. It ought not to recur. There was a question of progress payments and the transfer of title. I am not an expert on that particular aspect.

Mr. WINCH: That is where it shows the value of this committee. They have now made a change, so it cannot happen again.

The CHAIRMAN: Is there anything else on paragraphs 9 and 10?

Mr. WINCH: And the Auditor General.

The CHAIRMAN: If not, let us go to paragraph 11: National Defence surplus cloth inventories.

Mr. HENDERSON: As near as I can advise on that one, Mr. Chairman, Crown Assets Disposal Corporation is following this matter up along what I understand to be the expected line.

Mr. HALES: Mr. Chairman, maybe we could have the officials of Crown Assets report to us?

The CHAIRMAN: Is that the wish of the committee?

Agreed.

The CHAIRMAN: We should have done that for this committee, but I did not anticipate that we would make such progress.

Mr. MACDONALD: I do have some information. When the Treasury Board agreed to the disposal of this material, they directed Crown Assets to explore the means of disposal in such a manner as to minimize the domestic impact. Since that time, Crown Assets have called for bids to see what could be accomplished in the way of commercial sales and exports. I understand the first responses have not been satisfactory and they are going to try again on a different basis.

Mr. MACDONNELL: How did such an expense arise?

Mr. MACDONALD: It arose through the necessity, as felt at that time by the Department of Defence Production, to secure materials which the forces would require and which might later be in short supply. I do not have the dates that would apply to those transactions.

Mr. WINCH: That was in the Korean war.

Mr. MACDONALD: It was apprehended at that time that there would be a shortage, and the practice followed was to buy the cloth and then commission the making of uniforms and other requirements at a later date. In the event it was apparent they had overbought, or requirements for the end products were less.

Mr. PIGEON: I think it is very important to hear officers of this Department, because I heard something about this purchase and I think there might be something there that would surprise the committee.

The CHAIRMAN: We can have the witnesses at the next meeting on that particular subject.

Mr. FISHER: May I ask, does he mean witnesses from Crown Assets or witnesses from Defence Production?

Mr. WINCH: If it is purchased it comes under Defence Production and, if it is disposal it comes under Crown Assets disposal?

Mr. PIGEON: Can we have an officer from both departments?

The CHAIRMAN: That would be possible.

Mr. MACDONALD: Yes, if it is a question of the purchase it comes under Defence Production, and if it is disposal, it comes under Crown Assets.

Mr. BELL (*Carleton*): We have this now, that there are only two ways.

Mr. WINCH: I think Mr. Pigeon will find the amounts, if he goes over the transcript of the evidence given to the special committee last year. We spent a considerable time on this.

Mr. PIGEON: (*Interpretation*) The reason I ask is because these thousands of yards of cloth were bought on the understanding that they were made of wool and, after purchase, sampling showed that a considerable proportion was made of cotton.

The CHAIRMAN: Now that we have your statement, I am sure we will have a witness to answer it at the next meeting.

We shall now deal with paragraph 13—interest on temporary investment of university grants funds.

Mr. HENDERSON: Mr. Taylor dealt with this in his remarks at the last meeting, and I do not think there is anything further I can add.

The CHAIRMAN: We shall go on to paragraph 15—recoverable outlays on Canso causeway.

Mr. PICKERSGILL: Was there not something in the Press about this the other day?

Mr. HENDERSON: About the payment?

Mr. PICKERSGILL: From random reading of the newspapers, I recall that there was some item dealing with this last week.

Mr. HENDERSON: That was a news item, stemming from the tabling of this report at the committee's last meeting.

The CHAIRMAN: It stated that Nova Scotia paid approximately $4,900,000.

Mr. WINCH: Here again we have a statement made to the effect that on contracts and agreements there is the question of legal interpretation. Over the years we have found this continually arising, and I wish to ask, has the Auditor General taken any action or made any suggestion that more care be taken to make explicit and implicit in the wording of contracts just what they mean, so that we shall not be running into this problem all the time?

Mr. HENDERSON: I can appreciate that problem, Mr. Winch. In the past year we ran into several cases which my predecessor had mentioned as containing a number of ambiguities, and had asked that they be straightened out early in the game. They were not, and the result is that there have been mistakes and delays developing. Instances of this are referred to in my 1960 report. I would very much hope that when some of these larger contracts are being written—contracts involving accounting work and auditing—I might be given an opportunity to comment on the wording of them at the time they are being drafted, in order that I might not be placed in the position of being critical afterwards. It would make our work much easier, and I think it would lessen the cost in many instances. That is the practice which is followed to a large extent in commercial business.

Mr. WINCH: Can the Auditor General tell us whether or not the wording of contracts of this, or a similar nature, are handled strictly by the legal adviser of the department concerned, or is it referred to the Department of Justice for review?

Mr. HENDERSON: I should like to ask Mr. Stevenson if he can reply to that.

Mr. I. STEVENSON (*Assistant Auditor General*): My understanding is that in each case it would be the legal adviser in the department concerned. Occasionally, of course, if difficulty in interpretation arises in the subsequent auditing, the Auditor General would suggest to the department that they seek an opinion from the Department of Justice; but, in the first instance, it would be the concern of the legal adviser in the department itself.

Mr. WINCH: So that the Department of Justice would only come into the picture when the department concerned has got into trouble with interpretation, after a contract has been set, and it is trying to get its money?

Mr. STEVENSON: That is so. It would only be after a request was made from the department concerned.

Mr. MACDONALD: However, I might add that in our system the legal officer in the department normally is an officer of the Department of Justice and, when he runs into difficulty, he has recourse to his superior officers in the Department of Justice.

Mr. SMITH (*Simcoe North*): Are not these contracts reviewed by the Board before they are approved?

Mr. MACDONALD: They are either approved by the board, or Council, but in terms of content and financial expenditure rather than in terms of law.

Mr. PICKERSGILL: Are they not reviewed by the solicitor of the treasury?

Mr. MACDONALD: Not unless some legal issue had arisen would they come to his attention.

The CHAIRMAN: On paragraphs 17 and 18—recovery of debts due to the crown by diversion of part of pension—has the Auditor General any comment to make here?

Mr. HENDERSON: I do not believe I have any comments to make on these, Mr. Chairman. Actually, there is a letter quoted in full from the chairman of the Canadian pension commission in my follow-up report.

The CHAIRMAN: You mean subsections (*a*), (*b*) and (*c*) of paragraph 18?

Mr. MACDONNELL: In paragraph 17 I find it rather difficult to reconcile the statement, "it is inconsistent to recover debts from these pension payments," with what is suggested later on, namely, "the effort to recover might properly be limited to the earned income and the assets of the debtor." What other sources would there be?

Mr. HENDERSON: That was the committee's own recommendation, I think.

Mr. PICKERSGILL: Why did you make that recommendation last year?

Mr. MACDONNELL: I was away from the committee last year.

Mr. PICKERSGILL: So was I.

Mr. WINCH: May I ask the Auditor General if he is pursuing his brief recommendation that over-payments should be recovered under the terms of the Financial Administration Act?

Mr. HENDERSON: The Chairman of the Canadian Pension Commission has indicated that he is doing it, and we are seeking to follow up that recommendation.

The CHAIRMAN: If there are no other questions, we shall go on to deal with paragraphs 19 and 20—inactive loans and investments.

Mr. HENDERSON: Mr. Taylor spoke at some length on the question of these inactive loans at the last meeting of the committee.

The CHAIRMAN: Paragraphs 21 and 22.

Mr. BELL (*Carleton*): We have to wait and see, do we not?

The CHAIRMAN: Yes we do.

Mr. PICKERSGILL: There is no item in the main estimates.

The CHAIRMAN: Paragraphs 23 and 24, Superannuation Account.

Mr. HENDERSON: Paragraphs 25 and 26 are similar in principle to paragraphs 23 and 24.

The CHAIRMAN: Are there any questions?

Mr. HENDERSON: I would like to mention that when we come to consider my 1960 report, I deal with the subject matter of paragraphs 23, 24, 25 and 26 at some length, beginning at page 49.

The CHAIRMAN: Paragraphs 27 and 28, Crown Assets Disposal Corporation.

Mr. WINCH: Is there anything further to be added to that? I think we went into it at some length before. I do not feel too happy about the situation as it is now reported to us.

Mr. HENDERSON: Why do you not feel happy? We have not saved as much money as you hoped we would, but we have saved $34,000.

Mr. WINCH: We anticipated it would be a bit more than that; and also, if I remember correctly, we were very interested as to whether or not it could be handled in a different manner. I notice you say that you have no idea as to any consideration that may have been given by the government to the policy question of whether the disposal of surplus crown assets could be more efficiently performed.

Mr. HENDERSON: Well, that is a matter of government policy. I would like to suggest that, if you wish to pursue it, you raise the matter perhaps on the occasion of calling representatives from the Department of Defence Production on the surplus cloth which we discussed, and that you might care to take that occasion to ask them about this matter. It was discussed informally with both the management consultants and corporation officials when I took occasion during those meetings to discuss it. But since the department viewed it as a matter of policy, naturally they had no formal statement to make.

The CHAIRMAN: In brief, referring to appendix B, it gives the factual details, and it was estimated that savings of $80,000 would be made, while in fact we have made savings of $33,950. Is that not right?

Mr. HENDERSON: That is the outcome. It was necessary to discuss the 57 recommendations made in the report the committee considered. I discussed these points with the management consultants, and with the corporation. These meetings culminated in a final meeting on November 24, and which I mentioned. As a result, it was found that of the 57 recommendations, 10 were actually unsuited to the corporation's procedures. They were not practical ones. Therefore this had the effect of reducing the savings of $80,000 odd to the revised figures which Price Waterhouse have given in the schedule to their report.

I might mention that Price Waterhouse did not have an opportunity in their arrangement with the Crown Assets Disposal Corporation to go over their report in final form after they had put it together. I think they mentioned that in their letter of December 20. This was due to the fact that Mr. Richard was unfortunately taken ill, as some members may recall, in December 1959 and January 1960. Accordingly, in order to be as constructive as possible, they allowed the report to go forward without the benefit of all the discussion they would like to have had with all the various senior men. So to that extent they were at a disadvantage in supporting all their statements. It is usual in this type of work to prove your recommendations with the management before you issue your report.

Mr. WINCH: I wonder if the Auditor General would keep a close eye on it. I am not very happy about the operation of that crown corporation.

The CHAIRMAN: Was any extra fee payable to Price Waterhouse for this extra consultation work which was done after the submission of their report?

Mr. HENDERSON: To the best of my knowledge Price Waterhouse devoted quite a bit of time, as a result of the committee's recommendation, in going into this matter and in discussing it with me. But I understand that they do not propose to submit any further billing to the corporation.

Mr. MCGEE: I wonder what the end result of this has been. This $34,000 is estimated as an annual saving is it not?

Mr. HENDERSON: Yes. They do not describe it as an annual saving. At the moment it is looked upon as a one-time saving; but if you do not have the people on the payroll the saving can be said to be annual.

Last summer the corporation had the misfortune to lose two or three of its executives due to illness. At the same time several retired, with the result that Mr. Richard has substantially new management with him at the moment.

Mr. MCGEE: Was this not anticipated in the report?

Mr. HENDERSON: Some of the retirements were anticipated, yes. I am happy to tell you that I think Mr. Richard has quite a good management team on the job at the present time. The size of the staff has not increased. Actually, I think it is somewhat less in terms of bodies, that is, at about 95 at the present time; and I should say that we feel that for the time being it is proceeding satisfactorily. However, we shall be carrying out our own examination shortly with respect to the current year, and will be, of course, reporting on it.

Mr. MCGEE: I would like to come back to the final result. How much did we pay for this inquiry.

Mr. HENDERSON: I think about $8,000.

Mr. MCGEE: In other words by spending $8,000 we produced a saving of roughly $34,000 on an annual basis.

Mr. HENDERSON: Yes.

The CHAIRMAN: If there are no further questions we will now turn to page 7, the Canada Council.

Mr. FISHER: Would you interpret what this legal opinion means?

The CHAIRMAN: Surely it speaks for itself in the best legal language.

Mr. FISHER: Does this mean that the interest is going to be considered as always and the profit as part of the fund?

Mr. HENDERSON: They are not going to be subject to any different treatment.

Mr. SMITH (*Simcoe North*): They go in the general fund.

Mr. HENDERSON: Yes.

Mr. PIGEON (*Interpretation*): I would be very grateful if the Auditor General for Canada would ask the Canada Council to supply details when asked for by Members of Parliament.

Mr. FISHER: On this point, has it not been established in the full body of the house that the Canada Council is not open to parliamentary questions except through the public accounts committee. I know that has been my experience. At least three times the Prime Minister stated it is not open to questioning in the house or through the order paper.

Mr. PIGEON: Here in the committee each year we have trouble. We can know about the scholarships and things like that; but it is a privilege of members of parliament in a responsible government, and we would appreciate it very much, if it is possible, to have the details.

The CHAIRMAN: The last two occasions on which we examined the affairs of the Canada Council, especially last year, we had a great many details. I do not recall any refusal of details. Is that not right, Mr. Bell?

Mr. BELL (*Carleton*): I am not sure of that at the moment.

Mr. FISHER: I thought the weakness in respect of the Canada Council was not in relation to factual questions but rather in the interpretation of what was meant by magazines of opinion.

Mr. HENDERSON: The Canada Council will be appearing before you again this year.

The CHAIRMAN: Gentlemen, this finishes the follow-up report.

May I suggest we start immediately on the Auditor General's report at page 5.

Mr. WINCH: Is it necessary to go through from page 5 to page 15 inclusive?

Mr. BELL (*Carleton*): I think we could start with paragraph 6.

The CHAIRMAN: If it meets the pleasure of the committee it would be a help.

Mr. WINCH: I went over pages 5 to 15 inclusive and it struck me there was no need to comment on those particular pages.

Mr. BELL (*Carleton*): There are two or three questions I would like to ask commencing at paragraph 6.

The Audit Approach

6. My examinations were conducted on a test basis during the year in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of the internal control. The tests were supplemented by a general review of the accounting procedures in the departments and other agencies under examination —which comprised all departments, crown corporations and other instrumentalities of the government of Canada, excepting those listed in paragraph 113, whose accounts were examined by other auditors.

During the course of our examinations, members of the staff of the audit office were given full access to all vouchers, records and files of the various departments, crown corporations and other agencies. In addition, they were provided with all supplementary information and explanations required during the course of their work. I should like to express my appreciation for the cooperation so readily extended by departmental and treasury officers and by the administrative and accounting officers of crown corporations and other agencies. Their cooperation greatly facilitated the audit work.

Mr. BELL (*Carleton*): The Auditor General speaks of the test basis and a general review of the accounting procedures. Has there been any change in the test basis or general review during the past twelve months?

Mr. HENDERSON: I would say we have re-examined the adequacy of the tests that have been made and where it has been possible for us to do so, and where we felt the circumstances required it, we have enlarged the test. That type of review is common in accounting practice generally. You must keep on your toes to see that your tests are both adequate and comprehensive.

Mr. BELL (*Carleton*): In principle, there has been no change in the tests that have been taken.

Mr. HENDERSON: No. There has been no change in principle.

7. The audit office is developing what may be termed the comprehensive audit approach. This involves little change in the basic auditing program followed heretofore. Broadly speaking, it continues to require that in undertaking an examination of the financial affairs of a department, crown corporation or other agency, the auditor must make a complete study of the governing legislation and obtain an understanding of the agency's basic function. In addition, he must study the organization with which its management is carrying out that function and understand the policies under which it operates.

As a result of his detailed knowledge of the operations of the agency obtained during the course of his audit, the auditor is in a position to work constructively with its management in evaluating the effectiveness of its internal control procedures, and in improving the cost controls. This aspect of the work is being extended as circumstances permit.

Mr. BELL (*Carleton*): The first sentence in paragraph 7 says "The audit office is developing what may be termed the comprehensive audit approach." Would the Auditor General indicate in what measure that differs from what may have been the approach in the past. This is spoken of as if it were a new approach.

Mr. HENDERSON: As I have stated in the report, it actually involves little change in the basic auditing program which is being followed to date. The comprehensive audit approach is one which I think may be described as carrying the work one stage further. If you just do an audit from the standpoint of checking vouchers and balancing the books, that is one approach. If you carry it one step further I think you can take advantage of your detailed checking and your close knowlege by seeing what the figures are saying. You ask yourself would it not be possible to effect savings by having the work done a different way. The figures on all these statements we look at have a story to tell. The way in which a statement is prepared and figures put together invariably has a very great bearing on the type of interpretation that will be brought to the statement. Therefore, I think it is a question of relating your audit approach to a somewhat wider concept. I may say that this is something for which I would presume not to claim the slightest credit. It is a standard practice recognized today by all of the large accounting firms and, particularly, by the comptroller general of the United States, and a number of our Commonwealth Auditors General. Perhaps I have expressed it rather poorly, Mr. Bell. I would like to deliver it in more statesmanlike terms and, if it is your wish, I would be very happy to do that. But, in general, it is carrying it one stage furher.

Mr. BELL (*Carleton*): I was interested just in the mere fact that this is indicated, in effect, as being a new practice, and I wanted to see how far it was going, and also the extent to which it might involve the Auditor General on the administration and on the management side. I think perhaps there are dangers in the Auditor General's becoming involved in administration and management since he is, in essence, the watchdog of parliament.

Mr. HENDERSON: I do not see that he should be involved in administration and management any more than an ordinary independent auditor would be.

The CHAIRMAN: In order to embarrass you, I would refer to paragraph 8:

In approaching its work in this manner, the audit office is fulfilling an important function by helping its clients to improve and develop their efficiency through the medium of effective periodic accounting statements and financial reports, the basic tools necessary to control costs.

Mr. HENDERSON: Having completed one of our audits, it has seemed to me a sensible practice to set down what we have done, what we have found, and what the figures are saying in a manner designed to let our clients—that would be the government departments and the crown corporations—have the benefit of our findings and comments, and to set the figures up in a way calculated to help them in the management and conduct of their affairs. I may say that the reports which we have filed in this connection during the past year—I have a list of them here, and I think there are some nineteen or twenty—have met with an extraordinarily fine reception from the heads of the agencies. Of course, we have not hesitated to say those things that I felt ought to be said in respect to deficiencies which I had found in the course of the work. If I had any practical common-sense suggestions to make, I made them, and I set down the basis that prompted me to make them. In my experience, that is constructive auditing. This is the comprehensive auditing approach we were discussing.

Mr. BELL (*Carleton*): May we be assured that because of the fact you are making such reports to management it does not involve in any way a restriction on the reports that you will make to parliament.

Mr. HENDERSON: No sir. I give a copy of these reports for the information of the minister responsible as well as to the management of the agency.

Mr. BELL (*Carleton*): Yes, but the minister is administrative. I am asking about any restriction on your reports to parliament.

Mr. HENDERSON: None whatever, to my knowledge.

Mr. FISHER: Do you mean that they are identical?

Mr. MACDONNELL: Mr. Chairman, I think what Mr. Henderson has said in connection with his relationship to his clients, as he described them, is axiomatic, and I would have been disturbed if he indicated any other approach.

Mr. HALES: Mr. Chairman, if I may, I would like to comment on this phase of it as well.

I would like to commend the Auditor General on assuming this comprehensive audit system, which is practised in business. A businessman expects his auditor to bring to his attention weaknesses and points which may improve his operation. We have just had an example, namely the Department of Defence Production, war assets division, where we had to bring in Price Waterhouse to show them their weaknesses and where they were falling down. We paid $8,000 to find out that information. I think this comprehensive audit system Mr. Henderson is undertaking will overcome similar deficiencies. I am thinking of one small department, and I know that a comprehensive audit is going to help it. I am referring to our restaurant committee, where you audit the books. You mention in section 8 that these built-in costs are not brought to light; in other words, that association is getting free rent, light and all these other things.

Mr. HENDERSON: Yes.

Mr. HALES: It does not show a true picture of profit and loss on the statement. Also, I am thinking of the Printing Bureau, and the public accounts that we have before us. They are printed without any cost of light, heat and rent for the printing bureau. They are sold or given out without an accounting of them. I think this will bring to light a lot of very important matters in the operation of government.

Mr. SMITH (*Simcoe North*): Of course, the position of the Auditor General is rather schizophrenic.

Mr. WINCH: He said "position".

Mr. SMITH (*Simcoe North*): Although the Auditor General has clients, his prime responsibility is to Parliament, as well as to the departments he audits. His report to parliament is entirely different to his report to a minister, who is in that particular capacity an administrative officer. The thing that always has to be remembered by us and by all concerned is that there are two clients or two bosses of the Auditor General.

Mr. BELL (*Carleton*): Only one.

Mr. HENDERSON: Only one.

Mr. SMITH (*Simcoe North*): Yes, really only one.

Mr. HENDERSON: That is a very nice point. However, if you were to see any of these reports you would find that in the very first part of it the point you make is very clearly and unequivocally defined.

It is just a question of putting at the disposal of the management those things we note which we think they would like to be made known to them. This is done in a common-sense approach. We have spent a lot of time going over their accounts; a lot of ideas have come to mind; we have seen what the figures are saying, and if we can set them up in a way designed to help the management, I think it is our responsibility, as auditors, to do so; and we have.

Mr. MCGEE: If I could help Mr. Smith in connection with the definition, this committee was described by a wag as being the only fox hunt in the world where the lead hound is a fox.

Mr. BELL (*Carleton*): I do not think there is any disagreement between the members of the committee in this connection. What has troubled me just a little bit is the use of the expression "its clients". I respectfully submit that the Auditor General has only one client, the Parliament of Canada, and that the ministry and the departments of the government ought not to be considered in the role of clients. I would say I do not think there is any basic disagreement between us.

Mr. MACDONNELL: May I interpose a point here? It is the same point as the one on which Mr. Bell was speaking. Is there a real difference here between this kind of a report and a report that goes to a limited company on its operation, reporting on the operations of its executive officers but addressed to and considered by the board of directors. I hope to find that there is the same relationship, that is to say it is absolutely realistic, and I was struck by the use of the word "client".

Mr. HENDERSON: In reference to Mr. Bell's point, I should have perhaps put it in quotation marks and will do so next year, but there is no difference, Mr. Macdonnell, in the working relationship, as I see it. Of course, there is all the difference in the world in the top relationship, and I agree with Mr. Bell that officially I only have one client. If I had put this word in quotation marks, it would have been more easily understood.

Mr. SMITH (*Simcoe North*): I suppose Mr. Chairman, that if Mr. Henderson had comments as to improvements in a department and he were not allowed to make them to the minister directly, they would then have to be made in his complete report to this committee which would have the effect of ballooning it even further, I suppose.

The CHAIRMAN: If you refer to the second paragraph in paragraph 8, part of the motive power seems to be set out.

> Government departments and other agencies by their very nature do not possess the profit incentive to control costs such as exists in private enterprise.

That is where you feel, if I understood you correctly, that you should try to be of assistance to the various departments?

Mr. HENDERSON: If we can be of assistance in helping the development of efficiency yardsticks, a point which I develop under the heading "departmental operating activities", it would not take much effort to determine whether some of these activities are paying their way or not. Is it not worth while to find out? This is the point you mentioned, Mr. Hales, and it seemed to me an area in which we can help.

Mr. BELL (*Carleton*): So long as this committee may be assured it involves no restriction in any way upon reports to parliament, I think the committee would be satisfied. I think also the committee wants to be sure that the result is not to get the Auditor General too chummy with the administration.

Mr. HENDERSON: I had occasion earlier this morning to make a plea for that chumminess when we were discussing the progress of the estimates study, Mr. Bell.

Mr. FISHER: I took it, Mr. Chairman, that Mr. Bell's question might have stemmed from the mood of response we had encountered in government departments towards this report.

Mr. BELL (*Carleton*): Not at all.

The CHAIRMAN: Gentlemen, this seems to be a good place to stop this morning. The next meeting will be on March 8.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

Public Accounts (1960), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, MARCH 8, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. A. Boyle, Deputy Postmaster General; Mr. D. A. Golden, Deputy Minister, Department of Defence Production; Mr. H. O. Moran, Director General, External Aid; and Mr. G. R. Long, Audit Supervisor.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24701-5—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark	Drysdale	Pickersgill
Beech	Dupuis	Pigeon
Bell (*Carleton*)	Fisher	Pratt
Benidickson	Grenier	Robichaud
Bissonnette	Hanbidge	Rouleau
Bourbonnais	Hellyer	Smith (*Simcoe North*)
Bourget	Keays	Smith (*Winnipeg North*)
Brassard (*Chicoutimi*)	Lahaye	Spencer
Broome	Macdonnell	Stefanson
Bruchési	McGee	Stewart
Campeau	McGrath	Tucker
Chown	McGregor	Valade
Coates	Martel	Villeneuve
Danforth	Morissette	Winch
Denis	Morton	Woolliams
Deschatelets	Nugent	Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 8, 1961.
(4)

The Standing Committee on Public Accounts met at 9.35 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Chown, Coates, Danforth, Drysdale, Hales, Keays, Macdonnell (*Greenwood*), Macnaughton, Morissette, Morton, Pickersgill, Pigeon, Pratt, Smith (*Simcoe North*), Spencer, Stefanson, Tucker, Villeneuve, Winch and Wratten. —(24)

In attendance: Mr. G. A. Boyle, Deputy Postmaster General; Mr. D. A. Golden, Deputy Minister of Defence Production; Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; Messrs. B. A. Millar, G. R. Long; and Mr. H. W. Johnson, Director, Accounting Services, Comptroller of the Treasury; Mr. H. O. Moran, Director General of External Aid.

In answer to a question asked at a previous meeting of the Committee, the Chairman read a letter from Mr. H. R. Balls, Comptroller of the Treasury, with reference to the number of copies of Public Accounts, Volumes 1 and 2, held by the Queen's Printer.

Mr. Boyle was introduced and questioned regarding the comments made by the Auditor General in his "Follow-up Report" on the subject of second-class mail.

The subject was allowed to stand until the report of the Royal Commission on Publications becomes available.

Mr. Golden was introduced and questioned concerning the disposition of "Surplus Cloth Inventories". A copy of the "Offer Form", used by Crown Assets Disposal Corporation was tabled and ordered to be printed as an appendix to the record of this day's proceedings.

Mr. Spencer, Chairman of the Sub-Committee, examining Public Accounts as to form and content, gave a brief progress report to the Committee.

Mr. Henderson answered questions relating to paragraph 8, 11 and 13 of his Report to the House.

Mr. Moran was introduced and commented upon paragraph 44 of the Auditor General's Report.

At 10.40 a.m., the Chairman having been called from the Committee, the Vice-Chairman, Mr. Hales, took the Chair.

Messrs. Henderson, Moran and Long were further questioned on the subject of "Counterpart Funds".

At 11.00 a.m. the Committee adjourned to meet again at 9.30 a.m. Wednesday, March 15, 1961.

J. E. O'Connor,
Clerk of Committee.

24701-5—1½

EVIDENCE

WEDNESDAY, March 8, 1961.
9:30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. There were certain questions raised at the last meeting. I have a letter from Mr. H. R. Balls, Comptroller of the Treasury, dated March 7, 1961, which reads as follows:

Dear Mr. MacNaughton:

I understand that the public accounts committee in its second meeting on March 1 requested the following information:

"How many copies of the 1958-59 public accounts are held by the printing bureau and remain unsold?"

This question was referred to the printing bureau, which has furnished the following information:

Number of 1958-59 public accounts on hand as at March 1, 1961—

English	French	Total
284	13	297

Various other questions were also asked. In particular I refer you to the evidence at pages 46 and 47, concerning the post office and second class mail. This was the heading in the follow-up report.

Mr. Smith, among others, raised certain points. Mr. Boyle is here this morning. He is the Deputy Postmaster General. He is prepared to answer any questions, but perhaps you would like him to give a statement right now. Have you read the testimony, Mr. Boyle?

Mr. G. A. BOYLE (*Deputy Postmaster General*): Yes, I have. Perhaps I might make a few remarks.

When I was before your committee the last time, I think I mentioned that any changes in publishers' rates would involve legislation. Subsequent to your meeting we made some studies, and I raised the question of increased rates with the Postmaster General.

At that time the royal commission had begun their studies, and they had requested us to furnish information, statistics, and so on, so we rather assumed that they were making a vital study of this question. The decision of the minister at the time was that we should await this report to see what their recommendations to the government would be before we moved into legislation.

I think the hon. member from Port Arthur raised the question in the house on two occasions, and the day before yesterday was the last one. I believe the minister mentioned that he was awaiting the report of the royal commission on publications.

The CHAIRMAN: You are referring to Mr. Fisher of this committee?

Mr. BOYLE: Mr. Fisher, yes.

The CHAIRMAN: He also mentioned that he had received a letter from you or from the Postmaster General.

Mr. BOYLE: I should say that I understand that subsequent to our estimates coming before the house last time, the Postmaster General wrote Mr. Fisher. But I am reasonably sure it was a personal and confidential letter.

Mr. WINCH: Might I ask the witness as to whether he has any knowledge as to whether these studies just being undertaken by the royal commission, and upon which he contemplates receiving a report, are only on the basis of the second class mail rate being utilized by American publishers using Canadian mail, or are they to be concerned with the entire broad question across Canada as well?

Mr. BOYLE: Well, sir, I have not appeared before that commission so I just do not know exactly what their plans are. What I said a moment ago is that from enquiries they have made of the Post Office Department, we would judge that they are going into all phases, both American and Canadian.

Mr. BELL (*Carleton*): That report would be received before this committee has finished its deliberations. I think we might leave the matter there at the present time and perhaps come back to it before the end of our deliberations.

Mr. WINCH: Is that a promise?

Mr. BELL (*Carleton*): Well, that is the opinion of one member of the committee.

The CHAIRMAN: Are there any other questions, gentlemen?

Agreed.

Thank you very much, Mr. Boyle.

The next matter raised was done so by Mr. Pigeon in particular. It concerned the Department of National Defence and surplus cloth inventories mentioned in the follow-up report of the Auditor General. The evidence is to be found at pages 48 and 49.

Mr. Pigeon requested, and I think one or two other members, that the Deputy Minister of Defence Production be here, and if possible a witness from Crown Assets.

The Deputy Minister is here and I believe a witness from Crown Assets as well.

Mr. PIGEON (*Interpretation*): When were these yards of fabric, of cotton, purchased?

Mr. D. A. GOLDEN (*Deputy Minister, Department of Defence Production*): I do not know what particular yards Mr. Pigeon is referring to, but most of the cloth that has been declared surplus recently by the Department of National Defence was purchased in 1951 and 1952.

Mr. PIGEON (*Interpretation*): The amount that was declared as surplus some time ago, I believe, includes three lots, if I am not mistaken.

Mr. GOLDEN: Several lots, yes. That is correct.

Mr. PIGEON (*Interpretation*): Is there not one lot that was purchased as being pure wool?

Mr. GOLDEN: No.

Mr. PIGEON (*Intepretation*): I have been informed that tenders have been requested some time ago to sell this fabric, this cloth, and that one of the purchasers would have had samples taken of the cloth.

Mr. GOLDEN: Oh, quite. Samples are always available on these declarations of surplus.

Mr. PIGEON (*Interpretation*): I have learned from a reliable source that this cloth had been purchased as being pure wool, but after analysis it was found that at least 75 per cent of it was cotton.

Mr. GOLDEN: Well, I know nothing of that. We do not buy in that way. We buy according to Canadian government specifications which are included in the

invitation to tender and in the order. These specifications are then matters which are checked by the inspection services of the Department of National Defence. If the goods tendered in relation to a particular contract are not exactly as the specification calls up, they are then rejected, they are not accepted, and they are not paid for.

Mr. PIGEON (*Interpretation*): From what firm had this cloth been purchased in 1951 and 1952?

Mr. GOLDEN: I do not think I could answer that. We dealt with practically every firm in Canada in 1951, and I do not think I could identify that particular lot at this stage.

Mr. PIGEON (*Interpretation*): Why was such a considerable amount of fabric bought? What was the purpose?

Mr. PICKERSGILL: Mr. Chairman, I would like to raise a point of order at this stage. It seems to me that we have had specific terms of reference given to us by the House of Commons whose servants we are in this committee. Those terms of reference were to examine the public accounts for the last available fiscal year, and not to go into consideration of something which may or may not have happened in 1951. Might I suggest that the hon. gentleman not ask for research to be done for him, but find some other means of doing it, rather than to take up the time of the committee, which has been charged with an entirely different function by the House of Commons.

Mr. PIGEON (*Interpretation*): In reply to the objections of the hon. member, I have asked these questions because there was a surplus of 3,755,000 yards. It seems to me that I am entitled to inquire why there was a surplus of so many thousand yards of cloth.

Mr. PICKERSGILL: I am not questioning the hon. gentleman's right to make inquiries in the proper place. He can place the questions on the order paper. The estimates of the Department of Defence Production will come up, and he can annoy the minister as much as he likes with questions. However, we were given a specific duty in this committee and it was not to research the hon. member's questions in the year 1951.

Mr. MORTON: At the moment I am not saying whether I am for or against what Mr. Pigeon is doing, but I would hate as a result of the protestations—

Mr. PICKERSGILL: It is a point of order, not a protestation.

Mr. MORTON: —that we would thereby be limited to one year, if our inquiries should take us back further. I think that would be too much of a limitation to put on the committee.

Mr. MACDONNELL: Naturally, if there is something which takes us back further for enlightenment, we would go back further.

Mr. PICKERSGILL: Certainly. If the honourable gentleman can show us this particular item in the public accounts for the year ending March 31, 1960, then, of course, that is all right; but it is a long time between 1960 and 1951. There are some of us who want to make inquiries into the public accounts which were referred to us by the House of Commons, and not something which happened in 1951. I suggest it is an improper use of the time of the committee to be conducting an inquiry into something different than the inquiry entrusted to us by the house.

Mr. PIGEON: Yes, but I think I am right when I ask what was the purpose of buying these millions of yards of cloth.

Mr. PICKERSGILL: I ask the hon. gentleman to show me the item in the public accounts to which he is referring.

Mr. PIGEON: I refer to the French report.

Mr. PICKERSGILL: Show me the item in the public accounts.

Mr. PIGEON: Minutes of Proceedings and Evidence No. 1 of the standing committee on public accounts.

Mr. SMITH (*Simcoe North*): On the point of order, I do not know what Mr. Pickersgill is driving at, but surely this committee for several days has been dealing with the follow-up report of the Auditor General, following last year's committee report. I think it has been the accepted practice in the committee to give it continuity and deal with items; that is what we are doing. If you look at page 3 of the follow-up report of the Auditor General in the second group of items you find the item of the three million yards of cloth.

The CHAIRMAN: Is there any other comment?

Mr. PIGEON: Yes.

(*Interpretation*): Where was the fabric stored since 1951?

Mr. PICKERSGILL: I would like a ruling on my point of order. If the point just made—which I am rather impressed by—justifies this, I certainly withdraw; but I think we are entitled to a ruling.

Mr. BELL (*Carleton*): My understanding of the practice and procedure of the committee is that if there is an item in the public accounts of a particular year which for proper enlightenment requires investigation of an earlier year, then the committee is entitled to go back. I think that has been done constantly. We had one rather famous series of meetings of this committee about three sessions ago where that was carried out. Had this not been so, we could not have investigated the printing bureau.

With regard to the second matter, I think each year informally we have had a follow-up report. It may be that unless a matter is actually mentioned in the current report of the Auditor General that we have no right to follow-up; but I think it would be restricting this committee unduly if we were to suggest that only questions based on the follow-up report, to ascertain whether or not the requests of the committee to the government were being carried out, are in order. Whatever technically is right, I think the committee would generally wish to have reasonable right so to do.

Mr. PICKERSGILL: I would not differ from that view for one second. It may be, having been late in arriving, that I was unduly hasty in raising this point. It was very hard for me to see what connection there was between the two items. I am not sure I am convinced there is any; but if the Chair rules, in view of these two paragraphs on page 3, that the line of questioning is in order I will, of course, accept the ruling of the Chair.

The CHAIRMAN: To say the least I am slightly embarrassed. On page 3, however, the main question was National Defence surplus cloth inventories. The only question before the committee is that the committee recommended that "consideration be given by the government to whether surpluses such as the foregoing could be made available for areas of international disaster, or for distribution through relief agencies and relief camps". Literally speaking we should restrict ourselves to that. On the other hand, we have been fairly free-wheeling. However, to my way of thinking, rather serious charges vaguely made were put forward at the last meeting. It seemed only fair to the department and to the minister to bring this to a head. To that end we have the deputy minister of the Department of Defence Production with us today. I certainly agree there are other and better ways of getting this information. If we were to follow this line of questioning we would be here for the next ten days on some particular point and would not be able to

get ahead with our regular business. I do not think the charges are seriously enough founded. To my way of thinking, just to say you are informed is not sufficient to bring a charge against the department. There are other and better ways of doing it. I would suggest the point taken by Mr. Pickersgill is well taken. I would rule that we proceed with other matters.

Mr. PIGEON (*Interpretation*): Were tenders called to sell this surplus cloth?

Mr. GOLDEN: Yes.

The CHAIRMAN: Mr. Pigeon, I think we have a ruling. With due humility may I suggest that you use other methods of getting this information.

Mr. SMITH (*Simcoe North*): If Mr. Pigeon's questions are related to the disposal as opposed to the acquisition of the cloth, I think his questions are clearly in order. I say this with due deference.

The CHAIRMAN: Go ahead, Mr. Pigeon.

Mr. PIGEON (*Interpretation*): Were tenders recently called to sell this surplus cloth?

Mr. GOLDEN: Yes.

Mr. PIGEON (*Interpretation*): Did one of the tenderers have an analysis made and reach the conclusion that the cloth did not meet the specifications?

Mr. GOLDEN: I do not understand the import of that question. The cloth is not sold in accordance with specifications. It is sold in accordance with a listing—"as is, where is," subject to inspection, all risk on the part of the buyer. I do not know what Mr. Pigeon means by a prospective purchaser analysing it and finding it not in accordance with the specifications.

Mr. PIGEON (*Interpretation*): One of the prospective purchasers had an analysis made and discovered that, although the cloth was listed as pure wool it was in fact seventy-five per cent cotton and twenty-five per cent wool.

Mr. GOLDEN: We listed nothing as pure wool. If the member means khaki flannel, about which I believe some question was raised with the corporation, it is defined by Canadian government specifications as containing 65 per cent wool, with a tolerance of plus or minus 2 per cent. To the best of my knowledge, we did not offer for disposal any pure wool.

Mr. PIGEON (*Interpretation*): But, the cloth had been purchased by the government at the time as being wool, according to specifications.

Mr. GOLDEN: No—

Mr. PICKERSGILL: On a point of order, Mr. Chairman, once more we are getting back by indirection to what you ruled was out of order. We are not here to investigate the purchases of 1951.

The honourable gentleman was told that he could ask questions about the disposal of this in 1960. Apparently he is prosecuting the case for some disappointed purchaser. I suggest, if that is what he is doing, he should let the disappointed purchaser make his own arrangements with Crown Assets Disposal instead of using this committee as a vehicle for complaints in regard to a bad bargain the purchaser thinks he made.

Mr. BELL (*Carleton*): Mr. Chairman, we will get ahead faster if the hon. member for Bonavista-Twillingate refrains from imputing motives to any particular member of the committee.

Mr. PICKERSGILL: Well, I will govern my own conduct in my own way, and I will not interfere with the member from Carleton.

Mr. BELL (*Carleton*): The rules provide that motives are not to be attributed to any member.

Mr. PICKERSGILL: Including the honourable member from Bonavista-Twillingate.

The CHAIRMAN: We are dealing with the disposal and not with the purchase.

Mr. PIGEON (*Interpretation*): Were tenders called recently to sell this lot of cloth?

Mr. GOLDEN: Tenders were called recently to sell a number of lots of cloth, yes.

The CHAIRMAN: May I ask a question. Was any of this cloth, in fact, sold?

Mr. GOLDEN: No.

The CHAIRMAN: Then, what are we talking about?

Mr. SPENCER: Why was it not sold?

Mr. PIGEON: I read here that 2 million yards, in fact, were declared surplus, and it is concerning this yardage that I asked the question. Crown assets was a corporation in July, 1960.

Mr. GOLDEN: That is correct. The minister decided not to recommend the acceptance of any of the tenders. The various lots are up for tender again.

Mr. SMITH (*Simcoe North*): As far as you know, has any consideration been given to disposing of it for international relief?

Mr. GOLDEN: I understand that the minister is considering this. However, he is not proposing to come to any conclusion in his own mind until he sees the result of the current tender, which is not closed yet.

Mr. SMITH (*Simcoe North*): Are there any conditions on the present tender that require that it be sold for export and use outside of Canada?

Mr. GOLDEN: Yes.

Mr. SMITH (*Simcoe North*): That is one of the conditions?

Mr. GOLDEN: Yes.

Mr. SMITH (*Simcoe North*): Have you a copy of the offer form?

Mr. GOLDEN: I do not have one, but I can get it very quickly.

Mr. SMITH (*Simcoe North*): And, the proposal, perhaps.

Mr. CHOWN: Could the witness table a copy, which ultimately could be filed as an appendix? In this way the matter might be settled.

The CHAIRMAN: Of what?

Mr. SMITH (*Simcoe North*): Of the offer.

Mr. GOLDEN: Do you want me to table a copy of all the offers?

Mr. SMITH (*Simcoe North*): No; just a typical one.

Mr. PIGEON: Mr. Chairman, I have another question to ask. Where are these millions of yards stored now? Is it in Montreal?

Mr. GOLDEN: I think it is in the National Defence warehouse in Ville La Salle.

Mr. PIGEON: And this would be stored at a cost to the government each year, in order to keep this lot of cloth.

Mr. GOLDEN: This is in the custody of the Department of National Defence, and I have no idea how it is costed.

Mr. MORTON: Were there any reasons given for not accepting the tenders that were made?

Mr. GOLDEN: The minister decided not to recommend the acceptance of them. I am afraid I do not know any more about it than that.

Mr. MORTON: Is there any change in the description of the cloth that is being put up for new tender?

Mr. GOLDEN: Not to my knowledge. I understand that certain very small lots—under 3,000 yards—have been eliminated, and just large lots, aggregating around 2 million yards, are included.

Mr. MORTON: In putting it up for tender is there any floor price below which the government will not go?

Mr. GOLDEN: There is the standard Crown Assets arrangement that no tender necessarily need be accepted.

Mr. MORTON: In your experience, is it public policy to state whether you have a floor price below which you will not accept a tender?

Mr. GOLDEN: I do not think that is done normally.

Mr. MORTON: Is there any relationship between the tender which you will accept and the original cost of the goods?

Mr. GOLDEN: There could be.

Mr. MORTON: But, there is no formula laid out?

Mr. GOLDEN: No, but there could be.

Mr. PIGEON: You do not know the main reason why the department asked for new tenders for these?

Mr. GOLDEN: Well, I would imagine it was because the tenders received were considered unsatisfactory.

Mr. PICKERSGILL: Too low?

Mr. GOLDEN: Yes.

The CHAIRMAN: Gentlemen, I would like to direct your attention now to page 6 of the follow-up report—Crown Assets Disposal Corporation. Perhaps, Mr. Golden, you would listen while I read the last paragraph under this:

> I have no information regarding the results of any consideration that may have been given by the government to the policy question of whether the disposal of surplus crown assets could be more efficiently performed by a division of the department.

This is getting awfully close to policy. However, have you any opinion on that, or is the matter still undecided?

Mr. GOLDEN: Yes, it is certainly undecided. If I may say so, my understanding is that that is one of the matters which the Glassco commission is considering. They are considering the relationship between departments and crown companies, and so on. I am assuming that this is one matter on which recommendations or comments may be made by them.

The CHAIRMAN: Are there any other questions?

Mr. CHOWN: Perhaps this is an academic question, but I was curious to know what these yards cost. However, if the information is not available readily, that is not important, because it is breaking your rule, Mr. Chairman. Mr. Auditor General, is it in another report?

Mr. HENDERSON: I believe it might be in the older one. Is that correct?

Mr. B. A. MILLAR (*Audit Supervisor, Auditor General's Office*): The cost per yard?

Mr. HENDERSON: Yes.

Mr. MILLAR: I think the figure is roughly $1 per yard.

Mr. GOLDEN: I should think that in 1951 it was very high, but I doubt very much whether it could be related to any particular yardage now.

Mr. CHOWN: I will drop the question there.

Mr. GOLDEN: Is it the desire of the committee that we table the Crown Assets latest offer?

Mr. SMITH (*Simcoe North*): Yes, a specimen offer.

The CHAIRMAN: Mr. Spencer was appointed chairman of the subcommittee to consider the form and content of the public accounts. I feel perhaps that he has not had sufficient time to reach any conclusions upon which to report. Have you any remarks to make Mr. Spencer?

Mr. SPENCER: I have nothing to report in the way of specific progress, except that I have pursued the matter with the Auditor General, and will be meeting this week with the Department of Finance. I propose to have the first meeting of the subcommittee on Friday morning. It had been suggested for Thursday morning. However, I find that other committees are meeting, and I think it would be better if the meeting was held on Friday morning. We hope to proceed expeditiously with the work of the subcommittee.

The CHAIRMAN: Gentlemen, if it is possible, let us try to conclude paragraph 9 to 47 of the Auditor General's report today.

Have you a question, Mr. Winch?

Mr. WINCH: I was going to say that Mr. Bell made an excellent suggestion last week and, if it is in order now, there are a couple of matters in the preliminary sections of the Auditor General's report upon which I would like to ask questions before you proceed with anything specific. I also notice on page 8, in the second paragraph, your statement that: "accounting in government as it has developed over the years is a natural outcome of the parliamentary system. It has been designed basically to ensure that expenditures are made in accordance with parliamentary authority." I think we shall all accept that as being absolutely correct and emphasis should be placed on it. That is the reason I should like to ask the Auditor General what is his position in, perhaps, going beyond reporting to the house and to this committee if he finds any monies are being handled without the authority of parliament in any way and, in particular, if he finds a recurrence of money being handled without any specific authority of parliament?

Perhaps I may give one illustration to make my point clear. I notice on page 16 of the Auditor General's report, paragraph 41—prairie farm emergency fund deficit—he says: "the deficit of $12,529,000 which resulted from the fund's operations in 1959-60 was again charged to expenditure notwithstanding this lack of specific parliamentary authority". I just give that illustration as something again being done without specific authority and, in view of what you say in the second paragraph of your report, on page 8, can you give us any further information as to the situation, as to the seriousness with which you view it and as to how you have tried to counteract this trend, which I think is a negation of the authority of parliament?

Mr. A. M. HENDERSON (*Auditor General for Canada*): In answer to that, Mr. Winch, I would explain that in every single instance of expenditures made which are not in accordance with parliamentary authority it is my responsibility to report to parliament, and that I do and shall always do. In the case of the statement you refer to, at paragraph 16, which we shall be discussing later on, I am very much hoping that your committee will support me by recommending that consideration be given to amending the law so as to cover these deficits, which is not being done at the moment. That is what is behind my comment in paragraph 41.

Mr. WINCH: Do I gather, by the fact you are again drawing this to our attention, there is a repetition of this action by whatever department is concerned, and it has been ignored by those who should have the responsibility of correcting the situation?

Mr. HENDERSON: Yes, I think that is a fair statement. That point has been referred to by my predecessor throughout the years and it has been discussed

in your committee. The strength of your committee's recommendations is in their ultimate adoption by parliament, and that is the only tool I possess. I hope that, when we are discussing item number 41, the committee will see fit to go on record in support of the point I am making today.

Mr. WINCH: Again, on general principle, on page 9 of your report you state in the first paragraph: "I believe that early consideration should be given to remedying these accounting anomalies and inconsistencies"—that, of course, refers to paragraph 13—"in order that the accounts relating to parliamentary appropriations may more accurately record the expenditures incurred for the various services." When you state that early consideration should be given to this matter, are you referring to the departments concerned and are you asking that we deal with them and bring in a specific recommendation?

Mr. HENDERSON: If you agree with the point I am making, I am hoping that through the medium of your committee you will see fit to make a recommendation in your report to parliament that the government take steps to achieve accurate costs—more accurate costs than exist at present.

Mr. WINCH: Do you find that this is generally prevalent in more than one department?

Mr. HENDERSON: It is prevalent throughout the entire government.

Mr. BELL (*Carleton*): This is really the question of the net estimates?

Mr. HENDERSON: I think not, Mr. Bell. I am referring to the determination of what is cost. As I explained on a number of occasions, while the determination of cost may be and is, undoubtedly, correct for the government as a whole for all departments, it is when one is seeking the cost of each department that it is not correct.

Mr. SMITH (*Simcoe North*): You are referring to the services being supplied by one government department to another, and no charge being made for them?

Mr. HENDERSON: If you are going to watch your expenditure, you have to prepare some sort of statements and look at figures, and the basis on which those figures are prepared is surely that they should be all-inclusive and accurate. Otherwise the information is misleading.

The CHAIRMAN: May I try to put this in sequence? Paragraph 10 deals with public accounts and Mr. Spencer's subcommittee will, in effect, report on that in due course. Mr. Winch raised his questions in regard to the cost of operations. Is that not right?

Mr. WINCH: It was under paragraph 11, and now under paragraph 13. I think these are two vital principles which the Auditor General has specifically directed to our attention.

The CHAIRMAN: May I interrupt again? Mr. Henderson, let us put you on the spot. What about your own Department? What about the cost of your Department? Is everything disclosed?

Mr. HENDERSON: That is a very good question because, of course, they are the first costs I look at, in a desire to keep my own expenses down. If you look at the figures for 1959-60, the costs of my department under vote 41 were $858,387 of which salaries took roughly $794,000, travel was about $59,000 and office stationery, etc., accounted for the remaining $5,000. That, of course, does not represent my total all-in costs. It does not include the cost of my office premises. It is quite true that some space is provided for the auditors by government departments but I also have premises for my own offices in Ottawa, Montreal, Toronto and elsewhere. I am not charged anything for the rent of all these offices. My office furniture is supplied by the Department of Public Works and I do not know the cost of it. It is

supplied to me on requisition and that is all I am told about it. My postage is paid by the Post Office Department and my telephone charges, except for long distance charges which are very few, are all paid by the Department of Finance, through its vote.

What I am saying is that it would be much better and would produce more accurate cost figures for the government if I could prepare statements including charges for office space, and for the cost of my furniture, postage and telephone. By doing that I could then have costs which would be comparable with yardsticks found in other accounting offices. In my audit operations there are no such yardsticks giving the total costs, and so I have no way of comparing my costs with theirs.

Mr. WINCH: That leads to an interesting question. Would that not ultimately lead to an increase in the cost of administration of each department? Would the result be of sufficient value to override the increased cost of administration?

Mr. HENDERSON: Mr. Winch, this would not really increase the cost of administration. It would simply come out of one department, mostly the Department of Public Works, and go into other departments. I do not think it would affect the overall cost.

Mr. WINCH: I am seeking information. You would then have what you term inter-departmental billing.

Mr. HENDERSON: May I just explain what I mean? It would not increase the cost of government. Right now we are taking the case of rent and office furniture, all of which is purchased pursuant to the vote which is given in the public accounts, mainly through the Department of Public Works. They would continue to handle all the renting because they are best qualified to do so. They know the real estate business but the costs should be shown against the departments receiving the benefit—the ultimate costs would come through on the departments using the premises and the funiture.

Mr. SMITH (*Simcoe North*): Would not that have a tendency to increase the burden on internal accounting in government?

Mr. HENDERSON: No sir, in my opinion it would not. It would have the advantage of providing accurate costs of administration.

Mr. WINCH: I wonder how you would assess the rental value of the offices of members of parliament and senators.

Mr. PICKERSGILL: That would not arise.

Mr. CHOWN: May I ask whether what you are suggesting is simply to set up this for individual government departments, more along the lines on which our present crown corporations are operating now. Is this not true, or are they operating on the same basis? Do they requisition their furnishings and so on?

Mr. HENDERSON: They pay their own expenses and purchase their office supplies, and they pay their rent.

Mr. CHOWN: So that when you look at their audit you have the whole picture, and it is completely accurate and realistic.

Mr. HENDERSON: One of the points I am making throughout this report is that there is, in the business of government as I find it, no profit incentive such as you find in business or crown corporations, which causes the people to look at the cost and ask the question: What can we do to control or to contain the cost? I submit that one of the reasons why it is so difficult in the government is because the very costs of their operations are not fully disclosed to the departmental managements, such as in my own case. I do not know what the cost of my office rent is, and I would be interested to know because I feel responsible for the costs I am incurring.

The CHAIRMAN: What you are saying is that your own costs are understated and that the Department of Public Works picks up the tab in many instances. Do you want accurate costs or do you not, because, according to business procedure, you would be laughed out of court on this basis?

Mr. HENDERSON: We would have more accurate costs than we have now were we to move over to this basis, which I submit is a relatively simple one.

Mr. CHOWN: Following this up, does this not take us back to the examination of last year when you and I discussed the idea of management consultants who are strange to government procedures, being brought in, costing a great deal of money, as far as this particular crown corporation was concerned, which was Crown Assets, and really coming forward with something that was relatively valueless in the end result because of their lack of familiarity with government procedures. I went on to suggest that I felt that this was an area that you should get into yourselves, and you agreed. If you based this accounting on sound business principles, this would allow you a great deal more opportunity to go in and say: I think your inventory is too high, or, you are over-stocked in this, or, your accounting procedures could be streamlined in this particular line, and so on.

Mr. HENDERSON: It would certainly lead to improved efficiency in the operation of government departments because it would provide the managements responsible with tools which would aid them in controlling their costs. In the same way, when we examine the accounts of the various departments, as we do of the crown corporations, we are in a position to assess where the operation is going. We can be of assistance to the departments, as we are to the crown corporations, in bringing this about. This is standard practice.

Mr. CHOWN: Are you indeed getting into this area of management consultant work with crown corporations?

Mr. HENDERSON: No, sir, we do not hold ourselves out as a management consultants, neither do I consider that we are qualified as management consultants as such, although you do find that by reason of their widespread accounting experience professional accountants, certainly in the larger firms, are probably among the best qualified people in the management consultant business today. My basic responsibility is to parliament and my reports are to parliament, except that if we encounter anything in the course of our examination of a crown corporation's affairs or a department's affairs which we consider should be brought to the attention of the management, we do so.

Mr. CHOWN: So that you would still subscribe to the principle of retaining outside management consultants as and when it is necessary, and perhaps even recommend it in certain cases with crown corporations, or on the basis of the new accounting set-up for departments.

Mr. HENDERSON: I have, in fact, recommended their engagement on two occasions. I have done so by suggesting they work in conjunction with my own office because the detailed knowledge which we possess of the affairs of the crown companies concerned can thus be placed at the disposal of the management consultants, and in working together in this way we can achieve quite a saving in the fees to be paid.

Mr. BENIDICKSON: You said you made recommendations?

Mr. HENDERSON: I have recommended on two occasions that outside people be retained.

Mr. BENIDICKSON: And were your recommendations followed?

Mr. HENDERSON: In one case, yes; in the other I do not think so, not yet anyway.

The CHAIRMAN: Gentlemen, if there is nothing else on this—

Mr. PICKERSGILL: I would like to ask one question. In paragraph 13 am I right in assuming that the Auditor General is recommending a fundamental reform? He is not criticizing the government for failing to carry out properly the existing practices, but he is suggesting that an entirely new method of estimates be provided so that government departments would have to estimate their own requirements for stationery, their own requirements for office space, for furniture and for basic telephone services, and so on, which are now provided on requisition. I might say, personally, that I think this would be a good thing, but I think we ought to be clear that this is a suggestion for a reform; this is not a suggestion that there is any malpractice at the present time.

Mr. HENDERSON: That is correct.

The CHAIRMAN: It is primarily for the benefit of Parliament. Paragraph 14 deals primarily for the benefit of management.

Mr. WINCH: Could I say just a few words on paragraph 15, which deals with the form of annual estimates. I think I am right in saying that at the last meeting of the committee an officer of the Department of Finance mentioned that the departmental study of the form of the estimates was going forward. He stated that the Auditor General would be consulted concerning the results in due course. Now, that being the case, if my memory is correct, there was probably no need for the committee to discuss in detail the suggestions which are put forward by the Auditor General on page 9. I would like to ask, in view of the apparent importance the Auditor General puts on this matter of the form of estimates and that they be made—I think, if I remember "that they should provide more meaningful information"—may I ask then whether it is his view that this committee should consider this matter at some time at a future meeting and make it clear that the committee expects the Department of Finance to give very careful consideration to this matter and to the suggestions which you are putting forward, and to consult you, not in due course, but all the way through on the consideration of the form and content of the estimates as they appear before the House of Commons every year?

Mr. HENDERSON: I would most earnestly hope so, Mr. Winch. I understand that the Department of Finance is reviewing this problem now. In fact, it has been doing so since last April when I had a discussion about it with them. I take it from your remarks that you would hope that the department would in fact consider and take into its deliberations the recommendations that are contained under paragraph 16.

Mr. WINCH: Have you been consulted yet, although the investigation started last April?

Mr. HENDERSON: No, sir.

Mr. WINCH: Do you think it would be of continuing value if you were in early, in the beginning of these studies that are being made, instead of being advised after they had been concluded?

Mr. HENDERSON: Mr. Winch, two heads are better than one, three heads are better than two in any discussions like this. However, I do have to have regard for the fact that I am concerned primarily with facts and things after the event and that I am not to participate in policy. This is the responsibility of the Minister of Finance in this case. If, in his opinion, I can make a useful contribution to the discussions, I am ready, willing and able to do so. I think that is where the matter stands.

Mr. WINCH: Perhaps I have not asked a direct question as clearly as I should have. But in the fulfilment of your direct responsibilities, do you feel

that the work of your department would be made not only easier but also more efficient if there were perhaps changes made in the content matter, in the method of presentation, and in the information contained in the estimates?

Mr. HENDERSON: Yes sir, because the form of the estimates has a very important bearing on the form of the accounting. The accounting stems from the estimates which also determine the manner in which the utimate accounts are prepared. Accordingly, that is the reason why, as I say here, I am concerned about the form that these estimates take.

Were they made more meaningful along the lines I have set out, it would follow that the final public accounts would, in turn, be made more meaningful to the reader.

The CHAIRMAN: Is there anything else, gentlemen?

Mr. CHOWN: I was going to go back just briefly to this matter which Mr. Pickersgill called a reform in the whole public accounts system.

I wonder if the Auditor General could set a time estimate for a complete change such as this, or has he given that thought any contemplation? Because there might be a recommendation arising out of this whole suggestion which would be of great significance.

Mr. HENDERSON: Mr. Chown, I would not regard this as something which needs to consume an undue amount of time in an organization the size of the Canadian government. I would think, though, for example, that if a group were formed to discuss it—to get the bugs out of it as it were—and to set up a planning memorandum, it should be possible to put something like this into effect perhaps a year from today, or something like that.

I would like to make it clear, however, that I have not had the benefit of discussing this proposal at any length thus far with the officials of the Department of Finance or some others, who will doubtless be interested in it. But I am, of course, immediately prepared to do so if this committee agrees that a useful purpose would be served in exploring it. I would do so because I think that if there is anything that we can do to set up the figures in a way calculated to ensure that the costs are better watched, we should do so. That is my view.

The CHAIRMAN: Let us proceed, if we may. I would like to call your attention to the fact that we have an important witness with us this morning.

If you refer to paragraph 46, you will see that it deals in accounting for counterpart funds. We have with us Mr. Moran.

Mr. BELL (*Carleton*): We are assuming that the intermediate items up to 39 are to be dealt with?

The CHAIRMAN: Oh yes. I should have asked for your permission to suspend them for the moment.

Under the heading which deals with accounting for counterpart funds, paragraph 44 of the Auditor General's Report, we took the liberty of asking Mr. H. O. Moran, Director General of External Aid to come this morning to help us with this particular paragraph.

Mr. WINCH: I presume that in particular he is going to give us the information on that last point, and that he would point out that in any case it is government legislation that contains the provision for the making of such charges?

The CHAIRMAN: Now I would like to introduce to you Mr. Moran whom I assume many of you know already. He was a former Canadian Ambassador to Pakistan and Turkey. I understand that he is now Director of this new External Aid Office, and that he reports to the Secretary of State for External Affairs.

Do you come under the Department of External Affairs, or do you report directly to the minister? Would you care to tell us?

Mr. CHOWN: I do not think the witness' answer was heard by the reporter.

The CHAIRMAN: Would you please answer?

Mr. H. O. MORAN (*Director General of External Aid*): We report directly to the minister, the Secretary of State for External Affairs. We are not part of the Department of External Affairs.

The CHAIRMAN: Would you care to outline briefly how your particular office was set up, and why it was set up?

Mr. MORAN: I cannot speak with direct personal authority on this because the plan was developed before I returned to Canada. My understanding, however, is that the responsibilities for the external assistance programs were spread through a number of departments of government. The result was that frequently under this system of tripartite control it was not entirely clear where responsibility rested in certain aspects of the operations.

The decision was made to bring all aspects of Canada's external assistance programs under one roof. This led to the creation of the external aid office. I think the Prime Minister in his announcement said that the objective was to endeavour to have a more expeditious administration of our programs and as well as an effort to ensure that the most effective use was made of the funds voted by parliament.

The CHAIRMAN: There is a lot of money involved here. What is the situation?

Mr. MORAN: On the counterpart funds?

The CHAIRMAN: Yes.

Mr. MORAN: I am not sure I can be too helpful so far as the history of them is concerned. This office has been in existence only since the fifteenth of November and I, myself, have been out of Canada on duty for the past eight years. The method of operation of the counterpart funds is that when commodities are supplied by Canada to the recipient countries there is an arrangement—and this applies almost exclusively to India, Pakistan and Ceylon and in smaller amounts, to Burma, Indonesia and Malaya—that when we provide wheat, copper, aluminum and things of that nature they go as gifts to the central government of the Asian country. That government in turn sells them to domestic consumers. The amount of local currency that is realized from the sales is placed in what has been called a counterpart fund and those local currencies will be used for economic development on projects agreed to by both governments.

The amounts that are shown here, which are part of the funds that have been realized in this way, have accumulated over the years right back to the inception of the Colombo Plan, and this accumulation has been due to a variety of reasons. When I took over I felt there were a number of practices and procedures being followed at the official level which perhaps could be usefully reviewed; our procedure in respect of counterpart funds was one of these.

We carried out a study but I did nothing with our paper because I was going out to Asia, from where I have just returned, and one of the subjects for discussion with the governments in Ceylon, Pakistan and India during my visit was this question of the accounting for the counterpart funds and the use of them. I think certain agreements have been reached with those governments and we will be making recommendations shortly which, if acceptable, will considerably whittle down the accumulated amounts during the next fiscal year.

Mr. SMITH (*Simcoe North*): When you say whittle down do you mean the actual expenditure or by a bookkeeping device?

Mr. MORAN: By actual expenditure. For example, I have in mind the type of thing Mr. Green announced in the house in early January, that Canada had agreed to finance the third stage of the Kundah power project in India. We had made a recommendation that the local costs of that project be covered by counterpart funds. This was approved by the government and so in his announcement Mr. Green indicated that the local costs to the extent of $23 million would be met by counterpart funds.

Mr. SMITH (*Simcoe North*): Have these counterpart funds accumulated by reason of the fact that the recipient countries have not put forward schemes or by reason of the fact that Canada has not approved of the schemes they have put forward for the use of it.

Mr. MORAN: I think a combination of both.

Mr. WINCH: So that there is no misunderstanding, Mr. Chairman, I might say that I am certain Canada is very glad to be in a position to make these gifts which you mentioned, and that the countries certainly must be glad to receive them. But, as they are given and received with a definite understanding, do you have any explanation why, according to this report, there is now $34,000,000 which has not been accounted for, according to agreement on the counterpart funds.

Mr. MORAN: I think they have been accounted for. The Auditor General and I might not agree on what accounting for means, but if an Auditor General's certificate is required I am sure it is because accounting principles demand this. As far as I am concerned and, I have just returned from discussing the matter in Asia—there is no difference of view between myself and the authorities of these three countries as to how much is in the counterpart fund account of each countries. Now, an accounting technicality, or whatever the proper phrase may be, apparently requires the Auditor General in the receiving country to issue a certificate stating that in his opinion a certain amount is held in counterpart funds. Personally, I am not worried that the Auditor General has not produced that certificate. Our people in those countries are attempting to obtain that certificate. However, I think it is wrong to use the phrase "have not been accounted for".

Mr. WINCH: To clarify the situation, could I then ask the Auditor General what he means by saying on page 18:

> However, no such statements had yet been received for counterpart funds in respect of commodities on which the Canadian expenditures were as follows:

—and that is approximately $34,000,000.

Mr. HENDERSON: As Mr. Moran explained the agreements with these countries contemplate there shall be certificates furnished back to Canada by the Auditors General of the recipient countries. At the present time Canada is overdue in receiving these certificates from the ones listed here, in the amounts stated. I think that is the answer. We say that no such statements yet have been received, which the agreement provides should be submitted.

Mr. WINCH: The witness is satisfied that the situation is fine, except that no agreement has been arrived at yet between the two countries as to what is to be done with the counterpart funds.

Mr. MORAN: That is correct.

Mr. MORTON: Has there been any type of acknowledgement received from these countries as to the amounts? Technically, there might not be a certificate, but has there been any acknowledgement by any authority in those countries that these amounts of money are there?

Mr. HENDERSON: That would be a question that Mr. Moran could answer, as I think he would have correspondence.

Mr. MORAN: When a request is made to Canada for a certain amount of copper, let us say, or steel billets, or something like that, Canada undertakes to supply them on the understanding that the recipient government will establish counterpart funds, and they reply to us agreeing to this provision. Then, at a later stage, when these commodities have been sold, it is indicated to us the amounts that were realized. That is how we arrive at these figures.

Mr. SMITH (*Simcoe North*): So, there have been some returns from these countries?

Mr. MORAN: Yes.

Mr. SMITH (*Simcoe North*): Returns in the sense that we sold the copper.

Mr. MORAN: Yes. We would receive from the economic affairs division, ministry of finance, in Pakistan, a statement that they have now in their counterpart fund account $1.2 million, realized from the sale of aluminum, and if we accept that figure it is then entered in our account at this end. Periodically through the years there are checks made to ensure that the amount they think is in the counterpart fund agrees with what we think is in it. My understanding is that it is the duty, either through legal requirements or some demand in accounting procedure, of the Auditor General of the recipient country to examine the account and certify the figures.

Mr. BENIDICKSON: The Auditor General says that is the agreement. There is formal agreement that the recipient country is obliged to supply an accounting.

Mr. HENDERSON: I should like to ask Mr. George Long, who is familiar with the details of this, to elaborate on it, because it has been drawn to my attention that no such statements have been received from the counterpart fund. That means not only the Auditor General's certificate but also any statements for the money listed here. Would that be correct?

Mr. G. R. LONG (*Audit Supervisor*): I am afraid I cannot say there has been no evidence at all but we have not seen any evidence that we regard as satisfactory that these funds are actually on deposit in these countries. The reason why counterpart funds are required would seem to be that we do not want to make a gift of these commodities without seeing that something in the way of economic development results in a country receiving the gift. I do not believe there has been any audit of these funds and I do not think we can be assured about them. We do not understand why the Auditors General of these countries have not sent these certificates in, but we do notice that in the evidence given to the external affairs committee it is always stated that these matters are under audit and under the observation of the Auditor General of Canada. That is the reason why we felt it important to show that, as far as we can see, there are no Auditor General certificates covering these funds.

Mr. MACDONNELL: Leaving aside the technical question, did I correctly understand Mr. Moran to say that some of these counterpart funds have not been used because there were no plans framed and ready to put into action? Is that true? Did I understand that correctly?

Mr. MORAN: No, sir. I think what I said in answer to the question was that either the recipient countries had failed to put forward any schemes or Canada had not approved of some of the schemes they had suggested.

Mr. MACDONNELL: You said "failed to put forward any schemes". Does not that suggest they were not ready to use them?

Mr. MORAN: I think they were ready.

Mr. MACDONNELL: Perhaps this will help you to understand my question better. We are being urged by responsible people like Hoffman, Eugene Black and others to make funds available in a big way to these countries and we are told they have plans ready to put into action. Does this seem to go against that?

Mr. MORAN: I think they have schemes that are ready to be put into operation for which local currency is required, but they did not propose these schemes to Canada for a variety of reasons. For example, if the United States undertakes to build a fertilizer factory in Asia this will require a certain amount of foreign exchange and a certain amount of local currency. They would not likely propose to Canada that we put our counterpart funds into an American or, say, a German project. They have been inclined to hold their proposals for schemes in which Canada is providing also the foreign exchange. It is true, of course, that there are numerous projects which require local currency but for various reasons it has not been felt appropriate to put those proposals to Canada. There have also been cases where proposals were not submitted to Canada because they did not know what our policy would be in respect to the use of counterpart funds for the purposes they had in mind.

A recent example can be found in India where it is proposed to build a number of technical institutes under the expanded education program and these will not require any foreign exchange. They are fairly modest, humble buildings that can be erected entirely with local materials and the Indians hesitated to put that scheme to Canada because no foreign exchange was involved. Canada suggested that this would be an appropriate and an effective use of its counterpart funds. At the moment there are two Canadian engineering Deans in India who have reported favourably on the project and the Canadian government has already indicated that, it is agreeable in principle to using counterpart funds for those buildings which will amount to about $10 million. I think that in the next year we will be getting more proposals from these Asian countries for different types of schemes, which the Canadian government can readily accept.

Mr. WINCH: May I ask one question, but not on copper or aluminum? If Canada makes a gift of wheat or powdered milk because the people of a recipient country are hungry, does the recipient government have to sell the wheat or milk and establish a counterpart fund, or can the recipient government give them away at its own discretion to the people who are not able to buy them, and still establish a counterpart fund?

Mr. MORAN: It depends on the nature of the gift and the form it takes. If it comes under the Colombo plan, counterpart funds must be established. It is true, of course, that Canada has made a number of gifts of wheat and other food to countries in Asia at times of food shortages and counterpart funds have not been established. The reason counterpart funds must be established under the Colombo Plan is because under the wording of the Parliamentary vote Colombo Plan funds must be used for purposes of economic development and, in some instances, it has been argued in Canada that consumer items do not contribute to economic development. In order to satisfy

the wording of the vote it was decided to set up counterpart funds which in turn, would be used to finance economic development projects.

Mr. WINCH: Of course, they could give food under the Colombo plan on that basis?

Mr. MORAN: Under the Colombo plan counterpart funds must be established.

Mr. SMITH (*Simcoe North*): To clear up a slight misunderstanding, it was suggested in the Auditor General's report that no statements had been received. It reads: "however, no such statements had yet been received," and there was a question a few moments ago as to the reason for the wording in the report.

Mr. MORAN: This amount is not the cost to the Canadian government; this is the amount which the recipient government realizes from the sale. The practice in Asian countries varies. In Pakistan, for example, when they get a gift of copper rod, before they sell it to, perhaps, a firm out there that makes copper wire they take the price in Canada of that copper rod, add to it the shipping charges, plus the tariff, or customs duty, and then pass on to the consumer the total amount as the sale price. That figure is unrelated to the cost to the Canadian government.

Mr. BENIDICKSON: I am talking about the paragraph in the accounts that states here, in the Auditor General's language: however, no such statements have yet been received for counterpart funds in respect of commodities on which the Canadian expenditures were as follows. So, I am saying that these figures relate to expenditures by the Canadian government and we have no information as to the figures that might be set up in the books of the recipient countries as to what counterpart funds have been established. These are different figures altogether, and presumably what eventually would be referred to in the certificates from the other countries. I was wondering if we could get some statement as to Mr. Moran's estimate of the unused counterpart funds values in these various countries at the moment. Even if they are not certified, he has some information, he says, as to an understanding on the figures.

Mr. MORAN: Yes, I could give you those figures broken down into the counterpart funds which the recipient countries have agreed to set aside, the amounts that have been allocated to projects and the unallocated balance.

Mr. BELL (*Carleton*): Might it be printed in the record, do you think, at this point, Mr. Chairman?

The CHAIRMAN: Yes.

NOTE: *The statement concerning countrycase funds is as follows:*

Country	C.F. Which Countries Have Agreed to Set Aside	Allocated to Projects	Unallocated Balance
India	$108,935,000	$45,000,000	$ 63,935,000
Pakistan ..	46,931,000	11,700,000	35,231,000
Ceylon ...	10,421,500	4,421,500	6,000,000
Nepal	60,000	nil	60,000
Burma ...	1,200,000	nil	1,200,000
Vietnam ..	300,000	nil	300,000
Cambodia .	100,000	nil	100,000
Indonesia .	850,000	nil	850,000
Totals	$168,797,500	$61,121,500	$107,676,000

Approximated figures in Colombo Plan and special grant counterpart fund accounts.

Mr. MORAN: I would like to register, if I may, only one reservation: that these figures have been produced as part of the study of counterpart funds I mentioned we carried out last December and I would not want to certify them as absolated accurate in every respect. For instance, if next year I am called before this Committee, I would not want to be reminded that this year I recorded a figure of say $108 million and next year it was shown as $107 million. These are not figures that have been extracted by accountants, but they are figures based on the understandings that we have reached with the recipient countries.

Mr. CHAIRMAN: It is agreed with this reservation. I wonder if I could ask one question of Mr. Moran. How frequently does the director general propose to follow this matter in delay and accounting for counterpart funds?

Mr. MORAN: This is done continuously. I think what you have to remember in the matter of the Auditor General's certificates is that we are dealing with Asia and not with the Canadian Auditor General, who gets his certificates out on time. Under our technical assistance programs we have been helping these countries in such things as auditor general procedures, they are all still quite weak in the statistical field. There is an Asian country that could not give you a population figure.

Mr. CHOWN: Mr. Chairman, the record should be corrected as to the amount which Mr. Winch gave. He said $34 million. The amount is closer to $85 million.

The CHAIRMAN: It is now 11 o'clock. Next day, if there are any questions between 17 and 29, we will take those up first and we will proceed with the allotted questions that were given to each member of the committee. The meeting is adjourned.

APPENDIX "A"

OFFER FORM CADC 31 (REV.) **CROWN ASSETS DISPOSAL CORPORATION** Date February 16th, 1961.

CUSTODIAN	LOCATION
Dept. of National Defence (Navy), Naval Supply Depot, Montreal, 555 Dollard St., LaSalle, P.Q.	Dept. of National Defence (Navy), Naval Supply Depot, Montreal, 555 Dollard St., LaSalle, P.Q.

DECLARERS FILE REFERENCE: See Below

SALES ORDER NUMBER:

CLOSING DATE: March 16th, 1961.

TERMS OF PAYMENT: CASH

Subject to prior sale or withdrawal, in whole or in part, CROWN ASSETS DISPOSAL CORPORATION solicits offers for the purchase of the CROWN owned material or property listed below on an "as is and where is" basis and subject to the conditions of sale endorsed hereon.

Inspection, prior to making an offer, is the responsibility of the prospective purchaser and may be arranged during regular office hours, Monday to Friday inclusive (Public Holidays excepted) by presentation of this form to the Custodian.

If the Item(s) described below consist of movable property the Purchaser must make all arrangements and assume full responsibility for necessary packing, shipping and transport within the time specified (see Condition 3 on reverse).

Please submit any offer you wish to make by completing and signing one copy of this form in the appropriate space provided below and mailing to the CORPORATION at the address shown, retaining the other copy for your records.

The CORPORATION reserves the right to accept or reject any offer.

This offer, signed in ink, must be forwarded Post Paid in a sealed envelope showing on the outside in the lower left hand corner:

"Offer to Purchase
Serial Number 251-133804 "

Addressed to:

CROWN ASSETS DISPOSAL CORPORATION

132 Lyon St.,
Ottawa, Ontario.

ITEM NO.	RS ITEM NO.	QUANTITY	DESCRIPTION	UNIT	UNIT PRICE OFFERED	TOTAL
			Textiles as per attached list Pages 1 and 2 incl., covering:			CANADIAN FUNDS
	LOT 1		Decl. NS6030-HQ3217 Serial: 251-133804 Item 3 Only.		LOT PRICE	
	LOT 2		Decl. NS6030-HQ3213 Serial: 251-133862 Items 2, 4 to 7 Incl., 10, 14 and 16.		LOT PRICE	
	LOT 3		Decl. NS6030-HQ3212 Serial: 251-134065 Items 1, 4, 6 to 8 Incl., 17, 18, 22, 25, 28, 30, 31 and 46.		LOT PRICE	
	LOT 4		Decl. NS6030-HQ3216 Serial: 251-134066 Items 4 to 7 Incl., 9, 12, 13, 15, 19, 20, 22, 31, 33 to 35 Incl., and 40.		LOT PRICE	
			1. This material is sold for export only. 2. Successful bidder must be prepared to submit to the Corporation the name of an acceptable export broker or forwarding company who will arrange documentation and shipment. The purchaser must be prepared to provide a bond satisfactory to the Corporation to guarantee export. 3. PAYMENT - Certified cheque payable to Crown Assets Disposal Corporation for 10% of tender price must be submitted with offer, balance on demand. 10% deposit may be forfeited if purchaser declines to complete sale. Cheques of unsuccessful bidders will be returned. 4. The time limits specified under Conditions of Sale 3 and 4 on the reverse hereof shall be deemed to read 90 days. 5. The material detailed on the attached list is reported to be "UNUSED".			
					TOTAL	

Subject to the conditions contained herein I/We hereby offer to purchase the Item(s) described above and/or on the attached sheets.....to.....at the price(s) indicated, having satisfied myself/ourselves as to the quality, type, kind and condition of said Item(s).

Recommended	Firm Name and Address of bidder	Signature and Title
Salesman		Date

IMPORTANT

TO AVOID ANY MISUNDERSTANDING BE SURE TO READ CONDITIONS CONTAINED IN THIS OFFER FORM INCLUDING GENERAL CONDITIONS OF SALE ON THE REVERSE SIDE OF THIS FORM.

GENERAL CONDITIONS OF SALE

1. CROWN ASSETS DISPOSAL CORPORATION (hereinafter referred to as "THE CORPORATION") reserves the right to withdraw from the sale any property which has not been delivered to the purchaser without incurring any liability except to refund to the purchaser any amount paid on account of such property.

2. The CORPORATION further reserves the right to cancel the sale without liability if the property or any part thereof is purchased on behalf of any principal whose name and address have not been communicated to the CORPORATION in writing prior to the sale.

3. The Purchaser, upon acceptance of this offer by the CORPORATION, shall remove the property within thirty (30) days after receiving notice from the Custodian that the property is ready for removal.

4. In the event of the Purchaser failing to remove the property within thirty (30) days after receiving notice from the Custodian that the property is ready for removal the CORPORATION, without prejudice to any other remedies, may cancel the contract without notice to the Purchaser and retain as liquidated damages any deposit and any amount paid on account of the property, and the Purchaser shall lose all claim to and interest in the property and may be held responsible for all loss, cost and expense incurred by the CORPORATION due to the Purchaser's failure or default.

5. Where goods are sold by weight, their weight shall be determined by weighing them at or near loading point on a municipal, railway or other suitable scale selected by a representative of the CORPORATION or of the custodian.

6. The purchaser shall not be entitled to contest the accuracy of the CORPORATION'S shipping documents unless notice in writing setting forth particulars of the purchaser's claim shall have been despatched to the CORPORATION at its address as shown on the face of this form within 72 hours after the delivery of the material in respect of which, such claim is made and unless such material shall have been held on the purchaser's premises until inspection by an authorized representative of the CORPORATION.

7. The purchaser shall be responsible for any damage to surrounding property, including buildings, resulting from the removal of the property sold, and shall hold harmless and indemnify the CORPORATION and HER MAJESTY THE QUEEN in RIGHT OF CANADA against any claim resulting from such damage.

8. The CORPORATION will not be liable for loss, damage or destruction from any cause whatsoever of the property sold; but, should any of such property be lost or destroyed during the period allowed for removal and prior to the actual removal or shipment thereof, the CORPORATION will refund to the purchaser any moneys paid as the price of or otherwise on account of the property so lost or destroyed.

9. The CORPORATION warrants its title or the title of HER MAJESTY THE QUEEN IN RIGHT OF CANADA to the property sold and delivered but makes no other warranty, express or implied, by way of description of the property or otherwise.

10. Sales are subject to such adjustment, upon the request of the purchaser, as the CORPORATION may in its discretion, determine to be equitable under the circumstances. Requests for any such adjustments will be considered only if filed within thirty days after the date of the acceptance of offer (or such other period as may at any time be specifically allowed in writing). The decision of the CORPORATION shall in all cases be final.

11. No member of the House of Commons of Canada shall be admitted to any share or part of the contract or to any benefit to arise therefrom.

12. Sale is made upon the express condition that no bribe, gift, gratuity or other inducement shall have been paid, given, promised, held out or offered to any official or employee of HER MAJESTY or of the CORPORATION for the purpose of, or with a view to obtaining the acceptance of the purchaser's tender or otherwise in connection with the purchase by the purchaser of the property sold; and, further, on the express condition that the purchaser shall not have employed any person to solicit or secure the sale to him of the property sold upon any agreement for a commission, percentage, brokerage or contingent fee payable by or on behalf of the purchaser. Should either of these conditions not be fulfilled, the CORPORATION shall have the right to cancel the sale without liability.

13. If the property sold consists of buildings, structures, installations or any of them, which the purchaser is, under the provisions of the offer, required to remove from the land on which they are erected or installed, conditions 3, 4, 5, 6 and 8 shall not apply but the following conditions shall apply:

    (a) In the event of the purchaser failing to complete, to the satisfaction of the CORPORATION, the removal of the property and the performance of all restoration and other work, if any, as required by and within the time specified in the offer, the CORPORATION, without prejudice to any other right or remedy which it may have, shall be entitled:

        (i) To take possession of and/or to dispose of any or all of the property not so removed; and/or

        (ii) To complete in whole or in part any work which the purchaser has failed to complete and to hold the purchaser responsible for all loss, cost and expense thereby incurred by the CORPORATION or otherwise due to the Purchaser's failure or default;

        And the purchaser shall lose all claim to and interest in the property so taken possession of or disposed of and shall have no claim to any money paid or deposited by him in respect of the property.

    (b) The CORPORATION will not be liable for loss, damage or destruction from any cause whatsoever of the property sold.

-1-

LOCATION: Dept. of National Defence, (Navy), Naval Supply Depot, Montreal, 555 Dollard St., LaSalle, P.Q.

Decl's File: See Below
CADC Serial: See Below

ITEM	QUANTITY	DETAILS
		Decl. NS 6030-HQ 3217 Serial: 251-133804
LOT 1		
3	159,747 5/8 yds	M4030C Cloth Interlining Stiff Type III Natural 9 oz. 1-22-4.
		Decl. NS 6030-HQ 3213 Serial: 251-133862
LOT 2		
2	74,301 7/8 yds	S3070 Cloth Nylon Twill WR 2.35 oz. 38" OD 7-7-2-2
4	3,169.3 yds	S3071A Cloth Nylon Twill WR 2.35 oz. 45" AF Blue 7-2-2
5	19,941.3 yds	S3200 Cloth Acetate High Tenacity-fume resistant 2.4 oz. 44" White.
6	40,978 1/8 yds	S3210C Cloth Rayon Cotton Lining 5.25 oz. 54" Khaki
7	11,981 yds	S3240B Rayon Twill Khaki 3.75 oz. 4-1-3
10	18,622.7 yds	CA8305-21-103-3588 Cloth Nylon Twill OD 7 38" W.R. 2.35 oz. Text 7-2-2
14	9,524 yds	ALPHA 4 Cloth Cotton Nylon sub-standard 8.8 oz. OD No. 7 37½"
16	58,009.4 yds	2H777777 Cloth Nylon Taffeta WR 2.6 oz. 42" OD 7 Text 7-1-1
		Decl. NS 6030-HQ 3212 Serial: 251-134065
LOT 3		
1	11,552.7 yds	C2010 Cotton, Aerocord Blue 10 oz. WRSS
4	5,357.2 yds	C2110 Cotton Down Proof W/R 31 oz. 40" Natural SS
6	14,815 yds	C2130B/1 Cotton Drill 8.5 oz. OD 7, OD 1-14-2 29" (Seconds)
7	13,781 5/8 yds	C2160A Cotton Drill Satin Navy Blue 10.5 oz. 1-14-5, 29".
8	5,066.1 yds	C2160C Cotton Drill Satin, Navy Blue 10.5 1-14-5, 29"
17	421,678 yds	C2250A Cotton Flannelette, 4.75 oz. 36" OD 7. 1-17-1.
18	27,210 3/8 yds.	C2330 Cotton Oxford W/R 6.5 oz. 36" OD 7D, 1-8-2
22	438,489 yds	C2410B Cotton Type III, Ticking finish 4.7 oz. 36" Khaki, 1-12-3.
25	11,669.2 yds	C2450 Cotton Webbing Type 1, Single 2" Khaki, 1-4-8
28	15,775.2 yds	518-5301 Combine Cotton 26" 10.3 oz. "Can" Text 4-1
30	382,678.6 yds	518-9501 Tape Cotton White 1" NA
31	11,913.3 yds	CA/6530 Cloth W/P Light Drab, No. 3 33/34" (Limited Standard)
46	10,000 yds	CA/A8305-21-103-3574 Cloth Cotton Drill 36" Khaki.

...../2

-2-

Decl's File: See Below
CADC Serial: See Below

LOT 4

ITEM	QUANTITY	DETAILS
		Decl. NS 6030-HQ 3216 Serial: 251-134066
4	297,111 yds	W1050A Flannel 4.75 oz. 60" Khaki
5	50,028 yds	W1050B Flannel 4.75 oz. Khaki 32"
6	16,000 yds	W1060 Flannel Natural Text 2-3-2, 5.25 oz.
7	6,843 yds	W1090 11.5 oz. Melton Steamed Navy Blue Text 3-4-1
9	6,204½yds	W1110A Melton 11 oz. Natural 56" 9-1-1
12	3,139.2yds	W1170 Serge Blue 12.85 oz. V-Test 16
13	20,522 3/8	yds. W1190B Wool Filled Serge MP 9.5 oz. 36" Khaki 3-1-2.
15	28,923 yds	W1200A Wool filled Serge, Navy Blue 10.75 oz. 3-2-1
19	24,459 1/8	yds 518-7601 Wool filled serge 10.75 oz. Text 56" Blue 3-2-1
20	11,264 1/2	yds 518-7801 Wool & Cotton Lining 9.5 oz. 36" Blue Text 3-1-2
22	7,127 3/4	yds CA/A6050 Cloth Drab No. 34 (Text A136)
31	36,871 3/8	yds CA/8305-21-103-3625 Cloth Frieze Drab
33	7,498.1	yds CA/8305-21-103-3674 Cloth Serge W/R Drab #31
34	7,308.1	yds CA/8305-21-103-3680 Cloth Serge Drab Cadet 56" 12 oz. Spec. A-97.
35	36,589 7/8	yds. CA/8305-21-103-3672 Cloth Serge Lining #22A Drab
40	8,585 yds	CA/8305-21-103-3677 Cloth Worsted Gabardine MP 9 oz. Navy Blue 60" DOS Seal Pattern 1-2804.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Public Accounts (1960), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, MARCH 15, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24703-1—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark	Drysdale	*Pickersgill
Beech	Dupuis	Pigeon
Bell (*Carleton*)	Fisher	Pratt
Benidickson	Grenier	Robichaud
Bissonnette	Hanbidge	Rouleau
Bourbonnais	Hellyer	Smith (*Simcoe North*)
Bourget	Keays	Smith (*Winnipeg North*)
Brassard (*Chicoutimi*)	Lahaye	Spencer
Broome	Macdonnell	Stefanson
Bruchési	McGee	Stewart
Campeau	McGrath	Tucker
Chown	McGregor	Valade
Coates	Martel	Villeneuve
Danforth	Morissette	Winch
Denis	Morton	Woolliams
Deschatelets	Nugent	Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

* Replaced on Monday, March 13, 1961 by Mr. McMillan.

ORDER OF REFERENCE

MONDAY, March 13, 1961.

Ordered—That the name of Mr. McMillan be substituted for that of Mr. Pickersgill on the Standing Committee on Public Accounts.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

24703-1—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, March 15, 1961.
(5)

The Standing Committee on Public Accounts met at 9.38 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Bissonnette, Bourget, Broome, Chown, Danforth, Deschatelets, Drysdale, Hales, Hellyer, Keays, Macnaughton, McGee, McMillan, Martel, Morissette, Morton, Pratt, Robichaud, Smith (*Simcoe North*), Stefanson, Stewart, Tucker, Villeneuve and Winch—(26).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; and Messrs. G. R. Long, D. A. Smith, A. B. Stokes and G. A. Morrison; and Mr. H. W. Johnson, Director, Accounting Services, Comptroller of the Treasury.

Mr. Winch made a report on the progress of the work undertaken by the Sub-Committee on the form and content of Public Accounts.

The Committee considered paragraphs 17 to 43 inclusive, and paragraphs 45 and 46 of the Auditor General's Report.

Mr. Henderson, assisted by Messrs. Stevenson, Long, Morrison and Smith, was questioned.

Agreed,—That witnesses be heard with respect to paragraphs 41 and 48.

The Auditor General was instructed to follow up with the Department of Fisheries the case referred to in paragraph 46 of the Auditor General's Report.

At 11.00 a.m. the Committee adjourned to meet again at 9.30 a.m., Wednesday, March 22, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, March 15, 1961.
9.30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. It is my pleasure to welcome Dr. McMillan, who is replacing Mr. J. W. Pickersgill. Is Mr. Spencer here? Is there a member of that subcommittee here? Yes, Mr. Winch. Would you care to say what is the present status of the subcommittee?

Mr. WINCH: I would say, Mr. Chairman, that the subcommittee has had two meetings. We have had the pleasure of having before us Mr. Henderson and Mr. Stevenson from the Auditor General's department, and Mr. Balls from the treasury department. It is proving a most interesting subcommittee, and we are receiving a lot of factual information from both the Auditor General's department and the treasury. We are being given reasons as to why certain things are in the public accounts, and also having our attention drawn to the factors concerned, which representatives of both the departments of the subcommittee should study so as to be in a position to reach some conclusion and to bring recommendations to the general committee. I would say that the subcommittee—although I am a member of it—is progressing most satisfactorily. Because we think it is of the utmost importance that, if possible, a report should be made to the general committee before the Easter recess, the committee is meeting three times a week, and because there are so many committees meeting, we are meeting over the lunch-hour and having sandwiches and coffee sent down so we can continue work on that basis and try to get the report in to the general committee before the Easter recess.

In reporting progress, I may say that I think so far it has proved not only most interesting, but, with the cooperation which we are receiving, I anticipate that we will be able to bring in a fairly good analysis with a number of recommendations for the consideration of the committee.

The CHAIRMAN: Thank you, Mr. Winch. Gentlemen, this morning I am going to push you as fast as I can. We are trying to get through the Auditor General's report by Easter, if possible. May I call your attention to paragraphs 17 to 29 which are, in effect, purely explanatory. This gives background material where you can see, in brief form, the expenditures and the revenues.

Starting at paragraph 17:

SUMMARY OF EXPENDITURE AND REVENUE

17. The Statement of Expenditure and Revenue for the year ended March 31, 1960, prepared by the Department of Finance for inclusion in the Public Accounts, is given as Appendix 1 to this report. It shows expenditure totalling $5,703 million and revenue amounting to $5,290 million. The deficit for the year was, therefore, $413 million compared with $609 million in the preceding fiscal year and $38 million in 1957-58.

18. The actual results for the year ended March 31, 1960 compare with the estimated expenditure, revenue and deficit, respectively, as forecast by the Minister of Finance in his Budget Speech on April 9, 1959, as follows:

	Estimated	Actual
Expenditure	$ 5,660 million	$ 5,703 million
Revenue	5,267 million	5,290 million
Deficit	$ 393 million	$ 413 million

EXPENDITURE

19. The Summary of Appropriations, Expenditure and Unexpended Balances, by Departments for the year ended March 31, 1960, prepared for inclusion in the Public Accounts and given as Appendix 3 to this report, shows appropriations amounting to $6,046 million, expenditures totalling $5,703 million and unexpended balances of $343 million.

20. Of the $6,046 million of appropriations, $2,296 million represented statutory appropriations, $3,720 million was for appropriations granted under Appropriation Acts (Nos. 2, 4 and 5 of 1959, and Nos. 1 and 3 of 1960), and $30 million was provided by continuing 1958-59 appropriations (Votes 709, 734 and 741).

The expenditure of $5,703 million comprised, in addition to the $2,296 million spent under statutory appropriations, amounts totalling $3,407 million charged to the annual appropriations.

The unexpended balances of $343 million lapsed at the end of the year in compliance with Section 35 of the Financial Administration Act with the exception of the unspent balances of $14,625,000 and $490,000, respectively, in Votes 615 and 648. These balances remained available for expenditure in 1960-61 because of the special wording in the appropriations, both of which were for continuing projects:

Vote 615: Payments to provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1959-60 and 1960-61 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 1st day of December, 1959, to the 30th day of April, 1960, in accordance with terms and conditions approved by the Governor in Council $15,000,000

Vote 648: Expenses in connection with Canada's participation in the World Refugee Year and, notwithstanding section 35 of the Financial Administration Act, to authorize payments to be made pursuant to this vote up to the 1st day of April, 1961; there shall be charged to this vote and included in the unexpended balance of Vote 55 of the Main Estimates, 1959-60, an amount equal to the amount spent and charged to that vote in connection with the World Refugee Year.. $600,000

I notice in the third paragraph of paragraph 20 it says: "the unexpended balances of $343 million dollars lapsed". I suppose, in a large budget of several billions it is almost impossible not to be in the position of having certain expenditures estimated and unspent at the end of the year. Would that be a fair explanation?

Mr. A. MAXWELL HENDERSON (*Auditor General of Canada*): That is quite correct, Mr. Chairman.

The CHAIRMAN: Anything else, gentlemen?

Paragraph 21:

21. The following table summarizes the expenditure, by departments, for the fiscal year 1959-60, in comparison with the corresponding amounts for two previous years:

Department	1957-58	1958-59	1959-60
Agriculture	$ 94,661,000	$ 165,842,000	$ 181,390,000
Canadian Broadcasting Corporation	42,974,000	62,018,000	63,946,000
Citizenship and Immigration	51,805,000	52,844,000	54,917,000
External Affairs	60,209,000	75,486,000	96,895,000
Finance	1,187,362,000	1,228,205,000	1,420,155,000
Labour	81,695,000	86,756,000	102,885,000
Mines and Technical Surveys	36,135,000	43,789,000	54,432,000
National Defence	1,668,439,000	1,424,741,000	1,514,904,000
National Health and Welfare	662,730,000	872,917,000	818,371,000
National Revenue	67,709,000	68,788,000	68,696,000
Northern Affairs and National Resources	49,095,000	65,177,000	81,112,000
Post Office	153,320,000	157,803,000	165,792,000
Public Works	209,258,000	226,061,000	217,876,000
Royal Canadian Mounted Police	47,356,000	51,735,000	52,444,000
Trade and Commerce	56,939,000	65,636,000	67,443,000
Transport	206,734,000	288,838,000	296,447,000
Veterans Affairs	277,242,000	288,784,000	288,305,000
Other departments	133,748,000	138,620,000	156,851,000
	$ 5,087,411,000	$ 5,364,040,000	$ 5,702,861,000

The amounts shown for the Department of National Health and Welfare do not include outlays under the Old Age Security Act, which were charged to the Old Age Security Fund (see paragraph 28).

In those cases where departmental expenditure totals for 1959-60 varied from those for 1958-59 by more than 5%, comments are made in the following paragraphs regarding the variations in individual appropriations or groups of appropriations which mainly accounted for the changes in the departmental totals.

Mr. BROOME: There is one question I would like to ask in regard to the lapse of appropriations. In the Auditor General's opinion, is there pressure on the departments to try and spend this money and perhaps to receive supplies and equipment ahead of time, which may sit around for quite a long time and not be used? This would consequently pile up money, and perhaps encourage charges, just because the department knows that if they do not spend the money, next year they will have difficulty getting their appropriations through because they may have had a certain amount which they had not as yet spent. In other words, in your opinion, are we wasting money through trying to spend money too quickly?

Mr. HENDERSON: I am interested to hear you say that, Mr. Broome, because, last year I recall you addressed the same question to me. I do not think we can say it is a waste of money. I think the system is such that this particular aspect of the problem is going to be with us for some time. It is only human, after all, to have some regard to what you have left over before the end of the year comes, and if there is something which you could spend, it is only proper to give very serious consideration to spending it; because if you do not spend it, it might be held against you when you are making your demands for additional funds in later years. I have been giving some thought to this since you raised it a year ago, and I might say that I am taking some special steps this year to satisfy myself as to the situation.

Mr. DRYSDALE: Mr. Henderson, I was wondering if there is any particular department which has a substantial amount of the lapsed balances, and are there any outstanding amounts which contribute to the lapsed balance? Perhaps you could indicate generally the nature of these lapsed balances?

Mr. CHOWN: Is it possible to interfere briefly and to ask for a breakdown?

Mr. HALES: Mr. Chairman, on page 80, appendix 3 gives that information.

Mr. HENDERSON: Yes, appendix 3 gives the unexpended balances of appropriations by departments. You will note that the lapsed balances amount to about $328 million, which was about 9 per cent of the non-statutory appropriations for those departments, during the year. Several lapsed balances were more than 10 per cent of the appropriations. Defence Production had $6,288,000 which was unexpended; that was 26 per cent. External Affairs had $14,811,000 unexpended; that was 13 per cent. The national gallery of Canada had $175,000 which was 19 per cent; and the privy council had $210,000, which was 13 per cent of the appropriations.

I do have some details as to votes for the departments to which I have referred, if you would like to have them.

Mr. DRYSDALE: Is there any general nature as to the lapses?

Mr. HENDERSON: You might be interested in Defence Production, which was unexpended to the extent of $6,288,000. That was 26 per cent of their appropriations. In Defence Production, for vote 70, which was "for the establishment of production capacity and for capital assistance for the construction, acquisition, extension or improvement of capital equipment or works by private contractors engaged in defence contracts, or by crown plants operated on a management-fee basis..." they spent only 59 per cent, and the lapsed balance was as high as 41 per cent. The next vote is 71: "to sustain technological capability in Canadian industry..." Out of the $5 million the lapsed balance is 63 per cent.

Mr. WINCH: May I ask one question, Mr. Chairman? From an accountant's point of view, in relation to the complexity of a government service, is there anything which is established as being a fair percentage ratio as to how close the estimate of a department should be to its expenditure? You pointed out that they are not as high as 21 per cent. With all of us recognizing the complexity of the government service, is there, from an accountant's point of view, anything which you feel a department should do to come to within 3, 4 or 5 per cent, or whatever it is, of their estimate as related to their expenditure after they make that estimate?

Mr. HENDERSON: It is possible to come fairly close when you are dealing with standard types of expenses. But when you move into some of the larger realms of defence production, I think it is pretty difficult to be able to predict to the extent required what you are going to spend.

Mr. WINCH: On a standard type of expenditure, how close would an accountant stay?

Mr. HENDERSON: Five per cent would ordinarly be regarded as reasonable.

Mr. MORTON: Mr. Chairman, along that line, I think there is some difficulty there. For instance, a vote may be for so many million dollars expected to be spent within the year. You may have committed yourself to getting that item but unable to fill that vote within the year. As I understand it, the vote has to go over to next year as lapsed balance. They are still permitted to obtain that, but through some delay, technical or otherwise, they are unable to complete the commitment on that vote.

Mr. HENDERSON: That would be because we operate on a cash basis and not on an accrual basis.

Mr. MORTON: That is right. So it is not correct to say that you are not spending the money; that is not a true picture. The reason there is a lapse is because you have been unable to obtain the item you wanted, or the contract which you had contemplated, and the department has no right to spend that money on anything else.

Mr. HENDERSON: That is quite right. There is a good example of it here in the External Affairs lapsing, which I gave you. It was an overall 13 per cent of its appropriation. There were a couple of votes in connection with the West Indies assistance program of $2.7 million, and the amount which lapsed was $2.5 million, or 94 per cent. I think it was due to the non-delivery of a ship for the island service, or something of that kind. I recall reading something about it in *Hansard*.

Mr. HELLYER: That might be the case in extreme cases such as you have given us, but in the Department of Defence Production it would seem that the reason for it was a change in policy, because there are defence related industries which would have more than taken up the amount of funds authorized by parliament.

Do you know of any significant thing with respect to these under-expenditures? Do you know if any pressure was applied by treasury board not to spend the funds which parliament had authorized?

Mr. HENDERSON: That is something I do not know.

Mr. HELLYER: But you would suspect from the vote that the under-expenditures were caused as a result of policy rather than inability to spend the funds properly?

Mr. HENDERSON: It could well be.

Mr. BELL (*Carleton*): Surely you do not operate on suspicions in this committee, but on the basis of evidence.

Mr. HELLYER: The evidence is before us. The evidence is that parliament authorized certain funds, while the departmental expenditure was only 40 to 60 per cent.

Mr. MORTON: That is true. But anybody dealing with publicly owned bodies will know there are always technicalities which arise.

Mr. HELLYER: The money was not there to spend.

Mr. CHOWN: It must be very difficult indeed for any minister of finance to predict the budget accurately.

Mr. HENDERSON: Yes. I would say it is a pretty unenviable job here, as compared to a business where you can do it on the basis of a projected sales volume. Here you have to do it 18 months ahead of the time you are going to spend it.

Mr. BROOME: Would there be any advantage if the department is committed to a certain purpose, such as to buy a ship, or whatever it may be, to say that the money has been voted for it, and that all the money has not been spent because the product has not been received? Should it not be considered then as an unexpended sum? Would that not remove the rush and hurry of trying to complete these things before the end of the fiscal year? And would it not also set up these unexpended monies for the purpose that parliament has voted them for? Mr. Hellyer may say that if we do not spend it on oranges, it should be spent on apples. But I say that if we do not spend it on apples, then the money should be set aside.

Mr. HENDERSON: I was only giving you the information which is included in my notes. If particular cases were examined in depth, I have no doubt that the situation you describe would be present in a number of cases.

The CHAIRMAN: Shall we go on now? I think the various points have been at least made. Paragraphs 22 to 29 are examples in short form of various increases, and the reasons for them.

Mr. HENDERSON: These are really explanatory paragraphs of the main differences between the two years.

22. *Agriculture.* The increase of $16 million (9%) in expenditure by this department in 1959-60 compared with 1958-59 was due to payments of $5 million in contributions to Western provinces for unharvested crops, and to increases of $4 million (30%) in expenditures for rehabilitation and reclamation projects, and $4 million (19%) in payments of freight assistance on Western feed grains. There was no outlay for acreage payments to Western grain producers in 1959-60 corresponding to the $41 million of such payments in 1958-59, but this saving was more than offset by an increase of $43 million in the amount appropriated towards the net operating loss in the Agricultural Commodities Stabilization Account.

23. *External Affairs.* The $21 million (28%) increase in expenditure by this department resulted from increases of $15 million (43%) in grants to the Colombo Plan Fund and $6 million (54%) in contributions to international organizations. The latter increase was due mainly to the donation of dry skimmed milk and canned pork with a value of approximately $4 million to international relief agencies during 1959-60.

24. *Finance.* Expenditures by this department rose by nearly $192 million (16%) in the year under review. Public debt charges increased by $135 million (21%) and subsidies and tax-sharing payments to the provinces were up $52 million (11%) over the preceding year.

25. *Labour.* The increase of $16 million (19%) in expenditure by this department was mainly accounted for by increases of $9 million (23%) in the government's contribution to the Unemployment Insurance Fund and of $7 million in payments to the provinces in respect of winter works projects. The winter works program became operative only towards the close of the preceding fiscal year and the 1959-60 accounts were therefore the first to reflect charges for a full fiscal year.

26. *Mines and Technical Surveys.* The increase of $11 million (23%) in expenditure by this department was mainly due to increases of $6 million (68%) in payments by the Dominion Coal Board in respect of the movement of coal and $3 million (34%) in payments under the Emergency Gold Mining Assistance Act.

27. *National Defence.* The expenditure figure for this department in 1959-60, when compared with the corresponding amount for the preceding year, indicates an increase of $90 million or 6%. However, when $212 million of outlays charged to the National Defence Equipment Account in 1958-59 are taken into consideration, there was, in fact, an overall decrease in expenditure of $122 million or 7%. This decrease is partly accounted for by reductions of $35 million (47%) in expenditure for Defence Research and Development and $32 million (4%) in that for the Air Service. There was also a decrease of $30 million (43%) in Mutual Aid expenditure, taking into consideration a change in the method of accounting, whereby the costs of equipment transferred from Service holdings and of aircrew training were borne by the Service appropriations instead of being charged against the Mutual Aid appropriation, as previously.

Mr. MCMILLAN: In connection with paragraph 27 there is an advance of $28 million charged up under the old age security fund. Is it anticipated that there will be a surplus in that fund this year?

Mr. HENDERSON: Are you speaking of paragraph 27?

Mr. MCMILLAN: No, I am sorry; I meant paragraph 28.

28. *National Health and Welfare.* The decrease of $55 million (6%) in expenditure by this department mainly resulted from there being no charge in 1959-60 corresponding to that of $184 million for the repayment of temporary loans to cover the deficiency in the Old Age Security Fund in 1958-59, with this saving being partially offset by increases of $96 million (175%) in the government's contributions under the Hospital Insurance and Diagnostic Services Act, $16 million (3%) in family allowances and $16 million (68%) in unemployment assistance.

The absence of any expenditure charge in 1959-60 to cover the deficiency in the Old Age Security Fund was the result of the decision to carry forward to 1960-61 the 1959-60 temporary loan of $28 million (representing the deficiency for that year) rather than to charge the amount as a budgetary expenditure, as in 1958-59. The following is a summary of the transactions in the Old Age Security Fund during the year ended March 31, 1960, in comparison with the two previous fiscal years:

	1957-58	1958-59	1959-60
Outlays charged	$ 473,859,000	$ 559,280,000	$ 574,887,000
Collections credited	371,457,000	375,301,000	546,886,000
Deficiency	$ 102,402,000	$ 183,979,000	$ 28,001,000

The considerable increase in payments of contributions towards programs of hospital insurance and diagnostic services administered by the provinces was due to 1959-60 being the first fiscal year in which any province participated for a full year.

Mr. MCMILLAN: Yes, paragraph 28.

Mr. HENDERSON: I did not quite get your question.

The CHAIRMAN: Will you please repeat your question, Mr. McMillan?

Mr. MCMILLAN: In connection with the $28 million deficit in that fund this last year, in the 1959-60 year this was carried forward and not charged to the budget last year. Is it anticipated that there will be a surplus in that collection this year?

Mr. HENDERSON: Dr. McMillan, I believe a surplus is expected in this fund for the year ending March 31, 1961, but it is too soon for us to know definitely yet.

Mr. MCMILLAN: There was some change in the legislation, was there not?

Mr. HENDERSON: Yes, I think so.

Mr. MCMILLAN: That was the reason?

Mr. HENDERSON: Yes, I believe so. The rates were increased, and there was a change in the legislation.

Mr. MCMILLAN: And that came about in mid year of 1960.

Mr. HENDERSON: Yes, that is correct.

The CHAIRMAN: Paragraph 29? Paragraph 30?

29. *Northern Affairs and National Resources.* The $16 million (24%) increase in expenditure by this department in 1959-60 compared with the preceding year was largely accounted for by an increase of $12 million (45%) in expenditure by the Northern Administration and Lands Branch and of $3 million (14%) in expenditure by the National Parks Branch. Of the $12 million increase in expenditure

by the Northern Administration and Lands Branch, the most significant increase was that of $7 million in contributions to the provinces to assist in the development of the "roads to resources" program.

30. A summary of Expenditure, by Standard Objects (i.e., according to the expenditure classification used in the Details of the Estimates) for the year ended March 31, 1960, compared with the corresponding amounts for the preceding fiscal year, is given as Appendix 4 to this report. Details of the expenditures, by standard objects and by departments, for the year ended March 31, 1960, are given in a statement in the Public Accounts, Part II, pages 4 to 9.

May I call your attention to a new item here. I am advised by the Auditor General that appendix 4 is a new addition to the Auditor General's report.

This is a very simple statement—according to the Auditor General—of the standard objects; and it has a very useful table which shows the net increase or decrease in expenditures, and where they came.

I believe this is the first time it has been produced. Is that not right?

Mr. HENDERSON: It is produced in a somewhat different form in the public accounts. But we are putting it in here as a standard schedule, because it seemed to me there was need for a straightforward presentation of what you are spending this year as compared to last year, and the difference.

Mr. BELL (*Carleton*): A document of this sort has always been included in the public accounts.

Mr. HENDERSON: Yes, but in a somewhat different form. I think it was broken down as between defence and non defence expenditures. Here we just put down the straight expenditure by object headings.

The CHAIRMAN: Is there anything on paragraph 30? If not, paragraph 31. revenue? Paragraph 32? Paragraph 33?

31. The revenue for the fiscal year 1959-60 totalled $5,290 million (Appendix 1), an increase of $535 million over the preceding year. The following table summarizes the revenue, by principal sources, in comparison with the corresponding amounts for the two previous years:

	1957-58	1958-59	1959-60
Tax Revenues:			
Personal income tax ....$	1,499,788,000	$ 1,353,500,000	$ 1,566,644,000
Corporation income tax..	1,234,807,000	1,020,550,000	1,142,880,000
Income tax on dividends, interest, etc., going abroad	64,334,000	61,213,000	73,353,000
Sales tax	703,170,000	694,491,000	732,658,000
Other excise taxes	249,421,000	240,624,000	286,568,000
Customs duties	498,069,000	486,509,000	525,722,000
Excise duties	300,133,000	316,744,000	335,207,000
Estate tax	71,608,000	72,535,000	88,431,000
Other tax revenues	1,498,000	1,213,000	877,000
Non-tax Revenues:			
Return on investments ..	169,424,000	221,204,000	239,654,000
Net postal revenue	152,860,000	157,541,000	167,562,000
Other non-tax revenues..	103,676,000	128,599,000	130,195,000
	$ 5,048,788,000	$ 4,754,723,000	$ 5,289,751,000

32. The amounts shown for income taxes and sales tax do not include collections of tax levied under the Old Age Security Act on personal and corporation incomes and on sales. This tax was increased from

2% to 3% effective January 1, 1959 on corporation income, July 1, 1959 on personal income and April 10, 1959 on sales. The collections were credited to the Old Age Security Fund as follows:

Old Age Security Tax	1957-58	1958-59	1959-60
On sales	$ 175,792,000	$ 173,623,000	$ 270,000,000
On personal incomes	135,001,000	146,350,000	185,550,000
On corporation incomes	60,644,000	55,328,000	91,336,000
	$ 371,457,000	$ 375,301,000	$ 546,886,000

The outlays charged to the Fund during the three-year period, together with the collections credited and the resultant deficiencies, are referred to in paragraph 28.

33. The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1960, in comparison with the corresponding amounts for the two previous years:

Excise Tax	1957-58	1958-59	1959-60
Cigarettes	$ 121,493,000	$ 127,148,000	$ 163,608,000
Automobiles	72,331,000	59,308,000	64,281,000
Manufactured tobacco	18,368,000	18,175,000	19,292,000
Television sets and tubes	10,005,000	10,241,000	9,387,000
Phonographs, radios and tubes	6,855,000	7,557,000	8,372,000
Toilet articles and preparations	6,269,000	6,824,000	7,651,000
Jewellery, clocks, watches, chinaware, etc.	5,353,000	5,599,000	5,609,000
Wines	2,744,000	3,140,000	3,027,000
Cigars	2,556,000	2,673,000	2,603,000
Sundry excise taxes	4,172,000	2,530,000	3,099,000
Refunds and drawbacks	—725,000	—2,571,000	—361,000
	$ 249,421,000	$ 240,624,000	$ 286,568,000

The increase of $36 million (29%) in revenue from the tax on cigarettes in 1959-60 compared with the preceding year was mainly due to the increase in the tax rate of two cents per package of 20 cigarettes which came into effect on April 10, 1959.

Mr. ROBICHAUD: In paragraph 33 I notice in the last item "refunds and drawbacks" that the amount for 1959-60 is only 15 per cent of what it was in 1958-59, and 50 per cent of what it was in 1957-58. Is there any explanation for this difference?

Mr. HENDERSON: I am afraid I shall have to get that information. I do not seem to have it among my notes. Might I furnish that to you? I quite agree that an explanation is indicated there.

Mr. MCMILLAN: In connection with paragraph 33 there is an increase of 29 per cent, from $36 million for excise tax on cigarettes. I do not quite recall it, but was the price of cigarettes increased at that time by the amount of the tax? I saw a reference in the press that some manufacturers are considering the possibility of raising the price of cigarettes.

Mr. HENDERSON: Again?

Mr. MCMILLAN: Yes. That is my recollection.

Mr. HENDERSON: My recollection is that at the time of this increase, it was passed on. I do not know if it was passed on completely to the consumer, but I believe the price went up.

Mr. WINCH: As a chain-smoker, I can assure you that it went up.

The CHAIRMAN: Are you referring to the statement of E. C. Wood, President of Imperial Tobacco?

Mr. MCMILLAN: That is right. I think he was talking about an increase in costs as well as an increase in tax.

Mr. HENDERSON: He is no doubt faced with an increase in the cost of manufacturing as well as the question of the tax.

Mr. DRYSDALE: So the cancer scare has not decreased your revenue. There has not been any appreciable effect on your revenue.

Mr. WINCH: I think it is horrible to think that from my only sin, cigarettes, you have to get $160 million.

The CHAIRMAN: It is quite likely that you may be paying more.

Mr. CHOWN: You have to pay something for it.

The CHAIRMAN: Paragraph 34? Paragraph 35?

34. A listing of the excise duties collected during the year ended March 31, 1960 with comparable figures for the two previous years is given in the following table:

Excise Duty	1957-58	1958-59	1959-60
Cigarettes	$ 123,301,000	$ 132,547,000	$ 136,931,000
Spirits	83,653,000	96,551,000	102,354,000
Beer	88,226,000	83,058,000	90,704,000
Other excise duties	8,417,00	8,688,000	9,279,000
Refunds and drawbacks	—3,464,000	—4,100,000	—4,061,000
	$ 300,133,000	$ 316,744,000	$ 335,207,000

The increase in revenue from duties on spirits in 1959-60 was due mainly to an increase in the duty rate of one dollar per proof gallon effective April 10, 1959.

35. The following is a summary of the return on investments for the fiscal year 1959-60 with comparable figures for the two previous years:

Investment	1957-58	1958-59	1959-60
Bank of Canada	$ 68,711,000	$ 88,632,000	$ 74,012,000
Central Mortgage and Housing Corporation	18,221,000	28,961,000	43,804,000
Loans to national governments	10,122,000	31,947,000	31,104,000
Exchange Fund Account	22,880,000	18,626,000	25,513,000
Canadian National Railways	12,454,000	11,451,000	11,073,000
Deposits with chartered banks	5,253,000	4,941,000	10,493,000
The St. Lawrence Seaway Authority			5,000,000
Veterans' Land Act loans	4,941,000	5,007,000	4,952,000
Eldorado Mining and Refining Limited	3,525,000	3,525,000	4,230,000
Northern Ontario Pipe Line Crown Corporation	569,000	3,078,000	4,074,000
Polymer Corporation Limited	4,000,000	4,000,000	4,000,000
Securities Investment Account	1,424,000	2,613,000	3,546,000
National Harbours Board	3,402,000	3,187,000	3,321,000
Farm Credit Corporation	1,637,000	1,956,000	2,815,000
Other loans and investments	12,285,000	13,280,000	11,717,000
	$ 169,424,000	$ 221,204,000	$ 239,654,000

Mr. BROOME: What is meant by return on investments?

Mr. HENDERSON: It is income from investments.

Mr. BROOME: You mean that we get income from the Canadian National Railways?

Mr. HENDERSON: This represents interest on loans, rather than income in the sense of dividends out of profits.

Mr. BROOME: The payments then are added on to the deficit?

Mr. HENDERSON: I do not think I could disagree with you.

Mr. CHOWN: Under an item such as the Central Mortgage and Housing Corporation could we possibly predict such a substantial increase as indicated here from that corporation in the years to come? This would be interest on a direct loan?

Mr. HENDERSON: On the debentures; the greater portion of this is interest on the debentures. In 1957-58 it was $17 million out of $18 million; in 1958-59 it was $26 million; and in 1959-60 it was $39 million out of $44 million.

I should like to take this occasion to correct a clerical error which crept into this table. I am afraid it slipped in despite our close scrutiny. Under 1959-60, for Polymer Corporation Limited, in the last column the $4 million figure should read $3 million; and in the last line under "other loans and investments" the figure shown for 1959-60 of $11,717,000 should read $12,717,000.

Mr. HELLYER: Do you audit the Central Mortgage and Housing Corporation books?

Mr. HENDERSON: No, sir.

Mr. CHOWN: That will leave the total as accurate?

Mr. HENDERSON: Yes, there is no change in the total.

Mr. WINCH: If he loses in one place, he makes it up in another.

Mr. DRYSDALE: What is the investment in Eldorado Mining and Refining Limited?

Mr. HENDERSON: There was a dividend declared by Eldorado Mining and Refining Limited which was paid to its sole stockholder, the government.

Mr. HELLYER: Do you know if the interest rate on Central Mortgage and Housing Corporation debentures is a uniform one, or whether it varies at the time the loan is made from the consolidated fund?

Mr. HENDERSON: I believe, from the orders in council I have seen in connection with it, that it does vary from time to time.

Mr. HELLYER: You have never been called upon to give an opinion as to the actuarial soundness of the reserve that Central Mortgage and Housing Corporation established in their loan insurance fund?

Mr. HENDERSON: No. That is right.

The CHAIRMAN: Is there anything else on paragraph 35?

Mr. MCMILLAN: In connection with the item of loans to national governments in the amount of $31 million odd, I take it that item does not include the amounts that are in arrears?

Mr. HENDERSON: No. I think that is for servicing the current debt.

The CHAIRMAN: Paragraph 36? Paragraph 37?

36. The $239,654,000 return on investments for 1959-60 represented an increase of $18 million (8%) over the preceding fiscal year. The amounts shown as earned on the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the Receiver General under the Bank of Canada Act. The Central Mortgage and Housing Corporation amounts comprise mainly interest on

loans, but also include the Corporation's annual profits ($4,348,000 in 1959-60). Interest earned on deposits with the chartered banks was more than double that earned in the preceding year, due mainly to the higher interest rates prevailing on Treasury Bills upon which the bank interest rate is based. The $5 million shown for The St. Lawrence Seaway Authority in 1959-60 represents the first interest payment received on loans made to the Authority under the St. Lawrence Seaway Authority Act.

37. The net postal revenue amounts listed in the table in paragraph 31 represent gross postal revenues less disbursements for (*a*) remuneration of postmasters and staffs at sub-offices, semi-staff offices and revenue post offices, and (*b*) certain miscellaneous expenditures for the past three years, as follows:

	1957-58	1958-59	1959-60
Gross postal revenue	$ 177,433,000	$ 183,291,000	$ 193,593,000
Disbursements—			
Remuneration of postmasters and staffs	21,317,000	21,781,000	22,053,000
Miscellaneous expenditures	3,256,000	3,969,000	3,978,000
	24,573,000	*25,750,000*	*26,031,000*
Net postal revenue	$ 152,860,000	$ 157,541,000	$ 167,562,000

Mr. CHOWN: What do the shaded figures mean in these columns?

Mr. HENDERSON: They are sub totals.

Mr. WINCH: In connection with paragraph 37 and with gross postal revenue, I think everyone of us must be awfully happy when he reads the report from Washington that the government is going to increase the postal rates on magazines coming into Canada.

The CHAIRMAN: Is that in today's paper.

Mr. WINCH: That is in to-night's paper.

Mr. HELLYER: And there is a report that the O'Leary commission will increase the postage on Canadian magazines more than on American magazines.

The CHAIRMAN: In the United States they are asking the big mail users to do more of the sorting and handling of the mail themselves, and thereby assist the federal government in cutting down post office cost of handling and sorting.

Mr. HELLYER: It is just another hidden tax.

The CHAIRMAN: You mean that they charge more to the customer?

Mr. HELLYER: No. They charge the same to the people who do the work for them as they do to the ones who do not.

The CHAIRMAN: Well, it is only a comment.

Mr. MCMILLAN: In connection with gross postal revenue, is there anything in your books that shows the cost to the Department of Public Works for maintaining the post offices?

Mr. HENDERSON: No, but I think I have come close to dealing with that problem commencing at paragraph 138 "departmental operating activities", Actually in paragraph 143 "post office activities" you will see that revenue is set against expenses.

The CHAIRMAN: Paragraph 37? Paragraph 38?

Mr. HALES: Have you an explanation for paragraph 38? These are government revenues from other sources, I imagine, but I am not too clear about it.

Mr. HENDERSON: Yes. They are revenues for services rendered, and of a non-tax variety.

Mr. HALES: What is the meaning of "refunds of previous years' expenditure"?

Mr. HENDERSON: Well, that would be expenditures made in previous years which are now recovered. Under the accounting system we have, the only place they have to credit that is under a heading such as "refunds of previous years' expenditure".

Mr. HALES: What would be an example, for instance? Or would you prefer to give us a breakdown at the next meeting?

Mr. HENDERSON: I would be happy to do so.

Mr. G. R. LONG (*Audit Supervisor*): I could give you one example. The Auditor General used to audit the United Nations. His travelling expenses were paid out of his appropriation, and subsequently the United Nations would refund them. They would not go back into the appropriation for the subsequent year.

Mr. HALES: That is a lot of money. It is $40 million.

Mr. HENDERSON: If I might refer you to the public accounts and to the report of the deputy minister at page 33, you will find that Mr. Taylor deals with it in his opening remarks.

The CHAIRMAN: Paragraph 38? Paragraph 39?

38. An analysis of the amounts shown for other non-tax revenues for the year ended March 31, 1960 with comparable figures for the two previous years is given in the following table:

	1957-58	1958-59	1959-60
Privileges, licenses and permits	$ 19,307,000	$ 27,883,000	$ 24,970,000
Proceeds from sales	22,321,000	23,521,000	21,892,000
Services and service fees	22,556,000	27,195,000	31,299,000
Refunds of previous years' expenditure	28,083,000	37,633,000	40,630,000
Miscellaneous	11,409,000	12,337,000	11,404,000
	$ 103,676,000	$ 128,599,000	$ 130,195,000

39. The Summary of Revenue, by Departments, for the year ended March 31, 1960, as included in the public accounts, is given as Appendix 5 to this report.

Mr. HALES: Paragraph 39 includes revenue which comes from sources other than taxes—and appendix five?

Mr. HENDERSON: That is correct.

Mr. HALES: One example is the Civil Service Commission. How would they come to have revenue of $149 in item H in table five?

Mr. HENDERSON: We are looking that up in the public accounts, Mr. Hales. It is a refund of previous years' expenditure in the amount of $148.69. It is of the type we have been discussing in paragraph 38.

Mr. HALES: By way of interest, what was it?

Mr. HENDERSON: The detail is not given in the public accounts. It merely describes it as a refund of previous years' expenditure. They paid something and got it back.

40. Refereence has already been made in this report to the statutory responsibilities of the Auditor General under the Financial

Administration Act and in particular to Section 70 under which he is required to call attention to specific transactions observed during his examinations.

Pursuant to this direction, I consider that the following cases relating to the expenditure and revenue transactions examined during the year under review should now be brought to the attention of the House of Commons.

The CHAIRMAN: Paragraph 40 comments on expenditure and revenue transactions. I notice in the second part of paragraph 40 the Auditor General says:

—should now be brought to the attention of the House of Commons.

In other words, to the attention of this committee in particular. So, in effect, if we start with paragraph 41 we enter the comment section of your report.

41. *Prairie Farm Emergency Fund Deficit.* Reference has been made in previous reports to the practice of charging annual deficits in the operations of the Prairie Farm Emergency Fund to Expenditure, although no provision for this had been made in the governing Act and no parliamentary appropriations had been provided to cover the charges.

The deficit of $12,529,000 which resulted from the Fund's operations in 1959-60 was again charged to Expenditure notwithstanding this lack of specific parliamentary authority.

Mr. WINCH: In connection with paragraph 41, when referring back to something we were discussing at the last meeting I asked if there could be an explanation given to this, when the Auditor General says that $12,529,000 has been charged to expenditure notwithstanding the lack of specific parliamentary authority. I asked if someone would appear to give an answer to this situation. I did this on the basis that it is my understanding that the duty of this committee is to check very carefully to see if money has been spent, used or charged in a way that is without specific parliamentary authority.

Mr. HENDERSON: Perhaps one way of explaining this clearly would be to make reference to the agricultural commodities stabilization account which was established by its own act. Subsection 7 of section 13 of the Agricultural Stabilization Act states as follows:

At the end of each fiscal year, the Minister of Finance shall determine the net profit or loss on the operations of the account for that fiscal year, and if he determines that there is a net profit it shall be charged to the account, but if he determines that there is a net loss, no amount shall be credited to the account in respect thereof without the authority of parliament.

Then, subsection 8 of same section reads:

Before the end of each fiscal year, an estimate of the profit or loss on the operations of the account shall be made by the minister, and if it appears to him that a net loss may result from the operations of the account for that fiscal year, the estimated amount thereof shall, unless the governor in council otherwise directs, be included in estimates submitted by the minister to the governor in council.

Subsection 8 of section 11 of the Prairie Farm Assistance Act, reads as follows:

If at any time the fund is insufficient to pay awards made under this act the Minister of Finance may, out of unappropriated moneys in the consolidated revenue fund, with the approval of the governor in council, make an advance to the fund of the amount required to meet the deficit.

The deficit for the year, as we have it here is $12,529,000. I submit the committee might feel that it would be advisable if consideration were given to amending the legislation so as to provide for the inclusion of an item in the estimates before the end of a fiscal year to cover the anticipated deficit; in other words, the same direction as is given with respect to a deficit in the agricultural commodity stabilization account. This condition has been going on since the inception of the prairie farm emergency fund in 1939-40. Deficits have occurred in each year, with the exception of the period from 1951 to 1954 and 1957. When a year's activity produced a surplus it was left as a credit to the fund at the year end, to be used to cover deficits in the subsequent years. When the fund was in a deficit position, it had been the practice to write it off, and that is what has taken place this year. It has been written off each year without parliamentary authority and, on each occasion when that has been done, the Auditor General has directed the attention of the House of Commons to it, as I am doing today.

Mr. BELL (*Carleton*): Has the opinion of the Deputy Minister of Justice ever been secured on this matter?

Mr. HENDERSON: We are not aware of that, Mr. Bell, but we can find out for you.

Mr. WINCH: In your view as the Auditor General, is this actually, in effect, the appropriation of funds without parliamentary approval?

Mr. HENDERSON: Yes.

The CHAIRMAN: He says so in the use of his words "this lack of specific parliamentary authority".

Mr. WINCH: Therefore, as Auditor General you think it is the responsibility of this committee to make a recommendation which once again is going to draw attention to it, and to ask that it be corrected.

Mr. HENDERSON: I would hope this might find its way into the report of the committee, as one of its recommendations.

Mr. WINCH: There is one question on which I am not certain. When you were reading from the section of the act you said that the Minister of Finance could take the moneys appropriated in the consolidated revenue fund.

Mr. HENDERSON: I said unappropriated moneys.

Mr. DRYSDALE: Pursuant to Mr. Bell's suggestion and before making a recommendation, I think we should obtain a legal opinion from the deputy minister of justice.

Mr. CHOWN: I do not think that should preclude us from making a recommendation because, obviously, the law has been broken by the expenditure of these funds without parliamentary authority. If my recollection is correct, I think we made a similar recommendation before and it has not been adhered to. Is that not correct, Mr. Chairman?

The CHAIRMAN: I think that is right.

Mr. BELL (*Carleton*): I do not think that a recommendation of the committee has been made before on this subject, and I would hate to think we have enough evidence to reach a conclusion that it is obvious that the law has been broken.

Mr. DRYSDALE: There has been no legal opinion expressed, so how do you establish that the law has been broken? I am endeavouring to follow Mr. Bell's line of questioning, and I submit we should get an opinion.

Mr. WINCH: Then, could we ask the Auditor General for the basis of his statement when an opinion has not been obtained from the Minister of Justice. Why does your department come out with this specific statement that it is something that has been appropriated without the authority of parliament?

Mr. HENDERSON: Because this action has not been approved and does not have the authority of parliament.

Mr. WINCH: And, that is definite.

Mr. HENDERSON: There is no authority here that we can find to cover the action that has been taken.

Mr. DRYSDALE: You see, specific parliamentary authority does not preclude that it may be covered in a general way. That is the point.

Mr. HELLYER: I think the point is that there are opinions other than those of the legal profession which have to be taken into consideration.

Mr. DRYSDALE: But we have not received an opinion from the legal profession, and it may be of assistance to us.

Mr. HENDERSON: I would ask Mr. Stevenson to say a word on this.

Mr. M. I. STEVENSON (*Assistant Auditor General*): The Prairie Farm Assistance Act includes a provision that, when there is a deficit, an advance may be made to the fund by the Minister of Finance. This means that from the accounting point of view the amount should be carried as an asset in the government accounts unless there is a provision similar to that contained in the Agricultural Stabilization Act. The Minister of Finance would then include the amount in the estimates, which would lead to a parliamentary appropriation being provided to write off the amount of the advance. If appropriations are not provided to write off the amounts then, technically, they should remain recorded as advances in the government accounts—that is to say, as assets rather than expenditures.

Mr. HELLYER: But, at the present time, there is no statutory authority to write them off.

Mr. STEVENSON: No, there is no appropriation in the case of the prairie farm emergency fund, as there is in the case of the agricultural commodities stabilization account, for the writing off of the amounts of the deficits.

Mr. WINCH: Are they registered as assets?

Mr. STEVENSON: No; they are recorded as charges to expenditure.

Mr. DRYSDALE: I think we should have an opinion from the Department of Justice.

Mr. WINCH: It would appear to me that the law has been broken in one or two different ways.

Mr. HENDERSON: We are asking that an item be included in the estimates to cover this write-off, and that it be taken before parliament.

Mr. STEVENSON: To some extent, this is a technical matter and, I think, in the auditor general's report last year it was suggested that this is a realistic accounting practice, but that it just lacks the appropriate authority.

Mr. CHOWN: To finalize the matter, may I ask the Auditor General to obtain a legal opinion from the deputy minister of justice and to bring it to the next meeting of this committee.

Mr. HENDERSON: I will be very happy to do that.

The CHAIRMAN: May I suggest perhaps instead of a straight legal opinion —if that is the proper thing to do, let us do it—that we obtain the proper witness to clarify this matter, whether it is a witness from the Department of Justice, the Department of Agriculture or from somewhere else.

Mr. MORTON: Or, witnesses.

The CHAIRMAN: Yes, a witness.

Mr. MORTON: I said "or, witnesses".

The CHAIRMAN: One or two, or more.

Mr. MORTON: Just one or two.

42. *Recovery of subsidies for cold storage warehouses.* The Cold Storage Act, c. 52, R.S., authorizes the Governor in Council to grant subsidies, out of any money appropriated by Parliament for the purpose, towards the construction and equipment of public cold storage warehouses, and to make regulations to ensure the efficient operation and enforcement of the Act. The Act does not make provision for recovery of all or any part of a subsidy in the event of the subsequent sale of subsidized facilities for other purposes. But the form of contract prescribed by the regulations to be entered into with persons seeking a subsidy provides that the subsidy is to be repaid if the facilities are sold without the approval of the Minister—and that if they are disposed of with such approval "the contractor will comply with such terms and conditions as may be imposed by the Minister".

During the year under review, an instance was observed where $8,007 of a payment of $14,807 made in 1946 was required to be repaid on the sale of the subsidized premises, the difference of $6,800 being regarded by the department as an appropriate allowance for depreciation.

In this connection we have obtained an opinion from the Department of Justice that the regulations permit the Minister to approve of the sale of a subsidized cold storage warehouse without requiring, as a term or condition thereof, repayment of any part of the subsidy. In view of this, we are of the opinion that the regulations should be amended to ensure maximum recovery of subsidy in each case.

The CHAIRMAN: The nub of the situation in paragraph 42 is in the last line, and reads as follows:

In view of this, we are of the opinion that the regulations should be amended to ensure maximum recovery of subsidy in each case.

Those are the words of the Auditor General.

Mr. HENDERSON: The circumstances here, Mr. Chairman, were that the organization in question approached the Department of Agriculture for a subsidy toward the construction of a new and larger warehouse, and indicated its willingness to repay in full the subsidy on the original warehouse. Now, the order in council approving a subsidy not exceeding 33⅓ per cent of the anticipated cost of $127,000 of the new structure did not give any recognition to the association's offer and, under the circumstances, our feeling is that there should have been recovery in full of the original subsidy. We feel that the regulations should be amended to provide for a maximum recovery of subsidy in such cases. As it stands now, the minister is not required to obtain any refund of a subsidy.

The CHAIRMAN: I understand that the amount of the subsidy is approximately 33 per cent, if the application is accepted.

Mr. HENDERSON: Yes.

The CHAIRMAN: For the building of a cold storage warehouse.

Mr. HENDERSON: Yes.

Mr. HELLYER: Could we have a word on the purpose of the original subsidy, and then a word as to the extent that purpose continues if ownership is changed?

Mr. HENDERSON: I would ask Mr. Smith to say a few words on that, as I believe he is familiar with the case.

Mr. D. A. SMITH (*Audit Supervisor, Auditor General's Office*): Initially, the warehouse was subsidized as a public cold storage warehouse. It continued to be operated in that capacity up until the time that this company proposed to build a new and larger warehouse. I understand that on its disposal it was not to be operated any longer as a public cold storage warehouse.

Mr. HELLYER: It then would become a private cold storage warehouse which would not offer to the public the facilities which were offered when the subsidy was made.

Mr. SMITH: That may be the case, or it may be used for other than cold storage purposes.

Mr. DRYSDALE: But, the funds received from the sale were used to make a big public cold storage warehouse. Is that not what you said?

Mr. SMITH: No, but presumably the proceeds of the sale of the first premises were used by the company in the construction of the new warehouse.

Mr. DRYSDALE: In a situation like this I think it is important that the discretion be left with the minister, because you are receiving improved facilities of the same nature.

The CHAIRMAN: I think Mr. Hellyer's point was that it might be possible for a company to get a 33 per cent subsidy for the cost of construction, operate for a year, and then sell it.

Mr. DRYSDALE: Yes, but the regulations are such that the minister, if he wishes, could get a full refund.

Mr. HENDERSON: No, that is not quite correct. I will give you the wording from the deputy minister of justice, to whom I referred the matter in September. He said: "I must advise that in my opinion the minister may, pursuant to clause 16 of schedule (*b*) to the cold storage regulations, approve the sale of a subsidized cold storage plant without requiring as a term or condition thereof repayment of the subsidy or of any part of the subsidy."

Mr. DRYSDALE: For that very reason I feel that the discretion should be left with the minister. A small cold storage warehouse is being sold and, presumably, the money is being put into the construction of a larger one. If it is for the public benefit I would assume that there is a bigger benefit accruing to the public in the case of the larger warehouse. You say, in paragraph 42: "The contractor will comply with such terms and conditions as may be imposed by the minister". It would be a case of just writing a provision into the contract, in the event that they were not used for that purpose, that the full amount be refunded. However, I feel that the discretion should be left to the minister.

The CHAIRMAN: But the Auditor General does not seem to agree with you.

Mr. DRYSDALE: I noticed that.

Mr. HENDERSON: I can conceive of different circumstances in different cases working under this paragraph. However, I must say to you that I do think that if there is any subsidy which it is felt should be returned, then it should be returned.

Mr. DRYSDALE: You do not think, in essence, that the minister could exercise the discretion in perhaps a rational way? That is the suggestion?

Mr. HENDERSON: I think the onus should be on the minister to recover the maximum amount of subsidy that he can in each case.

Mr. DRYSDALE: Less depreciation.

Mr. HENDERSON: I would have some provision in there for depreciation. I think we should be perfectly fair and sensible about it. You just cannot dispose of these things across the board. Each case is going to be different.

Mr. DRYSDALE: That is why I say that the discretion should be left with the minister.

Mr. HENDERSON: Yes, but I would write into it that it is his responsibility to secure the maximum recovery of subsidy.

Mr. DRYSDALE: Even in a situation such as the one you have illustrated, where there is the construction of a larger cold storage warehouse?

Mr. HENDERSON: Yes.

Mr. DRYSDALE: Then you would suggest that the subsidy should be recovered, and then perhaps a larger subsidy given in return, if there is a second larger warehouse.

Mr. HENDERSON: That could be.

Mr. MORTON: Is the Auditor General suggesting that in this case the Minister of Finance should have gotten a refund on the subsidy?

Mr. HENDERSON: I read the opinion of the Deputy Minister of Justice, which stated that the minister is not required to obtain any repayment of the subsidy. I am suggesting that the regulations should be tightened to impose on him the requirement to collect any subsidy he can.

Mr. MORTON: But is it not the responsibility of the minister concerned? It is always a basic responsibility that he should get as much money as possible, but this section, as it now stands, gives him the discretion in any particular deal of not getting back the subsidy. If we were to put in some rigid formula there, we would be taking that discretion away from the minister. I think there would be an underlying responsibility that in every case the minister should get as much money back as he can. However, there should not be an onus placed upon him in every case to collect that subsidy or he would have no discretion in making a deal that might be a benefit for the public.

Mr. DRYSDALE: You criticize him using his discretion. Apparently we have not the full picture available, because if the situation were such as indicated, and there was going to be a larger public cold storage constructed, then 33⅓ per cent of the greater amount in effect on the sale was carried over to the larger one, and there would actually be a saving of money.

Mr. HENDERSON: A further subsidy given on a new building, in this case.

Mr. HELLYER: It would seem to me it would be much neater to obtain the maximum recovery in a case where the building was being sold for purposes other than those in effect at the time it was first constructed, and then to treat the application for the new building on its merits. Assuming the same funds were being used for it, it would be better to have the application and consider the circumstances for the construction of a new building before public funds were directed towards its construction.

Mr. SMITH (*Simcoe North*): I am a little curious as to what might be meant by maximum recovery. It seems to me that if there were some provision along that line it ought to relate to the percentage that the government had subsidized the original building out of the ultimate sales price; because if it were to mean maximum recovery in its stark terms, without in fact giving the government a first mortgage on this 33⅓ per cent interest in the warehouse and priority to the people who had contributed two-thirds of the cost of the original warehouse—

Mr. WINCH: Does the government not always take a first mortgage on everything?

Mr. ROBICHAUD: I think here we are discussing a matter without having the necessary details, because the subsidy is awarded, under certain terms and conditions. There are a minimum number of years when that cold storage plant must remain public cold storage, and after that time has expired the owner has the option of selling it if he wants to. I think we do not have enough details here. It may be that the cold storage plant has been operated, say, for 25 per cent or 30 per cent or 50 per cent of the number of years under the terms of the contract.

Mr. HENDERSON: Of course, Mr. Robichaud, what I am really saying in effect is, if you did not make some provision to recover some portion of subsidy, then chances are you are going to recover nothing. There may be transactions go through in the future where something should have been recovered but is not.

Mr. ROBICHAUD: But is it not possible, also, that this cold storage plant, which was public cold storage, may be sold to an individual who will use it for his own purposes, which are altogether different from the original contract?

Mr. DANFORTH: Since this matter has been raised, I should like to ask the Auditor General, is this an isolated instance, have there been occasions like this in the past, or is it anticipated that there may be further occasions where these warehouses will be sold in the future? There must be some basis for this.

Mr. HENDERSON: There are not many of these cases; but I would point out that since 1950 subsidies paid under this act total over $7 million.

Mr. DANFORTH: Have there been other instances of the disposal of these warehouses, or is this the first?

Mr. HENDERSON: Mr. Smith, could you answer that? In prior years have there been other cases?

Mr. SMITH: I can only recall one or two instances, which came up several years ago. We did not take exception to the situation at that time however, because the expenditure had not aggregated a sum in excess of $7 million, which it has now. We have now reached the conclusion that the sales of these subsidized premises may be more frequent in the future, and for that reason it seems evident there should be some uniformity established now. That was our thinking, that there should be some uniformity in recoveries on the disposal of premises which have been subsidized over the past ten years.

Mr. SMITH (*Simcoe North*): If we are not putting the thing in an abstract sense, another difficulty I can see in making the regulation too rigid, and not leaving some discretion somewhere, is, for example, where you have a changing agricultural character in a community, a cold storage warehouse which has been operated as an asparagus and vegetable warehouse being then transferred to the apple growers' co-operative, to be used as an apple or fruit warehouse. If the regulations were too rigid, that could cause a certain amount of difficulty.

The CHAIRMAN: I think the discussion has been pretty far-ranging, and the opinion of the committee is reasonably clear, unless you want to go into this further. If not, shall we go on to paragraph 43?

Mr. MCMILLAN: I want to ask one question on 42.

The CHAIRMAN: Certainly.

Mr. MCMILLAN: In connection with the sale of this subsidized warehouse, I understand the government puts up one-third. Does the government recover one-third when the sale is made?

Mr. HENDERSON: There is no relation to the sale price, Mr. McMillan. The point is, as I say here, that it is left entirely to the discretion of the minister—and he undoubtedly makes the best deal he can. That may mean to an outsider that he may allow too much depreciation and not recover enough of the subsidy. He is not required to ask for any of the subsidy back.

Mr. MCMILLAN: Well, in practice, does the government recover roughly one-third?

Mr. HENDERSON: I do not think I can say that, sir. There are not so many of these cases that I can be specific about that.

The CHAIRMAN: Well, we have called the attention of the department to this problem, which should be useful.

> 43. *Contracts for charter hire of helicopters.* Aircraft charter hire rates charged by commercial aviation companies are governed by tariffs filed with the air transport board. During the course of our examination we observed that, with respect to certain contracts awarded by the Department of Defence Production covering the charter hire of helicopters for the Department of National Defence, the filed tariffs and provisions of related contracts were susceptible to more than one interpretation. Several cases were noted where charges had been accepted which did not appear to be in accordance with the terms of the governing contracts, and on our drawing these apparent overpayments to departmental attention refunds of $1,400 and $800 were obtained in two instances.
>
> The Department of Defence Production has since taken steps to arrange for contracts of this nature to be drawn in more precise terms in order to avoid similar misunderstandings in the future.

Mr. WINCH: I notice the Department of Defence Production has taken steps to arrange for contracts to be drawn in more precise terms. Could we be informed if any action has been taken since this matter was called to their attention?

Mr. DRYSDALE: We had difficulties last year in the matter of helicopter contracts, and there is a most provocative statement by the Auditor General. Several occasions were noted where charges had been accepted which did not appear to be in accordance with the terms of the governing contracts, and you also mentioned that the contracts were subject to more than one interpretation. Then, there is the impression that, first of all, the Department of Defence Production was trying to draw contracts in more precise terms; and secondly, the air transport board was perhaps not scrutinizing them too carefully, and you were the people who apparently spotted this difficulty. I think there should be a little more explanation.

Mr. WINCH: I am just going by the last sentence.

Mr. DRYSDALE: But he said several cases, and that they had received two refunds.

Mr. WINCH: The last sentence of paragraph 43 reads:

> The Department of Defence Production has since taken steps to arrange for contracts of this nature to be drawn in more precise terms in order to avoid similar misunderstandings in the future.

I thought that was sufficient.

Mr. DRYSDALE: I would be interested to find out if the nature of the misunderstanding was the same as the one we ran into last year, where the Auditor General claimed the government was entitled to a refund of some $93,000.

The CHAIRMAN: Well, in effect, this paragraph says that, following the discussions last year, the Department of Defence Production has tightened up its procedure on contracts. Is that it?

Mr. DRYSDALE: Not entirely.

Mr. HENDERSON: According to invoices of current contracts that we see, there is an indication that the revised procedure is being followed, which provides that letters from the air transport board must be submitted to the effect that rates and charges are in accordance with the carrier's filed tariffs. These are attached to each invoice. The contracts for helicopter rentals have not been clear. Just looking now at what caused these errors—

Mr. DRYSDALE: As I understand it, the difficulty would depend on the length of the contract. The department was hiring helicopters on a month-to-month

basis, and it turned out that if, instead of a month-to-month basis they had made a guess and said "We will take it for a full year", they would have managed to make a saving of $93,000.

Mr. HENDERSON: Yes, I recall that, but these are not in quite the same category—the cases mentioned here. The company billed and was paid at the rate of one twenty fifth of the monthly retention fee of $7,000 for each of nine days, or $2,800 per machine. However, the company's filed tariff stipulated that payment for such odd days should be one-thirtieth of the monthly rate or $2,100 per machine. In this instance it turned out that our contention was correct. The tariff was not always being looked over and examined by the air transport board; but this is now being done. There was a considerable exchange of correspondence, and it was found that the billings in fact were in conflict with the filed tariffs. After considerable exchanges it led to refunds being paid.

Mr. DRYSDALE: You are saying in effect that the contract entered into by the company with Defence Production, and the tariff filed before the air transport board, were not necessarily the same, that they could enter into a contract and file a separate tariff rate.

Mr. HENDERSON: Substantially so. That appears in this case to be the mistake, or the misinterpretation.

Mr. DRYSDALE: How is that difficulty being corrected now?

Mr. HENDERSON: There is evidence elsewhere noting that in current contracts the rates have been checked by the air transport board for the Department of Defence Production.

Mr. DRYSDALE: Is there a stipulation that they must be filed with the air transport board?

Mr. HENDERSON: Perhaps Mr. Morrison could answer that.

Mr. G. A. MORRISON (*Assistant Audit Supervisor, Auditor General's Office*): The department is putting their specifications to the tariff interpretation section of the air transport board before the contract is actually drawn up, so that clarifies that point. The second safeguard is that the invoices go to the air transport board for verification against the filed tariffs of the companies.

Mr. DRYSDALE: Is there a provision, then, in the contract to the effect that the contract made has to be filed with the air transport board so that the tariff rates are the same as in the contract? Is that being done?

Mr. MORRISON: I think that is clarified by the—

Mr. DRYSDALE: You said it was clarified, but is it being done?

Mr. MORRISON: It is not written into the contract, no.

Mr. DRYSDALE: Then how do you enforce it?

Mr. MORRISON: It is checked before the contract is written up. The specifications which are drawn up by the department are put to the air transport board, and at that point it is clear that they are in accordance with the tariff. Then it is passed to the Department of Defence Production for the drawing up of the contract.

Mr. DRYSDALE: When is the tariff filed—after the contract?

Mr. MORRISON: The tariffs are always filed with the air transport board before contracts are drawn up.

The CHAIRMAN: Paragraph 44, gentlemen. We dealt with that at the last meeting.

Mr. MCMILLAN: In connection with paragraph 43, you say the turnover payments amounted to $2,200, in two instances. How general is this? How many other instances do you infer by these two instances?

Mr. HENDERSON: I would say that there were just a few, Mr. McMillan, and in these two cases it was our detection that led to the recoveries. In the other cases perhaps we were overzealous, and although they did not lead to any recovery they have proved to be pretty complicated contracts to go through. I would also point out that of necessity our work is on a test basis. Therefore we would not see them all, but of those we did see these were the results.

Mr. DRYSDALE: How would you make a test in these circumstances?

Mr. HENDERSON: Well, it is not practical to examine all the transactions.

Mr. DRYSDALE: Is it arbitrary?

Mr. HENDERSON: We make our selection on the basis of the volume going through. I think we probably have seen the bulk of these, but I cannot guarantee that without checking.

Mr. HALES: In these particular cases in defence production, they would have a person in that department who would be a controller or a person responsible for checking. The Auditor General's department cannot go through and check all these contracts, but somebody in defence production should be responsible for catching these.

Mr. HENDERSON: That is right, sir.

Mr. HALES: Who is this person in defence production who is falling down on his job?

Mr. HENDERSON: Well, the accounts of defence production, like all others, are paid by the chief treasury officer. Would you care to speak on that, Mr. Morrison? You are closer to the picture.

Mr. MORRISON: We now find that the contracting officers of the Department of Defence Production are working in very close relationship with the air transport board. Also, the treasury people are now well aware of some of these weaknesses and mistakes which have been caught, and they are also watching. So I think across the board it is well safeguarded now. I might mention that there are currently only two contracts. The work has fallen off considerably.

Mr. MCGEE: About this air tariff matter, it was discussed last year. I raised the subject of new equipment and lower bids coming in, which are guarded against in some sense. As I recall the testimony of the air transport people last year, they said they had to establish a safety factor and could not allow some person coming in with a very low bid to get the business away from some person who had been doing the work, and that the air transport board did not feel that they could authorize this lower bid because of the possibility of exceeding the safety factor. Is that correct in your understanding?

Mr. MORRISON: Evidence given at that time was to the effect that the air transport board does not approve these filed tariffs. The companies themselves submit their tariffs. They are reviewed only by the board and they must be competitive; otherwise they would not be in business.

Mr. MCGEE: I am concerned about the low bidding in this matter. If a new machine comes on the market—and this is happening all the time—which enables a certain company to be lower in their bid than the tariff, is there any impediment to prevent them from getting that business on the basis of the lower bid in spite of the application of the tariff?

Mr. HENDERSON: I suggest, Mr. McGee, that that question should more properly be directed to the officers of the air transport board, or of the department.

Mr. MCGEE: Probably more properly raised in the estimates in the house.

Mr. HENDERSON: Yes, sir.

Mr. DRYSDALE: You mentioned that there were several cases, but there were only two recoveries. What happened in the other cases? Were you wrong, or were they unable to recover?

Mr. HENDERSON: It could have been both, Mr. Drysdale. I do not have the details here of all the cases. Can you speak on that, Mr. Morrison?

Mr. MORRISON: We had four additional cases, and in each case we found that the contract had been drawn up incorrectly. It did not agree with the tariff; but the billings were in accordance with the tariff, and the tariff prevailed, although the contract was worded incorrectly.

The CHAIRMAN: Gentlemen, paragraph 44 we dealt with at the last meeting.

Paragraph 45.

> 45. *Expenditure charges to adjust insurance account balances.* The following insurance plans were established many years ago: Civil Service Insurance Fund, actuarially calculated at 6% interest; Returned Soldiers' Insurance Fund at 4% interest; and Veterans' Insurance Fund at 3½% interest. Notwithstanding the fact that interest credits were discontinued on the first of these accounts as at March 31, 1954, and on the other two as at March 31, 1952, the operations of the accounts reflected actuarial surpluses at March 31, 1956, as follows: Civil Service Insurance Fund, $8,267,453; Returned Soldiers' Insurance Fund, $4,301,-701; and Veterans' Insurance Fund, $2,643,070. These surpluses, which totalled $15,212,224, were credited to Net Debt Account in the fiscal year 1956-57, in order to adjust the balances in the accounts to the amounts of the respective actuarial liabilities at March 31, 1956.
>
> No interest has been credited to the accounts since these adjustments were made and actuarial deficits have arisen. These have been made good by means of annual non-cash charges to Expenditure, the 1959-60 charges with respect to the several funds being: Civil Service Insurance Fund, $589,000; Returned Soldiers' Insurance Fund, $520,000; and Veterans' Insurance Fund, $328,000. The charges were reported as special "statutory" items in the Public Accounts (pages N-2 and AI-3).
>
> We would point out that in no case does the governing legislation contain provision for the making of such charges.

Mr. WINCH: Here we have, again, the statement:

> "We would point out that in no case does the governing legislation contain provision for the making of such charges."

It is the second time now where we have seen that the Auditor General says that they are not dealt with by legislation. Do you have any comment on it?

Mr. HENDERSON: Following the adjustment of the balances in the three insurance accounts to their respective actuarial liabilities at March 31, 1956, as mentioned in the paragraph, the accounts could have been continued in substantial actuarial balance had the crediting of interest on the balances been resumed, at a rate fixed by the Minister of Finance with the approval of the governor-in-council under section 20 of the Financial Administration Act.

Had this been done, the interest charges would have been properly included in interest on the public debt, as reported in the Department of Finance section of the public accounts. Instead, as is noted in the paragraph, the expenditure charges made to adjust the actuarial balances have been shown as "statutory" in the public accounts, pages N-2 and A-I-3, although there are no provisions for this in the legislation.

So with a view to remedying the situation for the future, I am hopeful that the committee could recommend that interest be credited annually on the

balances of the accounts at a rate fixed by the Minister of Finance with the approval of the governor in council, and I think if this were done it would keep the accounts substantially in actuarial balance.

The CHAIRMAN: Any discussion, gentlemen?

46. *Proceeds of fines not accounted for.* Subsection (2) of Section 626 of the Criminal Code provides that "where a fine... is imposed in respect of any proceedings instituted at the instance of the Government of Canada, in which that government bears the costs of prosecution, the proceeds of the fine... belong to Her Majesty in right of Canada and shall be paid by the person who receives them to the Receiver General of Canada". Records of the Department of Fisheries indicate that a former magistrate failed to remit fines totalling approximately $2,400 imposed and collected by him during the years 1956 to 1958 for offences under the Fisheries Act and regulations made thereunder.

It was observed that fines imposed and collected by the same magistrate in the period from 1953 to 1955 were recovered after the filing of information in the Exchequer Court, but no such action has been taken with regard to those imposed and collected during the later period.

Mr. ROBICHAUD: On paragraph 46, Mr. Chairman, could the Auditor General give any explanation why no action was taken in connection with the fines which were imposed in 1956 to 1958? I understand they already had an experience with this particular magistrate and they had to take action to collect fines which were imposed from 1953 to 1955.

Mr. CHOWN: Is there any significance or criminal implication in the words "former magistrate"? Is he retired now?

Mr. HENDERSON: Answering your question first, Mr. Chown, I do not think so. I was just describing his former occupation.

Dealing with Mr. Robichaud's question, we made such inquiries of the Department of Fisheries and it was as a result of our not obtaining a complete explanation of it that I finally wrote about the matter to the Minister of Finance on December 16, because I am required under section 73 of the Financial Administration Act, to inform him of any indebtedness to the crown involving the improper retention of public monies. He, in turn, wrote to the Minister of Fisheries on December 16 last, and I understand that the Minister of Fisheries has said that the Department of Justice has been requested to take legal action to recover the amount outstanding.

Mr. WINCH: The important point, Mr. Chairman, is that we have the information that this money was not paid, and then it was recovered. Then, over a period of years, the same man is allowed to get away with the same thing, and no action taken. It is not a matter of what year; it is a matter of a period of years. I think something should be said about that.

The CHAIRMAN: In other words, you do not collect until you sue?

Mr. WINCH: Well, I think it is a rotten and despicable situation, where you have an agent of the government who only pays when he is sued or threatened with criminal action, and I think a person of that nature should definitely be handled.

Mr. ROBICHAUD: Is there not any regulation that the money should be remitted at any definite period? There is a lapse there of five years.

Mr. WINCH: If I don't pay my income tax, I get a notice pretty fast.

Mr. ROBICHAUD: Too bad you do not pay it to the Department of Fisheries.

Mr. CHOWN: Many would be interested in following this up, if the Auditor General would make a note to do so, so we know the outcome.

Mr. HENDERSON: I understand the Department of Justice has prepared the necessary documents for the filing of the information in the Exchequer Court. That is where the matter stands now.

Mr. WINCH: I do not know whether it comes under our purview, but I think when we have information like this where a man does not pay for years, until he is forced to, and then goes on for a period of years and still does not pay, and action has to be taken again, I do not know whether we have the power to do it, but I think we should recommend that this man no longer be kept in that position.

Mr. CHOWN: He is not in that position now.

Mr. WINCH: No, but where this kind of thing occurs.

Mr. BELL (*Carleton*): Of course, it would have to be drawn to the provincial government's attention, whose appointee he is.

Mr. MORISSETTE: What is the amount outstanding now?

Mr. HENDERSON: The amount outstanding is approximately $2400.

Mr. CHOWN: How much did you recover from 1953 to 1955?

Mr. HENDERSON: From 1953 to 1955 the collections he made in those years and did not turn over were $1480 and he finally paid it, together with $125.60 of Exchequer Court costs. So he paid $1605.60 when he was forced to pay.

Mr. MCMILLAN: Who is in possession of this money?

Mr. HENDERSON: He is.

Mr. MCMILLAN: The magistrate himself?

Mr. HENDERSON: Yes, sir.

Mr. ROBICHAUD: Is there any evidence, Mr. Henderson, that the Department of Fisheries may attempt to collect that money during the period of five years? They had the recourse of suing if the money was not forthcoming.

Mr. HENDERSON: We noted departmental correspondence, Mr. Robichaud, indicating the views of the department, who said that they had made a number of efforts to achieve collection, but without success. The file in due course was transferred from the maritimes area of the department in Halifax, to the Deputy Minister in Ottawa.

The CHAIRMAN: Anything else on this paragraph?

Mr. DESCHATELETS: Can you tell us if this is an isolated case or if this has happened before, that we have had difficulty in recovering these amounts of money?

Mr. HENDERSON: Well, as the paragraph states, we have had similar problems with this man in 1953 to 1955. Do you mean cases of other people?

Mr. DESCHATELETS: Is he the only one?

Mr. HENDERSON: Oh yes, he is the only one, because I am obliged under the Financial Administration Act to report all these cases of the non-collection of fines, and would likewise put them in my report.

Mr. DESCHATELETS: Have you recommended before that the system be changed?

Mr. HENDERSON: I would like to ask Mr. Stevenson to answer that, because he can speak with some knowledge of previous years.

Mr. STEVENSON: I do not think there would have been any need to recommend that the system be changed, exactly. This was a special case. It would be expected that the amounts would be forthcoming from the collector, within reasonable periods.

Mr. DESCHATELETS: Payable to the receiver general?

Mr. STEVENSON: Yes, payable to the receiver general—and requests went forward from the department that payments be made. The collector of the monies failed to meet the requests that were directed to him.

Mr. McGEE: Would there be any point in this committee recommending some formula stronger than a request, possibly a requirement that it be returned at the end of each month, and interest charges payable if it is not paid within a month?

Mr. DRYSDALE: I think it is a matter of referring the matter to the attorney general to ensure collection.

The CHAIRMAN: Before we break up I would like to draw your attention to paragraph 48, R.C.A.F., construction of a house. Is it the desire of the committee to have witnesses here?

Several hon. MEMBERS: Yes.

Mr. PRATT: I would like to ask one question of the Auditor General, which might help the committee when we come to it. I wonder if the Auditor General could tell us where the details of this project may be found. I understand it is under vote 221.

Mr. HENDERSON: In the public accounts?

Mr. PRATT: Yes.

Mr. HENDERSON: The details in the public accounts would appear in various places in the national defence section.

Mr. PRATT: I have not found any and I have looked through this book.

Mr. HENDERSON: You would not find the house itself in there.

Mr. PRATT: Is this one instance where the book is too small?

Mr. HENDERSON: The charges will be spread right across.

Mr. BOURGET: Would it be possible to have copies of the plans and specifications of that house?

The CHAIRMAN: We will certainly try.

Mr. PRATT: What is the location of this house?

Mr. HENDERSON: St. Hubert.

The CHAIRMAN: Not exactly in your constituency, but terribly close.

Gentlemen, I think we had better stop there for today.

Mr. DRYSDALE: I move we adjourn, Mr. Chairman, if that is necessary.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Public Accounts (1960), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, MARCH 22, 1961

WITNESSES:

Mr. H. R. Balls, Comptroller of the Treasury; Mr. A. M. Henderson, Auditor General of Canada; and Mr. E. B. Armstrong, Deputy Minister, Department of National Defence.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24705-6—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark	Drysdale	Nugent
Beech	Dupuis	Pigeon
Bell (*Carleton*)	†Fisher	Pratt
Benidickson	Grenier	Robichaud
Bissonnette	Hanbidge	Rouleau
Bourbonnais	Hellyer	Smith (*Simcoe North*)
Bourget	Keays	Smith (*Winnipeg North*)
Brassard (*Chicoutimi*)	Lahaye	Spencer
Broome	Macdonnell	Stefanson
Bruchési	McGee	Stewart
Campeau	McGrath	Tucker
Chown	McGregor	Valade
*Coates	McMillan	Villeneuve
Danforth	Martel	Winch
Denis	Morissette	Woolliams
Deschatelets	Morton	Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

* Replaced on Thursday, March 16, 1961 by Mr. Noble.
† Replaced on Tuesday, March 21, 1961 by Mr. Regier.

ORDERS OF REFERENCE

THURSDAY, March 16, 1961.

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

TUESDAY, March 21, 1961.

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

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

24705-6—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, March 22, 1961.
(6)

The Standing Committee on Public Accounts met at 9.30 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Bourget, Broome, Campeau, Chown, Danforth, Deschatelets, Hales, Hellyer, Keays, Macdonnell (*Greenwood*), Macnaughton, McGrath, McMillan, Martel, Morton, Noble, Pigeon, Pratt, Regier, Robichaud, Smith (*Simcoe North*), Spencer, Stewart, Tucker and Winch—29.

In attendance: Mr. E. B. Armstrong, Deputy Minister of National Defence; Mr. H. R. Balls, Comptroller of the Treasury; Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; Mr. D. A. Smith and Mr. G. A. Morrison.

The Chairman announced that, in order to expedite the work of the Committee, it was decided by the Sub-Committee to arrange, starting April 18th, for two meetings of the Committee per week. He tentatively scheduled the hearing of witnesses from the Canada Council for April 12th; meetings on April 18th and 19th to be devoted to further consideration of the Auditor General's Report; and meetings scheduled for April 25th and 26th to hear witnesses from Polymer Corporation Limited.

Mr. Henderson read an answer to a question relating to paragraph 33 of the Auditor General's Report, asked by Mr. Robichaud at a previous sitting of the Committee.

Mr. Balls explained the position of the Department of Finance with regard to the Prairie Farm Emergency Fund, and read to the Committee an opinion obtained from the Solicitor to Treasury Board. It was decided that further consideration would be given to paragraph 41.

Mr. Balls expressed his views concerning paragraph 45 of the Auditor General's Report relating to expenditure charges to adjust insurance account balances.

Mr. Henderson is to study these views on comment at a subsequent meeting of the Committee.

Messrs. Henderson and Smith were questioned on paragraph 47 regarding the questionable charge for stockpiling of coal.

Mr. Armstrong passed to Members of the Committee a copy of the plans and specifications and a photograph of the house built for the Commanding Officer at R.C.A.F. Station, St. Hubert, Quebec.

During the course of his questioning he undertook to obtain for the next sitting of the Committee detailed costs of materials; the method by which service men were transported from Calgary, Alberta, to St. Hubert, Quebec, and a breakdown of the costs listed as utilities and landscaping.

At 11.00 a.m. the Committee adjourned to meet again at 9.30 a.m., Wednesday, April 12, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, March 22, 1961.
10:00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

I would like to report that although I think this committee is doing an exceptionally good job this year we are not making as fast progress as we must if we hope to cover our schedule of projects to be examined. Therefore I took this up with the steering committee yesterday. I believe I am right in saying that the steering committee suggested that on April 12, we might take up the Canada Council, the reason being their executive is meeting on the 10th and 11th in Ottawa and it would be convenient for them to be here on the 12th. Dr. Bissell, the Chairman, will be here.

It was further suggested by the steering committee that after that we meet twice a week, on Tuesday morning at 9:30 and on Wednesday which is our regular day. We considered several other alternatives, but no matter how you look at it we would run into other committees. I do not see any other way around it. If this is suitable we would suggest we meet on April 18 and April 19 to continue with the Auditor General's Report and on April 25 and 26 we would take up the Polymer Corporation. Would there be any objection to that?

Mr. BELL (*Carleton*): It becomes a matter of what other committees meet on Tuesday. I believe there is a conflict with the broadcasting committee.

The CHAIRMAN: Broadcasting and research. If we meet at 9:30 and continue until 11 a.m. it would give us that extra day perhaps without competing.

We have a very heavy, and I think a very useful, schedule ahead of us. We considered meeting in the afternoon, but you know the usual objection to that. As Chairman I did not feel it was up to me to raise it. Shall we try this and see how it works?

Mr. BELL (*Carleton*): On the understanding we would rise at 11.

The CHAIRMAN: Yes.

Mr. BELL (*Carleton*): There will be a conflict with the civil service committee on Tuesday if we go beyond 11 o'clock.

The CHAIRMAN: Is the committee in agreement?

Agreed.

The CHAIRMAN: Then we will have the Canada Council on April 12th, on April 18 and 19 the Auditor General's Report, and on April 25 and 26 the Polymer Corporation.

Is Mr. Spencer here? I presume he would just report progress in respect of the subcommittee. Does any other member of the subcommittee have anything to add?

Mr. WINCH: I think we are making very good progress. It is a most interesting subcommittee. We hope to be able to conclude the draft at our next meeting.

The CHAIRMAN: Good. That would be for presentation on the 12th of April.

Mr. WINCH: Yes.

The CHAIRMAN: Arising from the last meeting there were at least two questions. Mr. Robichaud raised a point in respect of paragraph 33.

Mr. A. MAXWELL HENDERSON (*Auditor General of Canada*): Mr. Chairman, under paragraph 33, which was a summary of excise taxes in my report, Mr. Robichaud noticed the last item on refunds and drawbacks and that the amount for 1959-60 was only fifteen per cent of what it was in 1958-59, and fifty per cent of what it was in 1957-58. He asked if there was any explanation, and I undertook to look it up and report back today.

The total of refunds and drawbacks varies greatly from year to year for various reasons including changes in tax levies. During 1957-58 refunds were made with respect to the repeal on March 15, 1957, of the excise tax on soft drinks, candy, motorcycles, smoking accessories, and so on. A number of refunds were also made with respect to the reductions of the special excise tax on automobiles from ten per cent to seven and one-half per cent effective December 6, 1957. The greater part of the total for the year 1958-59 represents refunds of excise tax on automobiles.

There were no unusual refunds in 1959-60.

The Department of National Revenue has not been keeping a detailed analysis of refunds by commodities but they were able to advise that the refunds of excise tax on automobiles amounted to $2,495,716 of which $190,769 was paid out in 1957-58 and $2,304,947 was paid out in 1958-59.

Perhaps that is the information you require, Mr. Robichaud.

The CHAIRMAN: Are there any questions?

We are on paragraph 41, prairie farm emergency fund deficit.

> 41. *Prairie Farm Emergency Fund deficit.* Reference has been made in previous reports to the practice of charging annual deficits in the operations of the prairie farm emergency fund to expenditure, although no provision for this had been made in the governing act and no parliamentary appropriations had been provided to cover the charges.
>
> The deficit of $12,529,000 which resulted from the fund's operations in 1959-60 was again charged to expenditure notwithstanding this lack of specific parliamentary authority.

Mr. ROBICHAUD: I have a question on 41.

The CHAIRMAN: Before you do so, Mr. Bell and Mr. Winch raised this question. Mr. Balls, the Comptroller of the Treasury, is here and I think he would like to speak.

Mr. H. R. BALLS (*Comptroller of the Treasury*): I had an opportunity to review the evidence yesterday. It was indicated that this entry had been made as a charge to budgetary expenditure without parliamentary authority. For the purposes of the committee I would like to record that an opinion was sought from the solicitor to the treasury as to the authority for the making of this particular charge. Perhaps I might read into the minutes of the committee the evidence in this regard.

This was a request for an opinion which I addressed to Mr. S. Samuels, solicitor to the treasury. It is dated February 11, 1959:

> The Prairie Farm Assistance Act section 11 sub-section 8 reads:
>
> 'If at any time the fund is insufficient to pay awards made under this act the Minister of Finance may, out of unappropriated moneys in the consolidated revenue fund, with the approval of the governor in council, make an advance to the fund of the amount required to meet the deficit.'
>
> May I have your opinion as to whether it is necessary to obtain an appropriation of parliament before such advances may be charged as budgetary expenditures in the year in which the advance is made.

On February 12, 1959, Mr. Samuels replied as follows:

> I understand you wish to have my opinion as to whether, before an advance made to the prairie farm emergency fund may be charged as a budgetary expenditure in the year in which the advance is made, an appropriation of parliament is required.
>
> Having in mind the provisions of the Prairie Farm Assistance Act, particularly section 11 which contains an appropriation of parliament, and the provisions of the Financial Administration Act, particularly those provisions relating to the accounts of Canada, I am of opinion, with respect to the above question, that nothing further is required from parliament in order to charge the advance as a budgetary expenditure in the year in which the advance is made.

The CHAIRMAN: Is there anything else you would like to say?

Mr. BALLS: I think that is all. I believe this answers the question as to authority. I might add one point, that the Solicitor of the Treasury, of course, is an officer of the Department of Justice and not Finance.

The CHAIRMAN: Gentlemen, it seems to me that the ball has been thrown back.

Mr. ROBICHAUD: In other words the fact remains that a certain amount is being spent without being included in the estimates.

Mr. HENDERSON: That was my point and also Mr. Watson Sellars' point, in commenting on this in his report for several years. As I understand it at that time he did not feel that he needed to seek legal opinion. He was more of a lawyer than I, and I followed in his footsteps in studying this item. It seemed to me, however, that the point he made was a reasonable one.

Perhaps I can follow this further. In the supplementary estimates tabled in parliament last week, on the first page, under the heading "special", an amount of $69,504,548 was included to cover the estimated amount required to recoup the agricultural commodities stabilization account to cover the net operating loss of the agricultural stabilization board as at March 31, 1961. In this way parliamentary authority is being sought which will permit the amount of the loss to be entered as a charge to expenditures, when the government accounts are closed for the year. It seems to me there is a very good case here. That is the reason I asked the committee to support my request that this prairie farm emergency fund deficit be included with the estimates likewise before the end of the year. Right now this estimate for the year ended March 31, 1961, would be approximately $9,200,000. If the practice I am asking were followed the supplementary estimates here would include the $9,200,000 just as they included $69 million in respect of the agricultural commodities stabilization account. Of course, it would have the effect of increasing the supplementary estimates you have before you from $182 million odd to $191 million odd, but it is going to be charged to expenditures anyway.

Mr. BELL (*Carleton*): Then do you suggest the repeal of subsection 8 upon which the legal opinion of the solicitor to the treasury is based.

Mr. HENDERSON: I would hope this committee might support the recommendation I have made. That would lead to a reconsideration of the legislation behind it in order that parliament might see the charge.

Mr. BELL (*Carleton*): Surely parliament sees the charge.

Mr. HENDERSON: So that it might be included in the estimates.

Mr. BELL (*Carleton*): Was the opinion of the solicitor to the treasury available to the Auditor General at the time this paragraph was written? I am referring to the opinion which was read here this morning.

Mr. BALLS: That has been extracted from the files of the Department of Finance, which are available to the Auditor General.

Mr. HENDERSON: The practice contemplated in respect of the prairie farm emergency legislation, Mr. Bell, as I have been given to understand, is that when the Minister of Finance makes this advance from the consolidated revenue fund it carries authority for him to charge it as an asset, not to write it off as an expenditure. He writes it off direct as an expenditure, whereas if you make an advance there usually has to be an accounting for it.

Mr. HALES: Are there any other accounts that are charged to the consolidated revenue fund similar to this.

Mr. HENDERSON: If there were I would hope I would have brought them to your attention in my report.

Mr. BALLS: There are many accounts charged directly to the consolidated revenue fund without an item appearing or a specific appropriation being made. The salary of the Auditor General is the first one which comes to my mind. The item under consideration is also a statutory charge and an appropriate entry may be made in accordance with the opinion of the solicitor to the treasury.

Mr. HELLYER: I am not impressed with the opinion of the solicitor to the treasury; what I am impressed with is the necessity of tightening up of parliamentary control of expenditures and write-offs. I think the Auditor General's point is well taken and that some tightening up should be effected so that annually we can see what is being proposed by the treasury department.

Mr. MORTON: My comment would be, why pick on one item if there are other items. The committee should make a fuller review of it. I think we should have the overall picture and make some decision so that we are consistent.

Mr. HENDERSON: It has been my understanding that in the other cases the authority to charge this expenditure has been given by statute. Mr. Balls mentioned my emolument. That is a specified amount I am paid by the act.

Mr. BELL (*Carleton*): Surely that is exactly what is happening here.

Mr. HENDERSON: No. It seems to me that this is to be charged to an asset item and not to expense.

Mr. BELL (*Carleton*): I think you are going directly contrary to a legal opinion, and the legal opinion was not drawn to the attention of this committee last week.

The CHAIRMAN: Of course this amount varies each year.

Mr. HENDERSON: Yes.

The CHAIRMAN: Shall we leave it there for the moment?

Mr. CHOWN: Perhaps we might followup Mr. Morton's suggestion and get a fuller picture. If what the witness says is correct, apart from the Auditor General's salary, there are other items handled in the same way. Perhaps it would be possible for us to have a report or a summary for the next meeting.

Mr. HENDERSON: I would be glad to furnish it.

Mr. BALLS: There is information in the public accounts which I think will give you a quick answer now, if you wish to have it. On page 35 of volume 1 of the public accounts there is a statement showing a summary of budgetary expenditures under statutory appropriations which indicates that for the fiscal year ended March 31, 1960, the total statutory expenditures of the government of Canada were $2,295,700,000. That includes interest and other public debt charges, family allowances, tax-sharing, subsidy and other payments to provinces, government contribution to the public service superannuation account, Canadian Broadcasting Corporation—grants for sound broadcasting and television service and payment of amounts equal to taxes collected under the Excise Tax Act in respect of radio and television sets and equipment, government contribution to the unemployment insurance fund, government contributions under the Hospital Insurance and Diagnostic Services Act—

Mr. HENDERSON: May I interrupt. These all are statutory expenditure charges, are they not, and it is provided by law that these amounts be paid.

Mr. BALLS: Yes.

Mr. HELLYER: The point is not whether parliament can authorize the payment by statute, but whether there is parliamentary authority for the write-off in question. There is a distinction there. I think that we are getting off the point in trying to prove that parliament can authorize statutory expenditures which it will recognize.

Mr. CHOWN: Mr. Chairman, my question stands. I think we should leave it there. We could have another look at it when we have our next meeting.

Mr. HELLYER: Yes, I agree with Mr. Chown. However, I think we should get a report of the statutory authorities for these expenditures set out side by side, with the expenditures of the one in question along with them, so that we can examine the difference.

The CHAIRMAN: Is that agreed?

Some hon. MEMBERS: Agreed.

Mr. KEAYS: When was the first reference made to this situation?

The CHAIRMAN: At the last meeting.

Mr. KEAYS: No; I mean in previous reports.

Mr. HENDERSON: It has been made at various intervals since the inception of the fund in 1939-40 by my predecessor.

Mr. BENIDICKSON: And nothing was ever done about it.

The CHAIRMAN: Gentlemen, if there are no further questions at the moment in connection with that paragraph, I understand that Mr. Balls wanted to make a statement in regard to paragraph 45.

Mr. BALLS: Yes, Mr. Chairman. I would like to be permitted to comment in regard to the item embodied in paragraph 45 of Mr. Henderson's report, which relates to the expenditure charges to adjust insurance account balances.

Again, the point has been made by the Auditor General that in no case does the governing legislation contain a provision for making such charges, which were the charges to bring the balance of the account up to the amount of the estimated actuarial liability as calculated by the actuaries of the government. This dates back some seven, eight or nine years, to the inception of the policy followed, and it arises from the recommendation of the chief actuary of the Department of Insurance. In examining the account of the civil service insurance fund, it was noted that the annual additions in respect of interest were more than sufficient to cover the actuarial liability of the account. The actuary recommended at that time that instead of crediting the account each year with interest the government should credit the account only with the amount necessary to make the balance in the account equal to the estimated liability.

On receipt of this recommendation the solicitor to the treasury was asked as to whether or not an amendment to the act was necessary, or if a regulation under section 18 of the act or an item in the estimates would be required to make the entries.

We were advised informally that the purpose of the account would be, in the understanding of the law offices to show the estimated liability of the crown and that, in his view, the governor in council could authorize a bookkeeping entry to be made from time to time, crediting the account with the amount necessary to make the balance in the account equal to the estimated liability. He went on to state that the governor in council could do this under the authority of paragraph (*f*) of section 18 of the Civil Service Insurance

Act. This was followed by action instituted by the governor in council amending the regulation to provide in section 17 of the civil service insurance regulations, which is approved by the governor in council by P.C. 1954-1693 of November 9, 1954, as follows:

(1) There shall be an account in the consolidated revenue fund to be called the civil service insurance account to which shall be credited all moneys received and to which shall be charged all moneys paid under the act.

(2) The liability at the end of each fiscal year arising out of contracts entered into under the act shall be calculated by the superintendent of insurance.

(3) If, at the end of such fiscal year, the liability calculated under subsection (2) is greater than the balance of the civil service insurance account at the end of such fiscal year, there shall be credited to the account and charged as an expenditure an amount equal to the excess of the liability over the balance of the account.

That relates to the civil service insurance account, and similar consideration arose in regard to the returned soldiers' insurance account and the veterans' insurance account.

Again, questions were raised as to authority to make the entries, and we were given the advice of the law officers that it was within the competence of the governor in council to make regulations to this effect. On June 12, 1958, the governor in council, by P.C. 1958-843, in regard to the veterans' Insurance Act and P.C. 1958-842, in regard to the Returned Soldiers' Insurance Act, introduced similar provisions in the regulations to make the entries which we have been making since that time.

The CHAIRMAN: Are there any questions?

Mr. HELLYER: If you have the act there, could you read the paragraph giving the governor in council the authority to do that.

Mr. BALLS: I have not the act here. However, I could cite the provision. Section 18 of the act gives the governor in council power to make regulations prescribing the accounts to be kept, and their management. This, I should think, in conjunction with the provisions of the Financial Administration Act, which Mr. Samuels cited in regard to the prairie farm emergency fund, would be what the law officers had in mind.

Mr. HELLYER: But even assuming that this could be interpreted as a proper exercise of legislative authority—

Mr. BELL (*Carleton*): Not legislative authority.

Mr. HELLYER: Well, it is a form of legislative authority in that the governor in council prescribes regulations. My question is this: Would it not be better for accounting practices and for the purpose of drawing public attention to the amounts involved if we amended the statute to require that these amounts be put in the estimates annually so that they could be perused and considered?

The CHAIRMAN: Do you wish to say something on this?

Mr. HENDERSON: Mr. Chairman, I did not have an opportunity to see the announcement which Mr. Balls made and, with the permission of the committee, I would like to study it and report back at the next meeting. However, I would like to make the point that in studying this that I gathered my predecessor never felt that the type of language employed in this act was tight enough—and I am referring particularly to the section which reads that the governor in council may, for the purpose of this act, from time to time make regulations prescribing the accounts to be kept, and their management. I think he would have liked to see it more specific, and he would have liked to see the charge go into the estimates.

My approach is that wherever an insurance fund it set up, particularly within the type of circumstances we have here—within the consolidated revenue fund—it surely should be funded. If you are going to undertake a scheme of insurance for someone, it should have a proper actuarial basis. As I say, Mr. Chairman, I would like an opportunity to go over what Mr. Balls has said this morning, and to deal with it on the next occasion that I appear before you.

Mr. BELL (*Carleton*): Was not the very point that was made that the actuaries recommended this particular procedure?

Mr. HENDERSON: The fact that no interest was credited to the accounts since these adjustments were made and the deficits were written off indicates that the fund is not being maintained. You have just written them off.

Mr. BELL (*Carleton*): My understanding of Mr. Balls' statement is this. It was initially recommended by the actuaries and then it was put to the solicitors to see if the recommendations of the actuaries could be carried out. Is that not correct, Mr. Balls?

Mr. BALLS: That is correct.

As I understand the recommendation of the actuary, it was that the crediting of interest to these accounts would be more than sufficient to provide an amount to cover the actuarial liability, and the recommendation he made was to credit to the account each year only a sufficient sum necessary to meet the actuarial liability.

Mr. MORTON: There is one thing which comes to mind in connection with this discussion. Would the change, as suggested by the Auditor General, make the administration of this fund, or other funds, more rigid or too rigid, so that the beneficial results or effects of the operation at present would be lost. I think the committee also should go into that aspect of it because, in trying perhaps to be too tight in our controls, we might hamper the administration in so far as it concerns some of these things.

The CHAIRMAN: Gentlemen, shall we leave the question there. As I say, the Auditor General is going to report back in connection with these things at the next meeting.

Paragraph 47 is next.

> 47. *Questionable charge for stockpiling of coal.* For many years parliamentary appropriations have been provided annually to the Department of Mines and Technical Surveys (Dominion Coal Board) for "payments in connection with movements of coal under conditions prescribed by the Governor in Council". Assistance on the movement of water-borne coal from Nova Scotia to St. Lawrence River ports has been based on the excess of the laid-down cost of Canadian coal over that of imported coal. Although normal stockpiling costs prior to shipment have been regarded as a permissible cost element, the appropriation for 1959-60 (Vote 212) was charged with payments totalling $631,000 to reimburse collieries for the cost of extra stockpiling at the collieries in excess of current demand (an amount of $100,000 recovered from the Province of Nova Scotia by previous arrangement was included in the revenues of the department).
>
> In our opinion, these payments are questionable charges to an appropriation that provides specifically for "movements of coal".

The CHAIRMAN: Have you a question, Mr. Robichaud?

Mr. ROBICHAUD: Yes, Mr. Chairman, I have a few questions to which I would like answers from the Auditor General.

The Auditor General gave this committee his interpretation of the application of this appropriation, and I would like to know how payments

are made under this program, and when they are made. Also, would he give us the names of those corporations which have made claims and received payments.

Mr. HENDERSON: You are speaking of the stockpiling of coal?

Mr. ROBICHAUD: Yes.

Mr. HENDERSON: The payment to which I had reference, which caused this note, is the $631,000, and I take it that is the one for which you wish an explanation?

Mr. ROBICHAUD: Yes. I would like to know how payments are made and what companies have claimed under this program.

Mr. HENDERSON: There are two companies to which this money went, and they are both subsidiaries of Dominion Steel and Coal Corporation. I am referring to the Dominion Coal Company and the Old Sydney collieries. The amount of $631,000 is made up as follows: labour, depreciation on equipment and overhead, $269,000; interest, $357,000; insurance, $5,000. The province of Nova Scotia refunded the federal government $100,000 of that, leaving $531,000.

Mr. ROBICHAUD: Does it not appear now that in the application of this appropriation, or this program, the company is being given preference by having extra stockpiling? I am referring to an inducement to the company to stockpile, say at this plant or in the Sydney area, rather than to move this coal and stockpile it in the St. Lawrence area.

Mr. HENDERSON: Mr. Robichaud, I think that is a question you should address to the administrators of the dominion coal board. I cannot say to what extent it is an inducement, or otherwise.

The CHAIRMAN: Well, put it this way: Is this an annual charge, or is it an exceptional charge?

Mr. HENDERSON: Could you speak on this, Mr. Smith?

Mr. D. A. SMITH (*Audit Supervisor, Auditor General's Office*): Mr. Chairman, this is a special charge. It related to extra costs incurred by two companies during 1958. There was an implication in the files that the two companies had produced an excessive amount of coal and this, in effect, was a grant to compensate the companies for the fact they had continued with production beyond the point which they might not have done otherwise, without some financial assistance.

The CHAIRMAN: Have you a breakdown as to how this total is made up?

Mr. HENDERSON: The $631,000?

The CHAIRMAN: Yes.

Mr. HENDERSON: That is the information I gave to Mr. Robichaud.

Mr. WINCH: How do you arrive at this amount of over $300,000 in interest? Upon what is that based?

Mr. HENDERSON: According to the information I had, Mr. Winch, at December 31, 1958, the Dominion Coal Company seems to have had bank and other loans outstanding to the order of $588,000. At that date the coal inventory stood at 1,085,000 net tons, so that the rate of the interest per net ton, works out at .542¢.

Mr. WINCH: Then that means that these two companies have borrowed money from the bank in order to mine and stockpile surplus coal?

Mr. HENDERSON: That is right.

Mr. WINCH: And am I correct in saying they have asked the government to pay on the bank loans?

Mr. HENDERSON: Yes. As I say, the ratio of the loans to the inventory works out to .542¢ per net ton. The coal inventory of 1,085,000 net tons was calculated to be 659,000 tons in excess of the five-year average, which was 426,000 tons. Therefore, there was 659,000 tons in excess and, accordingly, the Dominion Coal Company was paid .542¢ a ton for the 659,000 tons, which is $357,000. As you say, it would seem that these were loans incurred for the purpose of continued production, and led to the stockpiling in question.

Mr. WINCH: Is it your contention from paragraph 47 that the authority of parliament is to subsidize the movement of coal, and because of this stockpiling the money should not have been paid?

Mr. HENDERSON: We raised the question that it did not seem to us to be exactly the movement of coal which should provide the authority. However, the committee may feel there is a pretty narrow line between the two.

Mr. ROBICHAUD: I take then from your remarks, Mr. Henderson, that there should have been a separate appropriation for this amount, instead of covering it under the appropriation for the movement of coal. Is it your feeling that there should have been a separate appropriation to cover exactly what has been done, when this amount of $631,000 was paid?

Mr. HENDERSON: Yes, that is my feeling.

The CHAIRMAN: What amount in wages was paid in connection with that surplus?

Mr. HENDERSON: I cannot give you that information. I gave you the figure of $269,000, which was included in the $631,000, and there were three elements in there. We could find that information out for you.

Mr. MACDONNELL: What were the conditions prescribed by the governor in council?

Mr. SMITH: The conditions were not prescribed by the governor in council. The cost on which these additional payments was based was examined by the audit service division of the comptroller of the treasury, and, as always, we were supplied with a copy of this report. We went into it and asked any further questions which we felt necessary. However, conditions were not laid down specifically by the governor in council with regard to the payments.

Mr. MCMILLAN: Was there any payment made when this particular coal was moved, after it was stockpiled?

Mr. SMITH: There are four elements entering into the amount involved. As has been pointed out, one of them is a financial item, and the other two major items were banking and lifting; and the banking and lifting costs which were taken into consideration in the determination of these payments were also later taken into consideration in ascertaining the laid-down cost of the coal at the St. Lawrence river, or at gulf of St. Lawrence ports to which the coal was shipped. So that, in effect, these payments were grants.

Mr. WINCH: There is a thought which I just cannot quite get through my head. The basis of the legislation is to assist the coal mining industry on the Atlantic coast by paying the difference between the laid-down costs of Canadian coal as compared to imported coal. That is the principle of the act. So, on what basis then do you make this payment? On what basis is this $600,000 paid? It has no relationship to the laid-down cost of Canadian coal and the price of imported coal.

Mr. SMITH: I would like to point out that while I have referred to the difference between the laid-down cost of Canadian coal and the cost of competitive coal at any of these points, the difference is only recognized by a maximum which is laid down in the regulations and prescribed by the governor in council.

Mr. ROBICHAUD: I may be wrong in this, but if my memory serves me right, the house, parliament, approved a special grant or subsidy to cover exactly what has been done in respect to this $631,000, that is, to cover the cost of extra stockpiling of coal above a certain average over the previous years.

But what the Auditor General is questioning here is only the fact that the amount was included under the appropriation for the movement of coal. To me, parliament was authorized, or the government was authorized by parliament to spend this amount. But the only question is that it was covered under the same appropriation which was there before, for the movement of coal.

Mr. HENDERSON: Would that be correct, Mr. Smith?

Mr. SMITH: Yes, that is the point.

Mr. REGIER: May I ask if the amount labelled as depreciation was for depreciation on machinery, or on the coal itself because of its being stockpiled?

Mr. HENDERSON: It is described as depreciation on equipment which I presume would be the coal hauling equipment involved in the operation.

The CHAIRMAN: Is there anything else? If not, let us now take up paragraph 48 "construction costs of house at R.C.A.F. station".

> 48. *Construction costs of house at R.C.A.F. Station.* Early in 1958 Treasury Board approval was obtained for the construction of a house for the use of a senior R.C.A.F. officer at a cost of $25,000, plus $9,950 for utilities and landscaping. The project was completed during the year under review, and an analysis by the department's Chief Auditor of the cost records maintained by the R.C.A.F. Construction and Maintenance Unit indicated that costs totalling $79,631 had been incurred—$56,716 for the house and $22,915 for the utilities and landscaping.
>
> When the matter was referred by a departmental administrative officer to the Air Force for investigation, it was found that there had been misunderstanding on the part of its Construction and Maintenance Unit in that it had assumed that the approved funds covered only the cash requirements for the project without restricting "contributions" by way of Service labour and materials from stocks on hand. The cash outlays were within the approved amounts and it was the "contributed" costs that had resulted in the project exceeding the authorized limit. Moreover, the Air Force, pointing out that the house had been built in accordance with agreed plans and specifications, maintained that there were inaccuracies in the records and that certain costs totalling $33,450, such as transportation to and from the site, rental value of Service equipment and a large portion of Service labour for engineering and supervision, should not have been charged to the project.
>
> Unless costs include indirect as well as direct elements, they can be seriously misleading. Realizing this, the department has issued instructions that in future estimated costs prepared with respect to all project requests must include the cost of all material whether purchased directly or supplied from stocks, and of all labour whether employed directly for the job or provided by departmental Service or civilian staffs—together with appropriate charges for overhead.

We have with us Mr. Armstrong, who, as you well know, is deputy minister of national defence.

Mr. PRATT: May we proceed now?

The CHAIRMAN: Did you bring the plans, specifications, and anything else?

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): Yes, Mr. Chairman, I did. Would you like me to distribute them? I do not have copies of this for everyone.

The CHAIRMAN: No. We have the plans and specifications here, if you want them.

Mr. PRATT: May I see the plans and specifications? Would the witness tell us if there was an architect who designed this building? We presume there was.

Mr. ARMSTRONG: This building was taken from the standard Central Mortgage and Housing Corporation design, and it was modified by an architect who was a member of the air force.

Mr. PRATT: By a staff architect?

Mr. ARMSTRONG: These are the plans.

Mr. ROBICHAUD: Was there any value given on that building by Central Mortgage and Housing Corporation? When they draw a certain plan, they show an approximate value of the building. Was there any value given on this building?

Mr. ARMSTRONG: The original intention was to have this building built by contract. The estimated cost as I recall it—and it was not worked out in detail by Central Mortgage and Housing Corporation—was that if it were built to minimum housing standards in that area, the estimated cost should be in the area of $9.25 a square foot.

Mr. PRATT: Did the architect make an estimate of the cost?

Mr. ARMSTRONG: There was an estimate made, and the estimated cost was $28,000.

Mr. PRATT: Who made this estimate?

Mr. ARMSTRONG: This estimate was made by Defence Construction Limited.

Mr. PRATT: Did the original estimate not reveal what would have been cash, and what would have been supplied by the R.C.A.F.?

Mr. ARMSTRONG: Well, had it been built by contract, it would have been all cash. We did have some exploration of having the house built by contract, but it became evident that a contract price for this house would be in the area of $33,000 to $34,000, without services.

Mr. PRATT: Was any detailed estimate made?

Mr. ARMSTRONG: Yes, it was worked out in detail.

Mr. PRATT: Was the estimate used as a guide during construction?

Mr. ARMSTRONG: To my knowledge the estimate was not used as a guide during construction. The accounting control during construction, in this particular instance was in relation only to the cash element, that is the amount of labour, civilian labour that was hired specifically for the job, the amount of materials that were bought specifically for the job, and the contracts for various services that were contracted for the job—all of these items.

Mr. PRATT: Could you tell us why the estimate was not used as a guide during construction?

Mr. ARMSTRONG: I can give you a little background on this. The construction and maintenance unit of the R.C.A.F. was established during the last war. At that time it had a number of construction units across the country, and it was used to do the emergency and necessary construction work at that time.

After the war it was reduced and organized into a single unit located at Calgary. The purpose of the construction and maintenance unit was two-fold; one, to train airmen and officers in the construction trade, and secondly—

Mr. PRATT: And in economical construction?

Mr. ARMSTRONG: I said in the construction trade.

Mr. PRATT: But not necessarily in economical construction.

Mr. ARMSTRONG: We expect that they would be trained to be efficient, and this presumably would include being economical.

The second function of the unit was that it be available to do emergency work particularly in the north country, and in situations involving immediate repairs, where a unit of this kind could be put on the job immediately.

Now, in the light of that particular function, the standard cost accounting controls that are applied in other construction units were not applied to the C.M.U.

In other instances detailed estimates of construction work are made, and the construction unit works against those estimates and in respect to all costs, whether or not they are costs from what we would term established labour, or materials out of stock, or cash costs involving the hiring of labour, or the buying of materials.

Mr. PRATT: Am I to get the impression that this construction unit, while in possession of this estimate, deliberately disregarded it because of a previous practice?

Mr. ARMSTRONG: No, I do not think they disregarded it. I say that they operated in accordance with their previous practice.

Mr. PRATT: Did they use this particular estimate as a guide in this particular building?

Mr. ARMSTRONG: Perhaps I had better go back a little and explain the authorization for this building.

The building was authorized, as you are all aware, at a cost of $25,000. This authorization of $25,000 was based on the assumption that the air force would supply the supervision for the job, the overhead. But it was found that we could not get a house of this kind built for $25,000.

Mr. PRATT: You say that you could not get a house like this built for $25,000?

Mr. ARMSTRONG: No.

Mr. PRATT: Why is that?

Mr. ARMSTRONG: Simply because on a contract basis the house would cost more than $25,000.

Mr. PRATT: Then you disregarded that estimate?

Mr. ARMSTRONG: I am explaining to you why $25,000 was the estimate, with the assumption that the air force would provide the staff for supervision, overhead and so on.

Mr. PRATT: Was this stated in the estimate?

Mr. ARMSTRONG: This was the understanding on which the estimate was approved.

Mr. PRATT: On whose understanding? Was it in the estimate? Was is stated in the estimate?

Mr. ARMSTRONG: Yes, I believe it was.

Mr. PRATT: Could we have copies of the estimate? We are in the dark here.

Mr. ARMSTRONG: Well, I do not have them in detail.

Mr. PRATT: It is a very important detail.

Mr. ARMSTRONG: But it was certainly understood by everyone.

Mr. PRATT: Including the people who made the estimate?

Mr. ARMSTRONG: Yes, including the people who made the estimate.

Mr. BENIDICKSON: Was it understood by the treasury board?

Mr. ARMSTRONG: It was understood by the treasury board as well. This was the background to this house, and it was submitted to the treasury board for approval.

Mr. WINCH: That would mean that the provisions you have mentioned now would justify the difference between $25,000 and $76,000?

Mr. ARMSTRONG: No, it is not that.

Mr. WINCH: What makes up the balance to bring it up to $56,000?

Mr. ARMSTRONG: I am explaining to you the basis on which the $25,000 was authorized. Perhaps I am not being too clear in this. But when you ask if it was understood by everyone concerned, certainly it was understood by everyone concerned in the authorization of the house at $25,000. Now, in point of fact, in the construction of the house, as I say, the construction and maintenance unit applied the $25,000 to the cash expenditure that they made in relation to the house.

In addition to that, in the costs that make up $56,000 that are shown in the auditor general's report, there were substantial costs applied in respect to the airmen, the service people who were employed in connection with the house. There was a cost of roughly $4,000 for material that was provided from air force stocks.

Mr. PRATT: My question is this: was this extra material and extra labour allowed for in the original estimate of $25,000, or was this to be extra? Was it stated in the original estimate document?

Mr. ARMSTRONG: No, it was not.

Mr. PRATT: Where can we find this authorization to cover extra work that was to be done? It seems to have been based on the tradition of this particular maintenance and construction unit.

Mr. ARMSTRONG: The house was built according to the plans, according to the specifications laid down, and according to the plans I have passed out to someone here.

Mr. PRATT: Why were not competitive bids offered?

Mr. ARMSTRONG: There were no competitive bid called for because the house could not be built for $25,000 by competitive bid.

Mr. WINCH: If it had been let on contract, would it have cost $56,000?

Mr. ARMSTRONG: It was built for $56,000; but perhaps I could put it this way: that had we been aware of the fact that it was going to cost $56,000, it would not have been authorized.

Mr. PRATT: Were any sub-contracts awarded?

Mr. ARMSTRONG: Yes, there were some minor sub-contracts, not very many.

Mr. PRATT: I would like to know if this staff architect supervised the construction.

Mr. ARMSTRONG: No, the staff architect who provided that estimate did not supervise the construction.

Mr. PRATT: There was no architectural supervision?

Mr. ARMSTRONG: The on-site supervision was undertaken by an officer of the construction and maintenance unit. The chief of engineering for the R.C.A.F., to whom the architect, to whom I referred, reports, exercised a general supervision by visiting the house, I think, on about four occasions during the period of construction.

Mr. PRATT: Can you tell me how many square feet of floor area, or cubic feet, there is in that building?

Mr. ARMSTRONG: I do not have the cubic feet, but there is approximately 2,800 square feet.

Mr. PRATT: Did you work on a basic price per square foot of construction?

Mr. ARMSTRONG: Only in the broad sense. As I explained earlier, the C.M.H.C. indicate that one would expect to build in that area for something in the area of $9.25 per square foot. The detailed estimate that we spoke of earlier, as being worked out by the architect, not based on a square foot arrangement.

Mr. PRATT: I cannot hear the witness.

The CHAIRMAN: Order, please.

Mr. ARMSTRONG: I said it was not based on a basis of square feet.

Mr. PRATT: I do not understand this whatsoever. Here is a building with 2,800 square feet approximately. That unit was given an approximate cost of $9.00 per square foot by Central Mortgage and Housing Corporation, and this amounts to about $25,000.

Then you disagreed with this constructive price. This unit, apparently, went up, and was built completely in the dark. It was justified only by some prior practice which grew up during the war, to train men to become efficient builders, if not economical ones.

Mr. ARMSTRONG: Please do not misunderstand me. I am not offering any particular excuse for this particular construction job. The construction and maintenance unit was not organized at any time to build houses.

Mr. PRATT: This house looks like a terrible example of carelessness.

Mr. ARMSTRONG: This is the only house they have ever built that I am aware of. We do not intend to have them build any more.

The CHAIRMAN: May I ask one or two questions? Where is this construction and maintenance unit based?

Mr. ARMSTRONG: It is located at Calgary.

The CHAIRMAN: Were any of the members of that unit brought to St. Hubert?

Mr. ARMSTRONG: Yes, some of them were brought down for the purposes of this work.

The CHAIRMAN: Along with any equipment?

Mr. ARMSTRONG: No equipment was brought from Calgary, but some equipment was moved from Trenton to St. Hubert.

The CHAIRMAN: You mean Trenton, Ontario?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Have you any estimate of the cost of moving these men? How many men were moved?

Mr. ARMSTRONG: The estimated cost of transportation—I think I have it here—was $5,400; and the estimated cost of the equipment that was used—this is based on what would have been paid had it been necessary to rent equipment—it is assumed that the cost of the equipment, on the basis of normal rental charges for this particular type of equipment, during the period it was used, was $8,429.

Mr. WINCH: What kind of equipment would you use for $8,000 odd to build a house?

Mr. ARMSTRONG: Most of this equipment was used, not on the house. It would be equipment used rather on the services, to provide services for this house. Now, the estimated cost of the services was $22,900, which, obviously, is extraordinary for a single house.

Mr. ROBICHAUD: There is agreement on that.

Mr. ARMSTRONG: The reason, or part of the reason for this, was that the house was located on the station adjacent to an area where it had been planned to build an additional 200 married quarters.

Mr. PRATT: But this is all beside the point. I would like to ask the witness how they achieved this figure of $9 per square foot from the Central Mortgage and Housing Corporation. Did they ask for this figure before building or after the building was completed? If it was asked for before, then why was no attention paid to it?

Mr. ARMSTRONG: The figure I quoted of $9.25 per square foot was obtained from Central Mortgage and Housing Corporation as an estimate of the approximate cost of building in the St. Hubert area.

Mr. PRATT: Then this figure was forgotten?

Mr. ARMSTRONG: No.

Mr. PRATT: When you went over the $9.25 there was no question by anybody?

Mr. ARMSTRONG: As I say, in terms of the accounting operation, the accounting for this was in relation to the cash only.

Mr. PRATT: Did Central Mortgage and Housing Corporation suggest the $9.25 was for cash only, or was it the cost per square foot for a similar building?

Mr. ARMSTRONG: They did not give us this figure in relation to this building. It was in relation to the cost of building in the St. Hubert area.

Mr. PRATT: You did not ask for the specific cost.

Mr. ARMSTRONG: The $9.25 per square foot was applicable to a house built to minimum national housing standards in that area. In relation to this house if they had made an estimate in detail the figure might have varied from this to some degree.

Mr. PRATT: But the architect made an estimate in detail.

Mr. ARMSTRONG: The architect made an estimate in detail that the air force could build this house in terms of material and labour which went into it, if they absorbed the supervision, for $25,000.

Mr. PRATT: Could we have the original estimate as such tabled?

Mr. ARMSTRONG: I do not have it with me.

Mr. HELLYER: We hear of instances of the waste and extravagance in the public service. I think this is a classic example. Often it is difficult to isolate these things and know what we are talking about. Here we have one. There are quite a few fundamental problems raised. In the first place I would like to know a little more about the background of the application to treasury board and why treasury board was willing to authorize the Royal Canadian Air Force to build a house and not willing to authorize the calling of tenders for a contractor to build a house.

Mr. ARMSTRONG: This is not exactly the case. The treasury board was prepared to authorize the construction of the house for the commanding officer at air defence command on the station at $25,000. An investigation was made of the possibility of having this house built by contract. That examination indicated the house could not be built by contract for $25,000. As I remember it, I think the figures were in the area of $33,000, or something of that nature.

Mr. BOURGET: Just for the house.

Mr. ARMSTRONG: Yes. As a result of this the air force took the list of material and labour required to build the house, had it examined by their experts, and came to the conclusion that the house could be built within the

$25,000 figure if they were permitted to use their own resources, which would include equipment and their own supervision. On that basis the treasury board was prepared to permit the department to go ahead and build the house.

Mr. HELLYER: Are the officers of the R.C.A.F. so naive and inexperienced that they thought they could build a house for less than it could be done by contract on the market?

Mr. ARMSTRONG: I think it is conceivable that this could happen if certain of the costs, which normally must be provided by the contractor, were absorbed within the R.C.A.F.

Mr. HELLYER: In other words if costs were hidden.

Mr. ARMSTRONG: I beg your pardon?

Mr. HELLYER: If additional costs were hidden.

Mr. ARMSTRONG: No. I am not suggesting they were hidden. I am suggesting that if you use equipment which is available in the air force and engineering personnel who are available to supervise the job, which are things which naturally the contractor must provide in a contract house, that logically one would expect it would be possible to provide the material and labour for the house at a somewhat lower cost than the contractor could.

Mr. HELLYER: Did the R.C.A.F. have any experience on which they could base this opinion that they could construct a dwelling unit cheaper than could experienced people?

Mr. ARMSTRONG: The fact is that this is the only house they built, so the answer is no, they did not have the experience.

Mr. HELLYER: Surely the treasury board would be aware of what is involved in this. Why did they allow the R.C.A.F. to build, for $25,000, a house which obviously was going to cost $35,000?

Mr. ARMSTRONG: I do not think I can speak for the officers of the treasury board as to why they were prepared to allow this. We, of course, recommended it in the department. In retrospect I think all of us are prepared to admit this was a mistake.

Mr. PRATT: Last year we had an example of a very expensive moving job in which we were told R.C.A.F. personnel could not be employed, and it was given out at a high cost. This year we have an example of a building which could have been built by contract and was built by R.C.A.F. personnel at high cost.

Mr. ARMSTRONG: I think the cases are not parallel.

Mr. PRATT: They are parallel so far as cost to the public is concerned.

Mr. HELLYER: In respect of the landscaping services, could you tell us precisely what landscaping services were required for which the original estimate of $9,000 was given.

Mr. KEAYS: Before we go on with the landscaping can we finish with this?

Mr. BOURGET: How many men were flown from Calgary to St. Hubert?

Mr. ARMSTRONG: I do not have the number.

Mr. BOURGET: How many men were used to work on the construction of that house, and for how long?

Mr. ARMSTRONG: It took approximately ten months to build the house. I only have it in dollar terms. I am sorry, but I do not have the actual numbers.

Mr. BOURGET: That is where we may find the difference in cost. Surely if they used fifteen or twenty men for ten months you will see why the cost was so high. If it had been done by an experienced contractor, surely a house like this could have been built in three months with about five or six men.

Mr. KEAYS: Oh, go on!

Mr. BOURGET: Sure.

Mr. KEAYS: Why don't you build one and find out.

Mr. BOURGET: I think we are entitled to know how many men worked there on the site and for how long.

Mr. ARMSTRONG: I will get the information as to how many men were involved.

Mr. BOURGET: And how much they were paid per day. If men were flown down from Calgary to St. Hubert, were they paid extra when they were in St. Hubert or were they on their regular pay?

Mr. ARMSTRONG: They were not paid extra.

Mr. BOURGET: Were they getting something for their board?

Mr. WINCH: Did they not get tradesman's pay?

Mr. ARMSTRONG: Tradesman's pay is part of their normal pay. This is part of their normal tradesmen pay.

Mr. MORTON: In any event, they would have been paid their salaries while in St. Hubert?

Mr. ARMSTRONG: Yes, they would have been paid in any event.

Mr. REGIER: How is it that the windows are the old type which our grandfathers used to have?

Mr. HENDERSON: In answer to Mr. Bourget's question, perhaps Mr. Morrison would furnish that.

Mr. G. A. MORRISON (*Assistant Supervisor, Auditor General's Office*): Mr. Chairman, there were 18 servicemen brought from Calgary to work on the project.

The CHAIRMAN: Did they fly down and, if so, what was the cost?

Mr. ARMSTRONG: I think the cost was $5,400, the figure which Mr. Armstrong originally gave.

The CHAIRMAN: Could you give us the amount they were paid per day as workmen down there?

Mr. MORRISON: That amount would vary according to the rank. I understand they included majors down to the private ranks.

The CHAIRMAN: Have you the total cost of the service labour?

Mr. MORRISON: $10 per man per day was charged to the project.

Mr. WINCH: The reason for the exceptional cost might be due to the fact that they were all squadron leaders.

Mr. HALES: In connection with the flying costs, I presume they were flown down by our own aircraft. Am I right in that, or did they come by T.C.A.?

Mr. ARMSTRONG: The transportation costs were $5,400, and these were transportation costs which, in fact, were incurred. In fairness I think that I should say that these records are maintained out in Calgary by the construction and maintenance unit, and they merely said that such-and-such a man was going down east, primarily to supervise work on the house at St. Hubert. However, he may have been involved in other work down there. Therefore, it is only fair to assume that the $5,400 is perhaps something of an exaggeration as to the cost charge for this.

Mr. HALES: Did they fly by T.C.A. or by our own planes?

Mr. ARMSTRONG: I do not have that information, and I do not know whether Mr. Morrison is in possession of it. However, the cost was $5,400.

Mr. HALES: I want to know how they came down from Calgary. Were they transported down in our own plane or by T.C.A.

Mr. ARMSTRONG: We will look that up for you.

Mr. HALES: Have you an answer for that?

Mr. MORRISON: I have not an answer.

Mr. HELLYER: Could you tell us if any officer of the construction and maintenance unit advised the department at the outset of this operation that in his opinion it was just silly to fly a lot of people from Calgary to St. Hubert?

Mr. MORRISON: Certainly not.

Mr. CHOWN: There was a projection from this house deal which perhaps may have supported the expenditure in bringing them down. Does the over-all cost of the house include the expenditure of cost of transportation to bring them down, or is it in addition?

Mr. ARMSTRONG: It is included in the cost of $56,716 for the house and $22,915 for the utilities and landscaping.

Mr. WINCH: Basically, we can see the reason for this cost, and I may say that it is absolutely fantastic. The simple fact is that, in order to build a house in St. Hubert, you flew down 18 men from Calgary.

Mr. ARMSTRONG: When you use the words "flew down", I do not know; we may have brought them down by train.

Mr. PRATT: You brought them all the way across Canada just to build a house. Were there any horses involved in this?

Mr. DESCHATELETS: What accommodation was supplied for these men in St. Hubert?

Mr. ARMSTRONG: Accommodation would be provided in quarters at station St. Hubert.

Mr. ROBICHAUD: Is that included in the cost?

Mr. ARMSTRONG: No; there would be no element of cost for that in here.

Mr. PRATT: Mr. Chairman, I think we are getting away from the basic principle of this. It was stated that this could be built by a contractor for $25,000, and C.H.M.C. has advanced a price of $9 for this type of construction, which would amount to $25,000. Either the R.C.A.F. or C.M.H.C. are wrong in this.

Mr. ARMSTRONG: Well, you need to bear in mind what I said earlier about C.H.M.C., that $9.25 was not in connection with this specific house.

Mr. PRATT: Why would it be any different than any other type of house with which C.H.M.C. is familiar?

Mr. ARMSTRONG: They said that under minimum housing standards, $9.25 was approximately the cost of building a house in that area.

Mr. PRATT: Under minimum standards.

Mr. ARMSTRONG: Yes.

Mr. PRATT: Is that the price you requested, or did you ask the cost for this type of house?

Mr. ARMSTRONG: We did not ask C.M.H.C.

Mr. PRATT: They gratuitously gave you this information?

Mr. ARMSTRONG: They were asked what the approximate cost would be.

Mr. PRATT: Well, either you asked or you did not ask.

Mr. ARMSTRONG: The point I am making is that we did ask them to estimate the cost on that house, as such. If it had been done by contract, the contract would be let by Defence Construction Limited, and not C.M.H.C.

Mr. PRATT: Were you interested in what the cost of it would be?

Mr. ARMSTRONG: Yes, certainly. And, as I say, this house probably would cost something in the area of $34,000 or $35,000, if it was built under contract.

Mr. PRATT: Then there was no effort to keep the cost down?

Mr. HELLYER: That is the reason they built it themselves.

The CHAIRMAN: Shall we say that the cost just mounted by itself.

Mr. PRATT: It seems to me that in private contracting there is always an effort to keep the cost down, particularly when they are spending their own money. However, in this case, where it is a case of spending public money, as goes on throughout all the departments, there does not seem to be that interest in doing this. No wonder the taxes are so high.

Mr. ARMSTRONG: When you say there is no effort to keep the cost down, may I say that I endeavoured to explain earlier the controls which were exercised in relation to the cash expenditures, and not in relation to a total estimated cost.

Mr. PRATT: By what authority did this unit assume that this $25,000 was just cash?

Mr. ARMSTRONG: I think I explained to you earlier the terms under which it was agreed that this house would be built. I also explained to you that—

Mr. PRATT: But, briefly, under what authority?

The CHAIRMAN: Mr. Pratt, allow Mr. Armstrong to complete his answer.

Mr. PRATT: I am merely asking under what authority. That question does not require a long-winded answer.

Mr. BELL (*Carleton*): In fairness to Mr. Armstrong, I might say that it is not long-winded at all.

Mr. PRATT: That is your opinion.

Mr. ARMSTRONG: The direction that was given to the construction and maintenance unit was that they were to construct the house at a cost of $25,000, exclusive of the supervision and normal use of service equipment. This is their authority for assuming that the $25,000 represented cash. However, had they interpreted these directions as they were intended, they would have applied against the $25,000 labour, material and so on, which they used on the job. Now, this was not done. They applied the $25,000 to cash alone. If you would look at the estimates of cost, I think the material cost on the house amounted to between $23,000 and $24,000.

Mr. PRATT: Does that explanation satisfy Mr. Bell?

Mr. BELL (*Carleton*): It is not a question of Mr. Bell being satisfied, but I do not intend to see a deputy minister being browbeaten by a member of the government.

Mr. PRATT: That does not answer my question.

Mr. WINCH: Mr. Armstrong has told us that if it had been let by contract, it would have been in the neighbourhood of $33,000.

Mr. ARMSTRONG: That was our expectation.

Mr. WINCH: When you knew that it would be around $33,000 if let under contract, when did it come to your attention that in building it in the way it was going to be built, it would cost $56,000?

Mr. ARMSTRONG: The actual cost of this house came to our attention only when our auditors examined the construction and maintenance unit records, and these were kept in Calgary; and they discovered that according to these records the assigned cost of this house was $56,000.

Now, this was possible because the contract controls on the house were maintained only by what is called a financial encumbrance in relation to the cash, and the charges to that financial encumbrance were within the $25,000.

But this did not disclose the amount of labour that was within the air force and being paid for as airmen, and so on, and also the amount of material —about $4,000 worth of material—that had been taken out of air force stocks and applied to the house. Consequently this only came to our attention after the fact.

Mr. WINCH: Just what kind of services were put into this house when the equipment alone cost $8,400? Just what kind of services were they?

Mr. ARMSTRONG: Speaking of services, the cost is shown here as $22,900 for services on a house of this kind had it been built where there were power, water, and sewer lines.

Mr. WINCH: Do you mean you had to put in water and power lines?

Mr. ARMSTRONG: Yes. That is why I say this was the reason for the increased cost. This was related to the plan at that time that there would be built an additional 200 married quarters. It happens to be that this particular area is a low lying piece of land, and it encompasses the area where the 200 married quarters would have been built. So where the house was built it was necessary to put in storm sewers, and to drain that land.

Mr. MORTON: What services were included?

Mr. ARMSTRONG: All services were included, such as the provision of sanitary sewers, power lines, and drainage involving sewers and roadways.

Mr. HELLYER: What kind of roads? Paved roads?

Mr. ARMSTRONG: A paved roadway.

Mr. HELLYER: With curves?

Mr. ARMSTRONG: I do not know if it had curbs or not.

Mr. SMITH (*Simcoe North*): I would like to ask about three questions relating to construction. Was there ever any written instructions given to the officer commanding the construction unit at Calgary to the effect that only cash outlays were to be charged against this $25,000?

Mr. ARMSTRONG: There were written instructions. I have them here. Let me see if I can find them.

Mr. SMITH (*Simcoe North*): Might we have it filed?

Mr. ARMSTRONG: This is the instruction that was issued.

Mr. SMITH (*Simcoe North*): To whom was it addressed?

Mr. ARMSTRONG: It was addressed to the air officer commanding, air material command R.C.A.F., to whom the construction and maintenance units report. This is the text:

> This is to advise that the subject project is to be proceeded with as soon as possible in accordance with the design provided and is to be completed for a direct expenditure not exceeding $25,000 for the structure and $9,500 for the services and grounds.
>
> Supervisory costs are to be shown as contributed and should be the only contributed labor item. Equipment will presumably be provided by R.C.A.F. station St. Hubert thereby involving no direct expenditure except where rental may be necessary. In this event the equipment rental would be a direct charge against the funds provided for the project.
>
> (signed) E. R. Baker W/C
> for CAS

Mr. SMITH (*Simcoe North*): Was there ever any further explanation of what direct expenditures would be involved?

Mr. ARMSTRONG: No, there was not.

Mr. SMITH (*Simcoe North*): That letter was directed to the air officer commanding air materiel command. By whom was it made? From whom did it come?

Mr. ARMSTRONG: This was made by the wing commander in the construction and engineering division at headquarters, signing on behalf—he would have authority to do it in a case of this kind—on behalf of the chief of the air staff.

Mr. SMITH (*Simcoe North*): Would the officer not be named? Who would the officer be who would first know that the costs had escaped to the amount of $33,000 beyond the estimate?

Mr. PRATT: The Auditor General.

Mr. SMITH (*Simcoe North*): No, I am not asking you, Mr. Pratt.

Mr. ARMSTRONG: The costs which we are looking at, the $56,000 plus the $22,900 were costs maintained by the construction and maintenance unit at their head office at Calgary. So the commanding officer of that construction and maintenance unit would have this information available to him.

Mr. SMITH (*Simcoe North*): Who, by appointment, was the officer at St. Hubert? Who was directly given orders concerning the quality of materials and so on that went into this house?

Mr. ARMSTRONG: The quality of materials and so on were included in the specifications, so the officer at St. Hubert was not directly involved in this. These specifications were given to the construction and maintenance unit and used as a guide in building the house.

Mr. SMITH (*Simcoe North*): Has it ever been asked or ascertained whether or not there was any substantial change from the original specifications as laid down for the project?

Mr. ARMSTRONG: This has been checked. There were no substantial changes except one minor change in the specifications. It became evident from these inspections that there was the finishing of a bathroom which, in the original plan, had been left unfinished. That was the only change.

Mr. SMITH (*Simcoe North*): So far as you know, the order which you just read was the only written authority. There was no other extension, or any extension of that construction?

Mr. ARMSTRONG: In terms of construction, this is the only one.

Mr. SMITH (*Simcoe North*): And anything else would have been verbal, if there was anything?

Mr. ARMSTRONG: That is right.

Mr. BEECH: Did the overall price or cost include the cost of the land?

Mr. ARMSTRONG: No, the land is not included in these costs.

Mr. BEECH: When it was obvious that this building was not going to be erected according to the orginal estimate, why was it not necessary to go back to treasury board for approval of the additional amount?

Mr. ARMSTRONG: As I have said, it only became apparent to us, at any rate, at headquarters, that this was costing more than the original estimate after the building was built, and for the reasons I have given to you.

Mr. HELLYER: Is this construction unit competing with private enterprise for any of these contracts?

Mr. PRATT: Not at these rates.

Mr. ARMSTRONG: I think I might say this, to be helpful to the committee: first of all, as a direct answer to your question, I think the answer is no. It is the general policy of the department—and I say this with some hesitancy

in the light of the particular item we are discussing—that we do, by contract, everything that can possibly be done by contract. There has to be some substantial reason, as a rule, why we do it ourselves.

Mr. WINCH: I take it we can gather now that it will not happen again.

Mr. ARMSTRONG: I am sure it will not. And may I say one more word with respect to the construction and maintenance unit. The air force has re-examined the functions of this particular unit, and has revised its terms of reference substantially. This will reduce the size of the unit by some 95 people, and restrict the type of work that they are doing in the future, to work that is substantially more in line with the concept of a unit needed to meet real emergencies in relation to the air force. It will provide them with a unit that is capable of going out and examining engineering problems in relation to runways and so on, and getting out to a considerable degree from the actual construction business.

Mr. KEAYS: My question has been answered through a question asked by Mr. Smith. But after hearing all the evidence, I wonder if Mr. Armstrong, with the experience gained with this house, would name it "operation house"?

Mr. NOBLE: After looking at the picture and the background, the thought strikes me, why is such an elaborate set-up required for the purpose for which this was intended?

Mr. ARMSTRONG: Just what do you mean?

Mr. NOBLE: It was quite an elaborate looking building, when you spent $22,000 for landscaping?

Mr. ARMSTRONG: The $22,000 was not required for the purpose of the house alone. As I have said, we did not go ahead with the construction of the married quarters. Had they been constructed, then of course the landscaping would certainly have been necessary.

Mr. ROBICHAUD: Could we be given the details as to the area which was landscaped?

Mr. ARMSTRONG: I am only guessing, but I believe the area on which this particular house was built comprises about an acre.

Mr. PRATT: How much of the $22,000 was spent for landscaping?

Mr. ARMSTRONG: Three thousand was spent for top soil and seeding.

Mr. DANFORTH: I would like to ask if it would be possible at the next meeting since reference has been made to these other 200 living units, and so that we may get a correct picture of the entire situation—could there be provided for us a breakdown of the amount attributed to the house, and the amount which could be attributed to the landscaping and the utilities for these other 200 units? I would like to get a fair perspective of this picture. I would like, if possible, for the next meeting, to have this $22,950 broken down as between utilities and landscaping, with a fair proportion allocated against the various units so that we may have a clearer picture.

Mr. ROBICHAUD: Could we have the details of the material which was purchased for this house, together with the price of each type of material?

Mr. REGIER: I was going to ask for exactly what Mr. Robichaud has asked, that is, a list of the cash expenditures.

Mr. HELLYER: In respect to the services, we cannot talk about them intelligently until we have a list of the services installed, and the number or length of feet for each service.

The CHAIRMAN: Our next meeting will be on April 12, with the Canada Council.

The Committee adjourned.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Report of the Canada Council—March 31, 1960

WEDNESDAY, APRIL 12, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Dr. Claude Bissell, Chairman, Canada Council; and Dr. A. W. Trueman, Director, Canada Council.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24845-0—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark
Beech
Bell (*Carleton*)
Benidickson
Bissonnette
Bourbonnais
Bourget
Brassard (*Chicoutimi*)
Broome
Bruchési
Campeau
Chown
Danforth
Denis
Deschatelets
Drysdale
Dupuis
Grenier
Hanbidge
Hellyer
Keays
Lahaye
Macdonnell
McGee
McGrath
McGregor
McMillan
Martel
Morissette
Morton
Noble
Nugent
Pigeon
Pratt
Regier
Robichaud
Rouleau
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Winch
Woolliams
Wratten—50.

(Quorum—10)

J. E. O'Connor,

Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 12, 1961.
(7)

The Standing Committee on Public Accounts met at 9.40 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Bissonnette, Danforth, Drysdale, Hales, Hellyer, Macdonnell, Macnaughton, McGee, McGrath, Martel, Morton, Noble, Nugent, Regier, Robichaud, Smith (*Simcoe North*), Spencer, Stefanson, Stewart, Tucker and Villeneuve—22.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; *from the Canada Council:* Dr. Claude Bissell, Chairman; Dr. A. W. Trueman, Director; Mr. E. Bussière, Associate Director; Mr. D. Fullerton, Treasurer; Mr. P. M. Dwyer, Supervisor of Art Programme; and Miss L. Breen, Secretary.

Agreed—That Mr. Fisher, who is not at present a Member of the Committee, be allowed to attend this meeting and question witnesses.

Mr. Spencer, on behalf of the Sub-Committee on Form and Content of Public Accounts, tabled in English and in French the final report of the Sub-Committee.

Mr. Spencer, in reviewing the Sub-Committee's work paid tribute to the Comptroller of the Treasury, the Auditor General and the Assistant Auditor General for their aid in the framing of the recommendations contained in the report.

Agreed—That the Sub-Committee's report be printed as Appendix "A" to the record of this day's proceedings.

Mr. Henderson was introduced, commented upon his report on the Canada Council, and was questioned.

Dr. Bissell was called and outlined the functions and activities of the Council and, among other things, its impact on Canadian cultural life.

Dr. Bissell and Dr. Trueman were questioned.

At 11.00 a.m. the Committee adjourned to meet again at 9.30 a.m. on Tuesday, April 18, 1961.

J. E. O'Connor,

Clerk of the Committee.

24845-0—1½

EVIDENCE

WEDNESDAY, April 12, 1961.
9:40 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

There is a technical point at issue which I am sure is a very minor one. Mr. Douglas Fisher would like to be present at this meeting. May I suggest that by unanimous consent he take the place of Mr. Winch. Is there any objection to that?

Mr. HELLYER: Do we have the power to do it?

Mr. BELL (*Carleton*): I do not think we have the power, but we can recognize any member of the house.

Mr. HELLYER: He may ask questions but—

Mr. BELL (*Carleton*): But he would have no right to vote.

Mr. FISHER: I may say that I phoned the Conservative whip's office yesterday to find out whether or not I was on this committee. I had the assurance over the phone from the Conservative whip's office that I was on the committee so I did not have a motion presented yesterday.

The CHAIRMAN: I may say I tried to check on this yesterday and was assured he was on this committee. I do think the benefit of the doubt should be given to the accused.

Mr. BELL (*Carleton*): Who is the accused, Mr. Fisher or the Conservative whip's office? If the latter, I would come to the defence.

The CHAIRMAN: We have had a subcommittee working on the form and contents of the Public Accounts for several weeks. I wonder if Mr. Spencer, as chairman of that subcommittee, would care to make a report.

Mr. SPENCER: Mr. Chairman and gentlemen, I have the honour to present the report in English and in French of the subcommittee appointed on March 1 to confer with officials of the Department of Finance and the Auditor General's office to review the form and contents of the public accounts. Before doing so I think it would be fitting and appropriate for me, as chairman of that subcommittee, to make a few comments and observations upon the work of the subcommittee.

The members undertook the task delegated to them with care, industry, and exemplary objectivity. The spirit of co-operation and non-partisanship which pervaded our deliberations made my particular function both easy and pleasant to perform. My sincere thanks and appreciation are extended to each and every member of the subcommittee.

I must also tell you that in my opinion we could not have produced this report, one which I hope will commend itself to all members of this committee, without the extremely valuable and learned advice and counsel which we received from the senior officials who sat in with us at all our meetings. I refer to Mr. H. R. Balls, comptroller of the treasury, Mr. A. M. Henderson, the Auditor General, and Mr. Ian Stevenson, the Assistant Auditor General. I am confident I am expressing the will of all members of the subcommittee in thus acknowledging their contributions and assistance, and in expressing as I do our grateful thanks and appreciation.

Apart from preliminary discussions which I had with the officials mentioned and others, your subcommittee held six sessions commencing on March 10 and concluding on March 23.

We reviewed the historical background of the annual report of expenditure details from confederation up to the present time. We analysed in detail approximately 1,250 pages, exclusive of the table of contents and index, in the two volumes of public accounts for 1959-60. We took cognizance of the statutory requirements in regard to the contents of the public accounts, and particularly section 64 of the Financial Administration Act. We availed ourselves of the informative, instructive and comprehensive observations and opinions of the United Kingdom committee on the form of government accounts which studied this subject over a period of about three years concluding in 1950. We gave consideration to the general format of the accounts with a view to presentation in an orderly, clear and concise manner. We directed our minds to the elimination of redundant material and the addition of other requisite information. We considered the distribution of, and I believe devised a method of compiling, a concise and readable volume which will contain all reasonably essential material for ordinary purposes of accounting which will be inviting and appealing to those interested, and will accordingly, I believe, have a much wider circulation than the present bulky and forbidding volume.

Finally we were able to agree unanimously upon specific recommendations within the terms of our reference; these are contained in our report. In my opinion the most significant recommendation is that the minute details of expenditures and of revenues be henceforth contained in a separate volume and thus not encumber the summarized and reasonably adequate and authentic account of the national finances.

After the subcommittee concluded its deliberations I asked Mr. Balls if he would give me an estimate of the net effect on the size of the public accounts if the subcommittee's recommendations had been implemented and had been applied to the 1959-60 public accounts. He has informed me that on that basis it would appear there would be a net reduction of approximately 140 pages.

I also asked him if he would compile a pro forma copy of volume I of the public accounts on that basis. This he has done, and I have before me the result of that report. It is the only copy that is available. It represents, as I understand it, many hundred man-hours of work. It is my suggestion that this be passed around and be looked over by the members of the committee and returned to me so that I may in due course return it to Mr. Balls. It gives some idea of what volume I of the accounts will be if the recommendations of the subcommittee are adopted.

I am confident you will agree with me that this does present the accounts in an inviting and I am sure a more acceptable form.

That, Mr. Chairman, is all I wish to say at the present time. As I indicated, I have much pleasure in presenting this report of your subcommittee.

The CHAIRMAN: Have you copies for distribution in French and English?

Mr. SPENCER: Yes, Mr. Chairman.

The CHAIRMAN: Would you care to distribute them now?

Gentlemen, certainly the thanks of this committee should go out to Mr. Norman Spencer and the six members of his subcommittee for the attention that they have given to this problem. The subcommittee certainly has created a most useful precedent.

Here there was a small committee meeting in camera, with full and free discussion going on, not only between the Members of Parliament but with the Comptroller of the Treasury and with the Auditor General. It is of great use to the Members of Parliament on that subcommittee and, if I may say so, of considerable use to the civil servants concerned.

If I can be trite, I would like to say that it is the application of parliamentary wisdom to quite a technical problem. We now have at least seven Members of Parliament pretty well instructed on public accounts; and perhaps the Comptroller of the Treasury and the Auditor General themselves have learned something as to what the public might consider of interest. The result certainly has been a useful solution of benefit to all—to the public, to the civil service and to ourselves.

As far as I am concerned, it means the crystallization of this committee's recommendations for the last three years. At last we have got the result that this committee has been trying to obtain for the last three years and that is a matter of great satisfaction.

As to whether or not the committee will accept this report, may I suggest that we consider it carefully at the next meeting.

Thank you, Mr. Spencer, and thank you also all the members of your subcommittee, for a job extremely well done.

The next meeting of this committee will be on April 18, that is, Tuesday morning of next week.

Mr. HELLYER: Is it understood that the discussion of this document will have precedence over other business on that date?

The CHAIRMAN: I think so.

Mr. BELL (*Carleton*): The report would be printed as an appendix to today's proceedings?

The CHAIRMAN: That is my understanding.

Mr. BELL (*Carleton*): It is marked "confidential".

The CHAIRMAN: It is a matter of interest to the public.

Mr. SPENCER: That was marked "confidential" prior to the release this morning.

The CHAIRMAN: Is it your wish that it be printed in today's evidence?

Agreed.

The CHAIRMAN: Gentlemen, we are fortunate in having with us this morning representatives of the Canada Council. We have the advantage of a new Chairman, Dr. Claude Bissell, who is Chairman of the Canada Council and of course President of the University of Toronto.

I understand the Canada Council has been in executive session on Monday and Tuesday and as a consequence we have a few of its members here this morning. As well as Dr. Claude Bissell we have the Director, Mr. A. W. Trueman; Mr. Eugène Bussière, Associate Director; Mr. Peter M. Dwyer, Supervisor of Arts Programme; and, of course, Miss Lillian Breen, the Secretary of the Council.

However, may I suggest we start with Mr. A. M. Henderson, the Auditor General, and that his report be followed by Dr. Bissell.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman and gentlemen, I have a short statement here on my examination of the accounts and the financial transactions of the Canada Council for the year ending March 31, 1960.

Section 22 of the Canada Council Act requires the accounts and financial transactions of the council to be audited annually by the Auditor General and a report on the audit to be made to the council and to the Prime Minister as the member of the Queen's Privy Council for Canada designated by the governor in council for the purpose.

The report of the Auditor General dated May 27, 1960 covered the examination of the accounts for the year ended March 31, 1960 and summarized the transactions in the endowment fund and the university capital grants fund. The audit for the council's financial year ended March 31, 1961 has not yet been completed.

Endowment Fund

My report showed that interest and dividends totalling $2,856,389 were earned on endowment fund investments during the 1959-60 financial year. This amount, together with the unexpended balance of $569,874 brought forward from the previous year, made an aggregate of $3,426,263 available for expenditure. Expenditures of $2,929,373 consisted of $2,511,933 for authorized grants and awards, $353,923 for administrative expenses, $34,741 for direct outlay on behalf of the Canadian national commission for UNESCO, and $28,776 for the Canada council train. The last item, making its initial appearance in the accounts, related to the transportation of students to the Stratford festival. Indirect expenses relating to the UNESCO commission and those incurred in connection with the administration of the university capital grants fund were charged to the administrative expenses of the endowment fund. A surplus of $496,890 was thus available at March 31, 1960 for future expenditures under section 16 of the Canada Council Act.

Part Five of the third annual report of the council presents an outline of the manner in which the investment portfolio of the endowment fund was managed during the year ended March 31, 1960. The act imposes no restrictions on the manner in which the funds in the endowment fund may be invested. The management acts, however, in accordance with rules laid down by the Council's investment committee which limit the fund's holdings of any one type of investment or the securities of any one company. During the year purchases of securities amounted to $62,075,503, representing a turnover ratio of 1.24 times in terms of the $50 million original principal amount of the fund, compared with 1.12 times during the year ending March 31, 1959. It will be noted from the Council's annual report that the investment yield for the year based on the cost of the total portfolio was 5.53%, compared with 5.15% during the preceding year.

University Capital Grants Fund

This Fund showed a balance of $42,432,637 at March 31, 1959. Interest earned on investments amounted to $1,987,355 while a net loss of $458,019 was incurred on the disposal of securities. After making provision of $9,344,062 for grants authorized during the year under section 9 of the act, the principal of the fund showed a balance of $34,597,911 at the year end. In accordance with the provisions of the act, the investments valued at amortized cost of $44,453,474 held at March 31, 1960 were confined to bonds or other securities of or guaranteed by the government of Canada.

In its third report, 1960, your committee noted that it had been informed that the profits and interest earned on the university capital grants fund had not been allocated either to the provinces or to the universities, and expressed the view that decision should be reached on the question of this allocation without delay. It expressed satisfaction with the understanding that the council was giving consideration to the matter.

In my follow-up report on February 22nd last with respect to action taken by departments and other agencies on the suggestions and recommendations made by your committee in its third report, 1960, a comment was made with respect to the question of profit and interest allocation and the opinion of counsel, Messrs. Beament, Fyfe, Ault & Hutton was given. I will not repeat that, Mr. Chairman, as it is a matter of record in the first statement. I have now been informed, however, that the question of the precise manner in which interest and profit will be allocated is still under discussion by the Council.

As to the scope of audit, I would report that the accounting records of the council are maintained at its Ottawa headquarters under the direct supervision of the treasurer, Mr. Fullerton, who is here today. In addition to his

responsibility for the collection of revenues accruing to and expenditures made from the two funds administered by the council, he handles transactions in securities under the general direction of the investment committee.

Our examination for the financial year ended March 31, 1960 included a check of the council's cash and banking transactions, to the extent deemed necessary in the circumstances, and reconciliation of its bank balances with certificates received direct from depositaries at the close of the year. All grants made from the university capital grants fund, and awards in excess of $1,000 from the endowment fund, were verified as being in accordance with the authorizations issued by the council. All transactions with respect to the purchase and sale of securities in connection with the investment portfolios were verified and checked with the minutes of the investment committee of the council. Bond, debenture, and stock holdings at March 31, 1960 were verified by direct certificate received from the depositaries. Confirmations were also received direct from chartered banks with respect to the principal amounts of National Housing Act mortgages guaranteed by the government of Canada, held as part of the endowment fund portfolio.

That completes my report, Mr. Chairman, on the examination of the accounts and financial transactions of the Canada Council.

The CHAIRMAN: The financial report is given on page 57 of the Canada Council's third annual report, to March 31, 1960.

Mr. FISHER: Mr. Henderson, you say that the precise manner of distributing the interest has not been reached. Were you interested to make any recommendations as to ways it could be distributed, or were you just there in an advisory capacity?

Mr. HENDERSON: I would say it was just the normal relationship between the auditor and his client. In that respect, Mr. Fisher, this is a matter of policy for the Council to decide. I am privy to the problems with which they have been faced, and my knowledge at the moment is based on the fact that the matter remains under consideration by the Council.

Mr. MACDONNELL: Is there any comment to be made on the net loss on disposal of securities? Is there any view on that coming to us from any quarter? I remember very well when the act went through, I was bold enough to suggest that some consideration be given to trustee securities, but I could not get anyone to take an interest in it. I am wondering now what the view is after several years of operation.

Mr. HENDERSON: You might care to note on page 53 of the council's report—I think I am correct in referring to paragraph 175—on finance—in which the circumstances concerning this trading loss are set down.

Mr. HELLYER: Does Mr. Bell want to ask about securities?

Mr. BELL (*Carleton*): We shall leave that privilege to Mr. Hellyer.

The CHAIRMAN: I take it there is nothing you want to record on this line?

Mr. FISHER: Perhaps Mr. Macdonnell could tell us if he thinks this report seems to be average? It shows a little over five per cent return on the endowment fund. Is that a respectable return, or is it low, or what?

Mr. HENDERSON: I would say it was a respectable return.

Mr. FISHER: What would you say, Mr. Macdonnell?

Mr. MACDONNELL: I think so too. I was not criticizing it. I thought it would be interesting to know what the advantage was in going to higher securities. But from what was pointed out in answer to me, I do not think there would be much point in pressing the matter further.

The CHAIRMAN: Is there anything else, gentlemen? If not, perhaps Dr. Bissell would care to make a statement.

Dr. CLAUDE BISSELL (*Chairman of the Canada Council*): Yes, sir.

Mr. Chairman, and members of the standing committee on public accounts: the full-time officers of the Canada Council who are here with me, and its chairman, are very happy to have this opportunity of placing before you the story of the Canada Council, and to answer, to the best of our ability, any questions which you might raise subsequent to my remarks.

I know you will regret that the vice-chairman of the council, the Rev. Father Lévesque is not able to be here because of illness. He was unable to attend the meetings just concluded. However, I can assure you that the director and I keep in touch with him, and I am confident that in what we say we would have his approval.

As you know, this is my first appearance before this committee. And I might also add that in terms of service on the council I am the junior member, because my appointment to the council and my appointment as chairman coincided. They go back only to July of last year.

I mention this fact, sir, not to ward off embarrassing questions or to provide an explanation for any inadequacy in my comments, but simply as a matter of record.

I think I should add that, although my direct participation in Canada Council affairs is relatively brief, I was associated indirectly with the Canada Council for a number of years.

I was for two years in Ottawa as president of Carleton College, subsequently Carleton University, and during that time I had an opportunity to discuss many problems, since happily resolved, with the then chairman of the Council, the late the Hon. Brooke Claxton.

On one occasion, in the winter of 1958, in accordance with the policy set up by you, there was a review of council policy by a number of so-called experts. That was a review of the question of general council policy. And I say "so-called" because I was one of those asked to give my opinion.

Finally I might add the fact, which I think is relative to the affairs of the Canada Council, that in a previous and perhaps happier dispensation I was professor of English literature, and was especially interested in Canadian literature. Therefore I have some natural interest in the affairs of the council.

I think it might be useful to the Council if I confined my remarks to what you might describe as a very general appraisal or evaluation.

Actually four years have passed since the Council was set up. I think it is possible now to make some comment of a general nature, about its scope, and its relative effectiveness.

I think possibly I am in a better position to make such evaluation than some of my more senior colleagues in the council, because I come to it with a fairly fresh eye.

I do not think there is a lively enough awareness throughout the country of the very great scope of the Canada Council, and of the multiplicity of problems with which it is confronted.

I think there is a natural tendency to associate the council with the fine arts. This is an association of which we warmly approve, of course. But it is only a part of the whole story.

I have suggested elsewhere what the Canada Council attempts to do. This may be a reflection on the thriftiness of this country, when one stops to consider that what the Canada Council is asked to do is something which in Great Britain has been handed over to three or four bodies.

In a sense we are a university capital grants committee, and as a university grants committee we are concerned with grants to universities in a number of ways which I shall set forth.

We are also an arts council concerned with the health of the artistic endeavours of the country, and particularly with theatre, music, and ballet.

We have a role somewhat similar to the British Council in Great Britain which is concerned with the projection of the United Kingdom abroad. Thus it is similarly assigned to us to make sure that the image of Canada shines with a clear and piercing light abroad.

Finally, we are charged—partially at least—with the working of the Canadian National Commission for UNESCO under the direction of the associate director, Eugene Bussière.

Here it is a question also of projecting Canada abroad. And in addition to that we are involved in certain activities with a more central impact in terms of international relations.

So I just give you this broad discussion of the very functions of the Canada Council to impress upon you, I hope, the fact that we have a very large and heavy obligation in a number of areas.

I think it may be useful if I should spend some time, finally, in outlining the ways in which the Canada Council helps the universities of this country. I can speak here, perhaps, with a certain amount of authority, in view of the fact that I am the president of a university.

I have already pointed out that the Canada Council is involved in the question of grants to buildings. This is a matter with which I shall not deal in detail, because it has been brought before this committee on several occasions.

But in addition to this,—and this is something I would like to emphasize —the Canada Council through its system of fellowships and scholarships and grants in aid constitutes one of the most powerful bodies we have for giving assistance to universities in the category of graduate work in the humanities and the social sciences.

If you examine the various categories of fellowships and scholarships, you will see that the number varies from year to year as we re-define the nature of our scholarship under-takings; and I think you will find that at least four of these categories—possibly more, but certainly four—are very large and important, and are almost exclusively devoted to the universities either directly, in respect to members of the staff, or indirectly, to the students at the university, or to students coming to the university.

For instance, category I is a category described as a pre-master category. This is a fellowship system for which students about to launch themselves on their graduate career are eligible; this is a means of giving a primary impetus to students who we hope will go into university teaching.

Category II is called the pre-doctoral category. These are graduate students of more advanced standing who are now proceeding towards their doctor's degree, which is universally looked upon as the official qualification for teaching—although there are many distinguished scholars who do not boast of that dignity.

Then category III is one which is devoted to what we describe as research. The awards here go to members of university staffs who are engaged in fields of research which, in the opinion of the council, gives promise of fulfilment.

Finally category VII, a very large category, is made up entirely of short term grants. This help goes to members of university staffs who are engaged in research, but who are pushing their full-time research into the summer.

It is, by the way, a common misapprehension that university teachers lapse into somnolence as soon as the classrooms are dismissed. But actually, for most members of a university staff, this is simply a change of pace, a shift from teaching to full-time research.

Finally we have the category described as senior invitation awards, comprising a number of fellowships. They are somewhat larger in amount than those given in categories three and seven, which are very definitely meant for research. These are fellowships and scholarships which are largely confined to the universities.

To this you might add approximately from $130,000 to $140,000 for the humanities, and a slightly smaller sum for the social sciences, for projects in those two areas which again are largely confined to the university.

Therefore the total amount of money which goes for university assistance in this area of scholarship and aid to research is something in the vicinity, I would say, of from $700,000 to $800,000 which, as you can see, is a very large proportion of the total money allotted for fellowships and research.

I would point out to members of the committee that this is not direct assistance to the university. This is not to enable the university to further its administrative plans or objectives. But it does enable a great many students to come to our universities who otherwise would simply not be able to come; and it provides a tremendous stimulus to our graduate schools which, because of this growing expansion of education, form a key area in the university. That is to say, it enables these students to reach graduate schools.

Increasingly we must depend upon our graduate schools for the teachers of the future, as well as for an acceleration of research which is so necessary. That is why I emphasize this. I do so because it is a matter of almost life and death import to this country.

I am speaking not only as a university president, but also as a citizen of Canada.

In addition to the scholarship program I have outlined, the council has made one or two interesting departures from the normal policy regarding teaching problems, which I think might be of interest to this committee. We have decided, for instance, to allot a certain relatively small sum of money —and we hope it will be larger—to libraries in universities, where we think they have well developed programs in certain areas. In view of the obvious signifiance of Slavic and Asiatic studies, we have placed particular emphasis on those two areas.

This will assist libraries to build up collections in those two languages, and thereby assist research in Slavic and Asiatic studies.

In addition, we are making grants for medieaval studies, because this country is very rich in schools of medieval studies, particularly in Quebec, and at my own university.

I am not saying anything about it now, but I am trying to find ways in which the Canada Council may be of greater help to the universities of this country. I think it is not an exaggeration to say that out of four years of its existence the Canada Council has revived work in the humanities and social sciences which has been traditional, and although not overlooked, has certainly been given less attention than work in the sciences.

This, Mr. Chairman, leads me to make a comment here about the financial position of the Canada Council. Members of the committee will be aware of the fact that we are interested in having more resources, more money, and we have placed particular emphasis upon the field of fellowships and scholarships because we realize this is the way in which we are stimulating the universities and also stimulating the national life of the country.

I might just go through one or two figures to indicate the manner in which this whole scholarship field has developed. In the year 1960-61 there was a total number of applications—inclusive of applications in the arts—of 1,856, and we were able to give awards only to the number of 578. This means, in effect, that we were only able to give a fellowship to one in every four applicants.

The director has now placed before me the figures for this year and, if we leave out category VIII, which is a category reserved for what is called "non-residential students", the total number of applications is 1,625, which is an

over-all increase of 8 per cent over last year, an increase which I think corresponds roughly to the increase in student enrolment. So much for the Canada Council and the universities.

I should now like to say a few words about the Canada Council in its function as an arts council, where it is concerned with the stimulus of artistic endeavour through encouragement and a deepening of interest and appreciation in the arts.

Mr. MACDONNELL: May I, at this point, ask if the president would say a word as to what exactly is covered by the words "humanities and social sciences"? It is the social sciences about which I am not clear.

Dr. BISSELL: I think the Canada Council has a very clear understanding of the word "humanities", which refers to those aspects of learning which are concerned with man as a spiritual, imaginative and thoughtful animal and which usually include literature, philosophy, history, and the history of the fine arts. As for social sciences that, sir, is a question which is somewhat more difficult to answer. We are concerned here with those disciplines which analyse the history and structure of society and which do so in a more formal, scienitfic manner than the humanities. For the practical purposes of description we accept economics, political science, sociology, anthropology; but when we go into psychology and law we encounter certain interesting problems because there is so much there which is training for a profession and yet is also a humane discipline.

Mr. DRYSDALE: Could you expand that a little bit, please? For example, I am particularly concerned about the matter of research scholarships for lawyers because a great many lawyers go into activities such as the United Nations, External Affairs, and a number of other things.

Mr. FISHER: Including politics.

Dr. BISSELL: I think the distinction we make here is the distinction between the student who is engaged in professional training, which will enable him to become a professional member of the law fraternity, and the student who is engaged in a piece of research which will have an impact in the same way as research in history or literature. In other words, it is a kind of scholarly activity. We have tried to draw back from making grants to students who are simply concerned with a professional goal. I suppose, in practical terms, if a law student, taking his first law degree and working for a higher degree on some aspect of the history or theory of law, came to us, we would look on that as being part of the social sciences.

Mr. DRYSDALE: Then, if it is relatively impractical, like arts, you will grant a scholarship, but if it is leading to some practical element where there is monetary remuneration, such as law, you will not give a scholarship?

Dr. BISSELL: I do not know if I shall accept the implied definition of "practical" and "impractical". I think scholarship is an example of supremely practical every-day activity in terms of its long-term impact.

Mr. DRYSDALE: Have you ever granted scholarships to applicants from law schools?

Dr. BISSELL: At graduate level.

Mr. DRYSDALE: Could you enlarge on that a little? I know Dr. Scott has a special research scholarship in constitutional law, but are there any examples of students who graduate with law degrees and who want to further their interest in law research?

Dr. BISSELL: I think there are—

The CHAIRMAN: Such as space law, for example?

Mr. DRYSDALE: Would it be possible to get that information?

Dr. BISSELL: I may say that this is an extraordinarily good question.

Mr. DRYSDALE: It is very important. I may say that I have had several questions put to me in connection with this.

Dr. BISSELL: The same problem comes up in social work, which is a practical profession and is concerned with the training of social workers. At the same time, however, the social worker may be concerned with the history and social background of sociology and we have claims for scholarships in that field.

Mr. DRYSDALE: At present the line is arbitrary?

Dr. BISSELL: I do not think it is arbitrary. Shall we say it is philosophical?

Mr. DRYSDALE: Arbitrarily philosophical.

The CHAIRMAN: I think it would be best to let Dr. Bissell finish his statement and go through it then.

Mr. FISHER: What about theology and metaphysics?

Dr. BISSELL: I think metaphysics is no problem. It is a branch of philosophy, but theology is a somewhat more difficult question. Dr. Trueman, have we ever made a grant for theology, pure and simple?

Dr. A. W. TRUEMAN (*Director, Canada Council*): No, we have not. I do not think we have had to resort to the medieaval definition which called theology the queen of the *sciences*. We might get over it in that way.

The CHAIRMAN: Dr. Bissell, will you continue with your statement?

Dr. BISSELL: I was just about to deal with the second area in which the Canada Council makes an impact on the national life of the country, and that is in the area of the arts where we have about $1 million to distribute. That seems to be a large sum but, when one thinks of the tremendous area and of the multiple divisions in that area, the sum dwindles into something relatively small. Out of that sum we must advance money contributions to the theatre, music, ballet, painting, sculpture and architecture. I am speaking here of the major divisions, but then if one looks at it in terms of administrative organizations and groups, we make grants to theatre companies, symphony orchestras, string orchestras, choruses, ballet companies and to magazines of a literary and cultural character.

We are also, of course, concerned with the three major festivals which now flourish in this country partially, I like to think, as the result of the establishment of the Canada Council. I am speaking of the festival in Montreal, the festival at Stratford and the festival in Vancouver. More recently we have taken a very lively interest in the establishment of the new national school of the theatre in Montreal which, I am sure, members of the committee will recall is bilingual, and which is in the process of turning out, we hope, over a three-year period a corps of actors who can revitalize the somewhat languishing theatre in this country.

I think it is fair to say that the Canada Council, in the last four years, has assisted and helped to sustain the Canadian theatre, symphony and ballet and, moreover, it has spread the effects of these major activities throughout the country by means of subsidies to large organizations. I am thinking of the opera company in Toronto which travels widely during its off-season, and I am thinking also of the Canadian Players company, which moves from one side of the country to the other, goes far north, and takes to small areas and remote hamlets great classics of the theatre. I might also mention, Mr. Chairman, that the problem of distributing $1 million among these highly vocal and highly eloquent suppliants is a very definite one, and gives us perhaps some of our more painful ruminations.

On the question of scholarships and fellowships we depend largely upon the opinions of experts and this applies also in the arts. We have, of course,

on our staff Mr. Peter Dwyer, a man who is deeply versed in the arts and who acts as the supervisor, but the ultimate decision is ours and I may say in many cases it is a painful decision when, for instance, during the current year we have received applications from the theatrical world for $290,000 in grants, and we are confined to $119,000. This, I may add, was the second area in which we thought there should be additional money made available for the work of the Canada Council.

Finally, I shall just speak briefly about the projection of Canada abroad through the Canadian National Commission for UNESCO. This, as I said before, is under the supervision of the associate director, and in the main it is a matter of co-ordinating and strengthening the various groups and organizations in this country that are concerned with building up international communities by cultural means. This is a work to which we make a substantial contribution and in which we take great pride. So much for the scope of the Canada Council and the nature of its activities, but I thought I might say something about the techniques and procedures by which we arrive at our conclusions.

I might point out that this has been brought before the committee previously, that we are proud of the spartan way in which the council is administered. I think the total amount which is expended in administration is in the vicinity of $380,000, or thereabouts, which is under 6 per cent of the total.

Dr. TRUEMAN: That is perhaps low.

Dr. BISSELL: I recall the hon. Brooke Claxton pointing out that this was a record certainly not excelled by any of the large foundations in the United States. I think we are about the tenth foundation in terms of size; there are about nine in the United States which have capital endowments far in excess of ours.

Speaking again as a relative newcomer I may say that I have been impressed by the devotion and efficiency of the full-time staff. Their work is continuous and unrelenting and I am a little worried by the fact that some of the full-time senior staff seem to have difficulty in securing holidays. Their work requires patience, knowledge, skill and, above all, firmness. Moreover the senior officers—and here I refer directly to the director—are also charged with the great responsibility of explaining the role of the Canada Council. That role tends to be a little mysterious, and the director, Dr. Trueman, has the responsibility of explaining it; but this, sir, I think I can say with great conviction, he does so with precision, with lucidity and, if I may say so, an eloquence worthy of an ex-president of a university and of an ex-maritimer.

There is a final point which may have some relevance to current comment. I have referred to the fact that we have made use of experts in every field. Some of us think we have a degree of knowledge in these fields but we do not have an overweening self-confidence and we always rely upon the opinions of experts. I may add that we do not select these experts from a particular cult or group. We seek to get a spectrum of opinion upon all these various activities and this, I submit, is the democratic procedure. There are experts in the fields of the arts as there are in politics.

I now conclude with one word of a personal nature. I have pointed out that I have been chairman of the Canada Council for only seven or eight months and I hold what my board of governors consider is a full-time job so that my work for the Canadian Council, in which I am intensely interested, is work which is done in my overtime. In saying this I am not suggesting that this is a job which I look upon as in any sense marginal. It is a terribly important job, but under the circumstances I rely, maybe more than my predecessor did, upon the opinion of the director, and I think rightly so.

The director is, in every sense of the word, the full-time director of the Canada Council. We are constantly in consultation by telephone, by mail and by frequent interchanges. I would say that for the day-by-day work of the Canada Council, he is the man responsible, although in matters of policy there is always prior consultation and, for any decisions that are made I, with my colleagues, take the full responsibility.

Mr. Chairman and members of the committee, it has been a pleasure to have this opportunity to present to you some of the aspects of the Canada Council.

The CHAIRMAN: Dr. Bissell, I am sure that the attention with which we have listened to you is proof of the value that we attach to your words.

Have you a question, Mr. McGee?

Mr. MCGEE: Mr. Chairman, I wonder if Dr. Bissell would care to take advantage of this opportunity to reply perhaps to a good healthy swing taken at the Canada Council by Mr. Harold Greer, in a series of articles entitled, "Cult or Culture?". I am sure that Dr. Bissell has read the article, and I am wondering if he would care to comment at this time.

Dr. BISSELL: Yes, I read those articles. I read the *Globe and Mail* regularly and I might say, I read these articles with considerable care. Of course, the articles are concerned with the whole problem of modern painting. There are a number of direct and indirect references to the Canada Council, and I think Mr. McGee has in mind its relevance to the Canada Council.

Mr. MCGEE: Yes, and in particular, the one article entitled "How to Get a Canada Council Grant", and the degree of weight attached to the recommendations in connection with certain individuals.

Dr. BISSELL: Yes, I will speak to that. I think it is perhaps the heart of the matter, as far as the Canada Council is concerned. I tried to make some sketchy reference to it in my concluding remarks, namely that this being a democratic country, the Canada Council does not call in different people where different subjects become involved. We do this in all areas and, certainly, in the area to which Mr. Greer makes reference, namely the area of painting. We are not concerned simply with the so-called *avant garde,* although they do play a role. We try to obtain a complete spectrum in the field of the arts.

In answer to Mr. Greer's implied criticism, I would say that we do rely upon the wide breadth of opinion of experts. I think this is the inevitable course that we must follow—even though the experts do make errors, in some cases. There have been suggestions made by these experts, which even members of the council would not warmly subscribe to, but I think unless we do accept—perhaps with judicious reservations at times—the opinions of qualified experts, we are in for chaos.

Mr. Greer also suggests, at certain stages, I think, that the Canada Council is not in touch with the ordinary man. I do not think this is true. I think we are very sensitive to the general attitude toward us. The Canada Council contains members who represent a very wide area of human interest.

May I say that we welcome the vigorous, animated discussion of some of these problems, and we are delighted to find that the subject of culture can take up seven pages of one of our leading newspapers.

Mr. FISHER: Your reference to following or taking the advice of the director possibly might be interpreted as a criticism of the previous chairman, and I wonder if you would just elaborate on that.

Dr. BISSELL: Oh, certainly there is no intention in my mind, Mr. Chairman, in that regard. I think it is simply the facts of the case that the hon. Brooke Claxton was in Ottawa and, being here, he was constantly in touch with the director. I am separated from the director, by the distance between

Toronto and Ottawa. I would like to say that in the early stages I think it was terribly important for the chairman to devote a great deal of attention to the articulation of the structure of the Canada Council, and I think it was under the hon. Brooke Claxton's astute direction that this structure was reared, and to that extent it is possible for his successors—and by "successors" I include those who will follow me—to work in a somewhat different way. I have nothing but admiration for the work that the hon. Brooke Claxton has done.

Mr. FISHER: I am sure that is the case, Dr. Bissell. I just wanted to have that cleared up in case your remarks might be taken by some as a criticism.

I would like to direct a question to you in connection with this question of funds, and the growing need for such funds. There has been considerable editorializing on the need for funds. Newspapers such as the Ottawa *Journal*, Toronto *Telegram* and others have run series on the Canada Council, and Mr. Fullerton is on record as stating that more money is needed very badly. You have been criticized for your suggestion that it may be necessary to go to the United States for funds, and I think perhaps this is the most important thing we can look at today. I would like you to elaborate on this whole matter.

Dr. BISSELL: Yes, Mr. Chairman, I will be very happy to do so.

Mr. MACDONNELL: Mr. Chairman, may I interject a supplementary question at this point. Would you say something as to whether there have been any subscriptions from outside, whether you hold yourself out for subscriptions; also, whether the income is earmarked for various purposes and, if so, where?

Dr. BISSELL: With your permission, Mr. Chairman, I will ask our director to answer that question.

Dr. TRUEMAN: Mr. Chairman, in answer to the question, to date the Canada Council has received, in the form of gifts from outside sources, $34,020. I can list these, if you wish.

Mr. MACDONNELL: No, that will not be necessary.

Dr. TRUEMAN: These are small items. However, they are for special purposes and, if it is of interest to the committee, I could say that the hon. Mr. Claxton and I, personally, on one or two occasions have had lawyers come in to discuss with us the ways in which clients of theirs could make some benefaction to the Canada Council through wills. Evidently there is some interest in that respect.

The CHAIRMAN: That is provided in your report. If I might add a question, what effort do you or your assistants make to go out and get money.

Dr. BISSELL: Perhaps I could answer that question, Mr. Chairman, and then refer back to the questions of Mr. Fisher and Mr. Macdonnell.

Of course, by the act we are established as a charitable foundation, and can receive money. We, ourselves, are acutely aware of this. I think that possibly during the early stages we have not striven to make this widely known. We naturally were concerned with the policy of the Canada Council, and were not so much concerned with raising additional funds initially. However, now that the problem is becoming more acute, we are concerned with this. I think it would be a pity if the Canada Council were to launch a concerted campaign in this connection, and we have no intention of doing so. What we do propose to do is to make more widely known to corporations, to individuals, and to foundations, the fact that we are set up to receive additional benefactions, and that we can use those gifts in any way as directed by the person who gives the money. In other words, we are prepared to act

as a channel for the distribution of funds. We would divide these funds up in the areas which are related to our basic activities, but I do not think we are restricted in that way.

As far as donations from American foundations are concerned, I think it is true to say that I did not make any public statement to that effect. I made a remark, of a general nature, to a newspaper reporter, and I would simply say this: that if an American foundation, in its wisdom, decided to choose the Canada Council as the medium for distribution of a large benefaction, we would not find it in our hearts to refuse it. But, in respect to the more general matter, I pointed out earlier that I think we could use effectively advantageously, and immediately an additional sum of $250,000 for scholarships, fellowships and grants-in-aid, and an additional sum of $250,000 for the arts. This is a total additional annual income of $500,000, which would require an additional capital sum of $10 million.

Mr. FISHER: Would you care to comment on this article from the *Globe and Mail,* criticizing your letter in which you people wigged them for their surly nationalism, and I quote:

> There is also the consideration that reliance on United States donations is the surest way to dry up domestic aid.

Dr. BISSELL: We have no intention of relying upon such sources, and I think the likelihood of receiving such assistance is not great. I do not think an occasional contribution from an American foundation would dry up aid here. It is true that since the Canada Council was established, certain of the American foundations—and I am thinking particularly of the Carnegie Foundation, which has a special programme for the commonwealth—has tended to direct its money now to other parts of the commonwealth on the theory that this country now is relatively well looked after. However, we must acknowledge the fact that the American foundations have a long and good history of benefactions in this country, and I doubt whether they ever will cease the policy of giving some contributions to Canada. In most cases, I think they will prefer to give direct grants to universities or organizations, but they may choose, on occasion, to ask the Canada Council, which now has a good record, to act as the intermediary.

Mr. FISHER: What liaison have you had in the last year in this connection?

Dr. BISSELL: From the very beginning of the Canada Council there has been close liaison with the American foundations. When the Canada Council was established, the Hon. Brooke Claxton invited representatives of the Ford, Carnegie and Rockefeller foundations—three of the largest—to participate in the ceremonial birth of the Canada Council. When I became chairman, the director drew to my attention certain correspondence with an American foundation, in which this foundation showed some interest, and all I have done is carry out the intent of that correspondence, drawn it to the attention of the authorities, and made them aware that we are still interested in his development.

Mr. FISHER: Well, from the other side of the coin, were you hinting that the creation of the Canada Council has tended to dry up foundation aid?

Dr. BISSELL: No. It has not tended to dry it up. Although it has tended to shift the channel a bit, the foundations still make grants in certain areas. For instance, the Ford foundation had made a grant to a conference on education, which is to be held in this city. The Carnegie foundation, as is well known, still is making grants to Canadian universities in areas in which we have an interest. We have passed recently this new resolution whereby we can give money to universities for specific library purposes, and the Rockefeller and Carnegie foundations are engaged also in doing this. It is not a drying up, in any sense of the word; it is a new look at the division of labour.

Mr. FISHER: What are you going to do now about the American foundations? Have you any plans in the next year? The *Globe and Mail* has interpreted from what you have said that there is a policy to try to bring more funds in. Is that so?

Dr. BISSELL: I would say there is not a direct policy in that connection. There is simply a continuing liaison with American foundations. There is an attempt on our part to make known our own position and policies, and a willingness to accept whatever they choose to give us.

Mr. FISHER: Could I read this paragraph from an article written by Anthony Ferry, under date of December 6, 1960.

> There are two choices open to the council. It can campaign to get big business to give its grants to the Canada Council, to administer as it sees fit, and also prevail upon wealthy individuals to bequeath part of their wealth to the council upon their deaths. Or, it can go to the government for a fresh grant of funds.

In connection with the first part, it is obvious, from looking at your membership, that you have a number of affluent members. What advice have you received from people like Mr. Bronfman, Mr. Taylor, and others of considerable wealth, as to your chances or your possibility of campaigning in this field.

Dr. BISSELL: I do not think they have discussed the matter in detail. I would say that their advice would be that we should lay before the corporations the nature of our structure, the fact that we are a charitable foundation and can receive such moneys. I am not attributing to any member of the council the general advice that we should not launch a considered campaign, that we would thereby possibly jeopardize the interests of individual groups to whom we give benefactions. We must always be conscious of the fact that we are not the sole dispensers of benefactions.

Mr. FISHER: I understand this is from four different bequests.

Dr. TRUEMAN: Not many more, half a dozen or so.

Mr. FISHER: This would indicate you have done almost nothing in this field.

Dr. BISSELL: It may indicate that or it may indicate that we have not had very happy results. It is true we have not made a considered attempt as yet and we are going to take steps not to launch a vigorous campaign but simply to spread the glad tidings.

Mr. FISHER: The other choice is to go to the government for fresh funds. I understand you have done that.

Dr. TRUEMAN: In November of last year.

Mr. FISHER: Was it in oral or written form?

Dr. BISSELL: It was in written form.

Mr. FISHER: What response have you had?

Dr. BISSELL: No specific response but complete understanding of our situation. It was discussed in the house, and all parties were agreed this was a cause which should be supported, but I can say that there has been no specific reply yet.

Mr. FISHER: In your approach to the government, did you spell out this sum?

Dr. BISSELL: We spelt out the two sums, $250,000 additional a year for scholarships and grants and $250,000 additional for aid to artistic organizations, a total of $500,000 in addition to what we now have.

Mr. FISHER: Did you want the investment to enter into it?

Dr. BISSELL: We prefer to have the investment fund enlarged. We did say if it were a decision to add to the resources by yearly grants, that we would not be displeased.

Mr. FISHER: The question was brought up by this particular writer that further grants from parliament might lead to the fact that you might have to account to parliament for disbursements.

Dr. BISSELL: That was discussed quite frankly with the Prime Minister and several members of his cabinet, and the Prime Minister, I think, is aware of that.

Dr. TRUEMAN: But we have to account to parliament now.

Dr. BISSELL: But this is a different thing altogether.

Mr. FISHER: As I understand, we had rulings earlier that you report here, but you are, in a sense, not accountable in the way that most other government agencies are. How important is this question of more funds in the sense of urgency?

Dr. BISSELL: As I tried to make out in my opening remarks, it is urgent. It is particularly urgent in the field of scholarships and fellowships, which is really the only way by which you can prepare teachers for the oncoming wave of new undergraduates. It has been estimated that in the next ten years we need approximately 7,000 or 8,000 additional university teachers, and of this 60 or 70 per cent would be in humanities and social sciences. The only way of preparing teachers is through our own graduate schools. Speaking as an educator, I would say that additional scholarships and fellowships are perhaps our primary interest and the one that carries the most urgency, for it is the means whereby universities can be prepared to undertake their increasing obligations. I would also emphasize that, as a result of our activities, I think we have inspired a great many more activities in the arts, so that the requirements there are growing in terms of meeting the urgency. In terms of immediate national urgency, it might be looked upon as not being quite as important as the first matter of fellowships and scholarships. The council would like to look upon these two as of equal urgency.

Mr. FISHER: One last matter on the question of funds; is it the idea that the council may dry up funds? You can say in general that the province of Quebec has been more generous in the provision of funds in this particular field. What effect has been noted by the council in the provision of funds by other provinces for purposes similar to what the council is after in the last couple of years?

Dr. TRUEMAN: I do not think we could report any detectable tendency. If I understand the hon. member's question, it is whether we have seen in the other provinces any tendency to supplement this. I am not aware that we could say there has been a reportable upsurge. I think Mr. Peter M. Dwyer would agree this is right.

Mr. PETER M. DWYER (*Supervisor of Arts Program*): Apart from the very extensive funds provided by the province of Quebec.

Mr. FISHER: If Quebec is a model, is there any danger that they may restrain their particular contributions and wait for the Canada Council, or can Quebec be put forward as an example by the Canada Council to other provinces? Are you trying to play any part there?

Dr. TRUEMAN: We try to make this point with the people who come to us with their financial statements, their requests for assistance to organizations. One of the things we query them about very closely is what are their present sources of revenue apart from box office, what donations do they get from the city government, for instance, or from the provincial government, and can they not increase this? Would it not be a good thing if across the nation

this were accepted increasingly as a responsibility of the local government? We have to be careful about this, and I do not think we have ever yet made a grant saying that this is conditional upon their getting out of the city or provincial government an equal sum. It would be a little difficult for the council to do, but we do try to present the case.

The CHAIRMAN: Gentlemen, the need for scholarships and fellowships is very clearly set out at the top of page 13. We have at least five gentlemen who would like to question Dr. Bissell—Mr. Regier, Mr. Morton, Mr. Smith and Mr. Drysdale. Would you desist for the moment, Mr. Fisher?

Mr. FISHER: I have a lot of other questions, but they are not on the funds.

Mr. REGIER: I am going to be a minute, I would like to return to the matter of bequests. The answer we received this morning is almost identical to the answers to the same questions we had the year before last. There has been practically no result in this particular line. Has there been a plan in operation within the past year in order to acquaint Canadians with this particular aspect of the council? Has there been a definite plan of action whereby these people were advised in a systematic manner?

Dr. BISSELL: I would say there has not been a concerted plan as yet, but we are working on several measures which might eventually constitute a plan. In the first instance, we are preparing a brochure which will spell out in simple and direct terms the scope of the activities of the Canada Council and its eligibility for grants. This will be circulated widely and it is now in preparation. You might also look upon our presentation to the government as part of a concerted plan to secure additional moneys. In addition, the director and chairman, to the extent that they are able to devote time to this, speak widely on the subject and certainly always make this point as clear as they can. We find, however, that there is a natural interest in the activities of the council, and there is also, I regret to say, at times a feeling that the Canada Council has $100 million, which they have, of course, but people are not aware of the fact that this sum reduces itself to something much, much smaller in terms of an annual income.

Mr. REGIER: I assume the council is aware of the intention of the government at the time that the Canada Council was initially established. As I understood it, in the House of Commons at the time the government intended to launch the Canada Council, in the main its revenue or its investment portfolio was intended to be supplemented by donations of private individuals and corporations in Canada, and that, except in unforeseen circumstances, it was not the intention of the government to add to this original capital investment fund. Donations were to come mainly from private sources, and I believe even the number of appointments to the board were dependent on this. I regret that this has not been realized; no one in particular may be to blame; it may be only due to the unfortunate illness of the former chairman that this has not been pursued over all these years. I am happy to learn, however, that the council is now giving some real consideration to this point and that there will be specific plans made at an early date.

Mr. MORTON: Mr. Chairman, I have two questions, one with respect to the matter of additional contributions. I would like to comment on the fact that the donation of $34,000 on bequest does not necessarily reflect the exact sum as I presume that some of the donors are still alive.

The point I did want to make was in respect of the matter of the categories; what method is used in granting these research scholarships. Is it that an individual applies and says I want to make research in a certain field; or have the council in their studies decided that they feel certain fields are now ripe for research and urge people to apply for scholarships in those fields?

Dr. BISSELL: I would say, in general, we are confined to certain limits in the humanities, social sciences and arts, but under that broad category we give no direction to applicants. We are just concerned with the individual excellence of the applicant. We have always been careful not to give the appearance of directing in any overt fashion. A council such as ours carrying out, in a sense, a national obligation, should not take upon itself the power of saying that at a given time 90 per cent of the scholarships should go to studies in, for instance, Asian affairs. I think, however, as a result of following this general policy, there is a widespread division between all of the areas that come under our particular terms of reference. Have we no facts or specific details to back this up?

Dr. TRUEMAN: The spread is quite wide, as you said.

Mr. MORTON: Is there any indication from the universities themselves as to the fields in which they would prefer to have research made?

Dr. BISSELL: I think, in a sense, that these grants for libraries, to which I referred, have been devised as a result of our awareness in the universities of the increasing need for research in Asiatic and Slavic studies, and I think we will certainly add in the next year or so African studies, because these studies have an obvious international significance these days.

Mr. MORTON: Having certain limited moneys available for these scholarships, would you be influenced in choosing an applicant as to the field in which he may be applying to make that research?

Dr. BISSELL: I do not think so, unless the field was entirely outside our range.

Mr. MORTON: I mean within the scope.

Dr. BISSELL: We depend here upon a panel of experts, chiefly from the humanities research council and the social sciences research council.

Dr. TRUEMAN: Where you have men of equal talent, you might conceivably balance one against the other in a field of research which seems exotic and remote from Canadian interests and another that seems right down the middle. Any committee would then tend to make the decision in favour of the one rather than the other.

Mr. MORTON: Basically, it would be to help the individual in the field of research.

The CHAIRMAN: There has been a great deal of interest shown this morning and there are many members who have questions.

Mr. DRYSDALE: Mr. Chairman, I wonder if it would be possible to make this brief comment in connection with a matter I raised earlier on post-graduate research in law. I just wanted Dr. Bissell's comments at the next meeting. What I wanted to refer him to was the Massey report at page 358, paragraph 6. It is headed: "The humanities, the social sciences and law". It says:

> We have given consideration also to the parallel obligations which in our judgment the government should assume in fostering the arts, the humanities, the social sciences and law. We believe it to be in the national interest that Canadian efforts in these disciplines should at least equal those in the natural sciences.

And then further on:

> We therefore recommend:
>
> b. (i) That the federal government grant annually to the council for the arts, letters, humanities and social sciences recommended in the final chapter of this report appropriate funds for the establishment and maintenance of an adequate number of scholarships, studentships and bursaries for post-graduate students of Canadian universities in the humanities, the social sciences and law.

In paragraph 7 they say:

> We suggest that there should be awarded eventually about one hundred and fifty annual scholarships for students at the pre-doctoral level, about twenty fellowships for work following the doctor's degree and an appropriate number of scholarships for advanced study in law.

I would appreciate your comments on this next week.

The CHAIRMAN: Thank you very much indeed, Dr. Bissell.

Gentlemen, at the next meeting of the committee we will consider the report of the subcommittee; it is urgent. We will also have the continuation of the Canada Council. This meeting will be at 9:30 on Tuesday, April 18, in room 253D.

Mr. FISHER: Mr. Chairman, that is in conflict with the broadcasting committee.

The CHAIRMAN: I am very sorry, but I think the Canada Council ranks with the C.B.C.

Dr. BISSELL: I must return to the university and I shall find it very difficult to appear on Tuesday, April 18. I have a speaking engagement in Montreal as a matter of fact. I am wondering if it would be possible for the director to continue to answer these questions. I can assure you I would be in constant consultation with him.

The CHAIRMAN: Certainly. We understand that, Dr. Bissell. Thank you very much indeed.

APPENDIX "A"

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Sub-Committee on Form and Contents of the Public Accounts

REPORT

1. The Sub-Committee of the Standing Committee on Public Accounts, appointed on March 1, 1961, has completed its review of the form and contents of the Public Accounts, during the course of which it consulted with the Comptroller of the Treasury and the Auditor General.

2. Your Sub-Committee was informed of the historical background of the annual reporting of expenditure details, from Confederation to the present time. From 1867 to 1878 these details were included in the Public Accounts; then, up to 1942, the information was compiled by the Auditor General and published in his annual reports. Over the years up to 1940, the information was given in minute detail, without benefit of guidance from either the House of Commons or the Standing Committee on Public Accounts. In 1940 this detail was eliminated to a considerable extent by the Auditor General—mainly by reducing the information given for purchases, to include only the more sizeable amounts, and by limiting the salaries reported. In 1942, the responsibility for the reporting of details of expenditures was transferred to the Comptroller of the Treasury who has since included the information in the Public Accounts.

3. The Public Accounts for 1959-60 consists of two volumes comprising 1,250 pages (exclusive of table of contents and index), divided approximately as follows:

Volume I	pages
1. Summary Report entitled "Survey of the Public Accounts" (pages 11 to 94)	84
2. Statements of Expenditure and Revenue and Assets and Liabilities, with supporting asset and liability schedules (pages 96 to 117)	22
3. Appendices (pages 118 to 138)	21
4. Summarized statements of expenditure and revenue, by departments (Part II, pages 2 to 11)	10
5. Departmental Sections (in total):	
(*a*) Summaries of Appropriations and Expenditures (e.g., pages A2 to A4)	41
(*b*) Summaries of allotments and expenditures, by individual votes, with explanatory notes and supplementary statistical statements and listings (e.g., pages A6 to A8)	570
(*c*) Revenue summaries (e.g., A40 to A41)	35
(*d*) Asset and liability accounts ("open accounts"), with explanatory notes (e.g., pages A41 to A46)	78
(*e*) Accounts receivable summaries (e.g., page A46)	3
(*f*) Listings of salaries and travelling expenses (e.g., A46 to A49)	45
(*g*) Listings of payments to suppliers and contractors (e.g., pages A49 to A53)	99
(*h*) Summaries of expenditure, by object of expenditure headings (e.g., pages A53 to A54)	31
(*i*) Appendices (e.g., pages A55 to A56)	48
6. Special statutory statements (required by various sections of the Financial Administration Act)—at end of Volume I	15
	1,102

Volume II

Financial statements of Crown corporations 148

1,250

4. Subsection (2) of section 64 of the Financial Administration Act reads:

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.

5. In carrying out its assignment, your Sub-Committee has been guided throughout by this statutory requirement. It has also had in mind what was said by the United Kingdom Committee on the Form of Government Accounts, in paragraphs 15 to 17 of its report of June 1950, as follows:

Increasing public interest

15. The inferences commonly drawn from analogies which we thus believe to be insecure spring from a marked widening of public interest in the conduct of the national finances. This development might perhaps be sufficiently explained by the figures cited in paragraphs 4 and 5 [under the heading 'Growth of Government Operations'] but we think it goes deeper than concern with the magnitude of Government outlays and the incidence of revenue provisions. Public finance has come to be vested with an economic significance which went unrecognized until recent years; it has become, as Budget speeches and the material that accompanies the Financial Statement now regularly acknowledge, a major factor in shaping the course of economic conditions in general. Accordingly it has seemed to us that critical examination of the system of Government accounts must proceed in part from a desire to ensure that, in the highest degree that may be practicable, the published statements—or at least such of them as are most widely used—shall give the public full, clear and properly proportioned information as to the conduct of the national finances. With full regard for the necessity of avoiding any impairment of the Parliamentary prerogative in these matters, we have therefore felt free, and indeed bound, to proceed on the basis of due recognition of the extra-Parliamentary demand for clearly presented data which convey their own demonstrably accurate and relevant meaning.

Purposes of Government accounts

16. Once this deeper and wider interest in public finance is recognized, it is seen that 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 authority of Parliament. This is the basic requirement for 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 nowadays 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 and range of Government operations make it imperative that a 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 interests 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 pasts events and current trends and assessment of the future. As to 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 values of Government assets of every kind.

17. The mere recital of these groups of purposes—whether or not every one of the questions asked of Government accounts is capable of satisfaction in any manner that will convey a definable meaning—is sufficient to engender grave doubts whether all of them can be met by the automatic outcome of a single set of accounting processes and records. It has, indeed, been pointed out to us that, while an accurate account subject to audit is indispensable for the purpose of Parliamentary control, what may be called accounting statistics are sufficient for some other purposes.

6. Your Sub-Committee considered the Form of the Public Accounts from the standpoint of clarity, conciseness and attractiveness of presentation. It reviewed the Contents from the standpoint of the 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 to the House of Commons.

7. Your Sub-Committee gave particular consideration to the following areas where it felt that there might possibly be appropriate reductions in the Public Accounts in future:

	pages
Appendices of an historical nature, not required by statute (included among the appendices given on pages 118 to 138, 1959-60)	9
Statements and listings of a statistical nature supplementing summaries of allotments and expenditures in various departmental sections (including analyses of expenditures under functional or geographic headings)	80
Listings of salaries and travelling expenses in the various departmental sections	45
Listings of payments to suppliers and contractors in the various departmental sections	99
	233

Consideration was also given to the possibility of reductions being made in the balances listed in the asset and liability schedules and in the details given for "construction" votes in the various departmental sections.

8. Your Sub-Committee also considered what additional information might, with benefit, be included in the Public Accounts.

Recommendations

9. Your Sub-Committee recommends that Volume I of the Public Accounts be divided into two volumes in future, the first to contain mainly the summary report and financial statements and the second mainly details of expenditures and revenues. These two volumes would then comprise:

Volume I

(1) A summary report on the financial transactions of the fiscal year and the financial position at the year-end, together with various appendices.

(2) A statement of expenditure and revenue, signed by the Comptroller of the Treasury and certified by the Auditor General.
(3) A summarized statement of appropriations and expenditures, by departments, signed by the Comptroller of the Treasury and certified by the Auditor General, followed by departmental summaries of appropriations and expenditures, in the format used in the Main Estimates.
(4) A summarized statement of expenditure, by departments, classified by standard object headings.
(5) A summarized statement of revenues, by departments, classified by main sources, signed by the Comptroller of the Treasury and certified by the Auditor General.
(6) A statement of assets and liabilities, signed by the Comptroller of the Treasury and certified by the Auditor General, followed by supporting schedules and supplementary explanatory notes.

Volume II

(1) Departmental sections, each containing:
  (i) a summary of allotments and expenditures under each vote, by standard object of expenditure headings, with explanatory notes and other material;
  (ii) a summary of revenues, with supporting details and explanatory notes;
  (iii) a summary of accounts receivable; and
  (iv) appendices relating to departmental operating activities, etc.
(2) Miscellaneous statements, as follows:
  (i) statutory statements (required by various sections of the Financial Administration Act);
  (ii) listing of salary rates (above the established minimum amount) in effect at the year-end, by departments; and
  (iii) listing of payments to suppliers and contractors (above the established minimum amount) during the year, by departments.

The present Volume II which contains the financial statements of the Crown corporations and the audit reports thereon, would then become Volume III.

The Sub-Committee feels that were the foregoing form of presentation followed, Volume I would give an effective over-all financial summary on a broad basis, with Volumes II and III being available to persons who are interested in the more detailed or specialized information that they would contain. In this connection, the Sub-Committee is of the opinion that the importance of the financial statements of Crown corporations justifies their being presented in Volume III, notwithstanding the fact that they are to be found also in the separate annual reports of the corporations concerned. The Sub-Committee suggests that, in order to encourage a wide distribution of Volume I, in particular, a separate price should be assigned to each of the three volumes.

10. Your Sub-Committee recommends that the following reductions be made in the contents of the Public Accounts:

(i) Appendices of an historical nature not required by statute, namely, Appendices 1, 2, 5 and 11, to be deleted from Volume I (but with references being made to the places in the 1959-60 Public Accounts where the information could be found).
(ii) Balances in the asset and liability schedules in Volume I, which are not significant in amount, to be combined into a "miscellaneous" item in each schedule.

(iii) Information regarding contract payments relating to "construction" votes, in the departmental sections in Volume II, to be given only for contracts of $25,000 or over, provided that information will be given regarding payments relating to cost-plus contracts of $5,000 or over.

(iv) Salaries to be listed in the miscellaneous statement at the end of Volume II only in the cases of employees receiving $12,000 or more per annum (without the supplementary information now given regarding travelling expenses).

(v) The listings of indemnities, expense allowances and transportation and living expenses of Members of the Senate and the House of Commons to be no longer included in the "Legislation" section in Volume II (but with such explanatory notes being included as may be required to explain the basis of the indemnities, allowances and other payments made during the year).

(vi) Payments to suppliers and contractors to be listed in the miscellaneous statement at the end of Volume II only when for $25,000 or over.

Your Sub-Committee, feeling that there are areas additional to those mentioned above, where material of minor significance is included in the Public Accounts—for example, the listing of educational leave given on page A7, 1959-60—suggests that the Minister of Finance consider the elimination of material of this nature.

11. Your Sub-Committee recommends that the following additional information be included in the explanatory notes following the summary of allotments and expenditure for each vote, in the departmental sections of Volume II:

(i) Explanation of the cause of the variation, if significant, between the appropriation and the total of expenditures charged thereto.

(ii) Reference to any ex-gratia payment in excess of $100 entered as a charge to the vote.

12. In the event that the suggestion contained in paragraph 13 of the Auditor General's Report is not presently implemented, your Sub-Committee suggests that there be given, at the end of each of the departmental sections in Volume II, notes indicating the approximate cost of servises (*a*) received from other departments, for which no payment was made, and (*b*) rendered to other departments, for which no reimbursement was received.

All of which is respectfully submitted,

N. L. Spencer,
Chairman.

Members of the Sub-Committee on the Form and Contents of the Public Accounts

J. P. Deschatelets
J. M. Macdonnell
H. J. Robichaud
H. E. Smith
N. L. Spencer
R. D. C. Stewart
H. E. Winch

Ottawa March 23, 1961.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

Public Accounts of Canada—Vols. I-II
Report of the Canada Council—March 31, 1960

TUESDAY, APRIL 18, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. H. R. Balls, Comptroller of the Treasury; and Dr. A. W. Trueman, Director, Canada Council.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24847-6—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark	Dupuis	Pigeon
Beech	Grenier	Pratt
Bell (*Carleton*)	Hanbidge	Regier
Benidickson	Hellyer	Robichaud
Bissonnette	Keays	Rouleau
Bourbonnais	Lahaye	Smith (*Simcoe North*)
Bourget	Macdonnell	Smith (*Winnipeg North*)
Brassard (*Chicoutimi*)	McGee	Spencer
Broome	McGrath	Stefanson
Bruchési	McGregor	Stewart
Campeau	McMillan	Tucker
Chown	Martel	Valade
Danforth	Morissette	Villeneuve
Denis	Morton	*Winch
Deschatelets	Noble	Woolliams
Drysdale	Nugent	Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

*Replaced on Wesdnesday, April 12, 1961 by Mr. Fisher.

ORDER OF REFERENCE

WEDNESDAY, April 12, 1961.

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

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

24847-6—1½

MINUTES OF PROCEEDINGS

TUESDAY, April 18, 1961.
(8)

The Standing Committee on Public Accounts met at 9.30 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Broome, Drysdale, Fisher, Hales, Hellyer, Macnaughton, McGee, McMillan, Morissette, Morton, Noble, Pigeon, Stefanson and Stewart.—18

In attendance: Mr. H. R. Balls Comptroller of the Treasury; Mr. A. M. Henderson, Auditor General of Canada; and Mr. I. Stevenson, Assistant Auditor General; *from the Canada Council:* Dr. A. W. Trueman, Director; Mr. E. Bussière, Associate Director; Mr. D. Fullerton, Treasurer; Mr. P. M. Dwyer, Supervisor of Art Programme; and Miss L. Breen, Secretary.

The Committee proceeded to a paragraph by paragraph consideration of the Report of the Sub-Committee on the Form and Content of Public Accounts.

Having considered up to and including paragraph 6, it was agreed that further discussion be postponed until the meeting scheduled for Wednesday, April 19th.

Mr. Henderson filed answers to certain questions asked at a previous meeting of the Committee, which were ordered printed as appendices to the record of this day's proceedings. (*See Appendices "A" and "B"*)

Dr. Trueman was called, and made a statement supplementing that made by Dr. Bissell on Wednesday, April 12th, and commented upon remarks made by Members at that meeting.

Statements relating to Scholarships, Fellowships, awards and projects in the field of law were filed with the Committee. (*See Appendix "C"*)

At 11.12 p.m., Dr. Trueman's questioning continuing, the Committee adjourned to meet again at 9.30 a.m., Wednesday, April 19, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

TUESDAY, April 18, 1961.
10 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. In this august setting I hope you are as comfortable in your seats as I am in mine.

The first business before the committee is the question of the report of the subcommittee. I am sorry to report that Mr. Spencer, who was the chairman of the subcommittee which did such excellent work, is ill and cannot be here. In his absence perhaps we might proceed, because there are one or two members of the subcommittee present—Mr. Stewart and others.

May I suggest we decide whether the main committee will accept the subcommittee report today and tomorrow we will meet *in camera* to consider a report to the House.

Mr. FISHER: As a point of information, I wonder if you would tell me whether Mr. Winch, a steady member of our party who was on this subcommittee and who has been away for a few days, was in on this study?

Mr. STEWART: Yes.

Mr. FISHER: Did he approve of the report?

The CHAIRMAN: He was a very active member and an enthusiastic supporter.

Mr. FISHER: I just wanted to be sure.

The CHAIRMAN: He signed the report.

Gentlemen, let us proceed. I believe you have copies of the report in front of you; if not, you will find it at page 166 of the minutes of proceedings and evidence.

Is there any comment on paragraph 1?

Paragraph agreed to.

The CHAIRMAN: Are there any questions on paragraph 2? I know you have studied this carefully.

Mr. FISHER: Were the changes which were made in 1940 made as a result of a recommendation from this committee?

Mr. BELL (*Carleton*): My information is it was not done as a result of a decision of the public accounts committee.

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

Agreed to.

The CHAIRMAN: Paragraph 3?

Agreed to.

The CHAIRMAN: Paragraph 4?

Agreed to.

The CHAIRMAN: Paragraph 5?

Mr. FISHER: This raises the question of increasing public interest. Did the committee arrive at any view as to just how much public interest there was in the present public accounts and how much was really specialized interest?

The CHAIRMAN: Mr. Stewart, could you answer that question?

Mr. STEWART: I did not hear the question.

Mr. FISHER: How much public interest was there in the public accounts as they stand?

Mr. STEWART: Not too much public interest outside of the public bodies which receive copies of the public accounts. The public demand for the large volume is not extensive.

Mr. A. M. HENDERSON (*Auditor General*): That is correct.

Mr. DRYSDALE: Have you reached any conclusion as to the effect a reduction in price would have on the public?

Mr. STEWART: The feeling seems to be that if the price were reduced there might be more public demand.

Mr. DRYSDALE: Did you look at it from the angle of maintaining the same sized volume but reducing the price.

Mr. STEWART: That was not considered.

The CHAIRMAN: I have spoken to two or three organizations, such as chartered accountancy firms. Also last evening I was reading a reprint from the *Times* which indicates there is increased interest in public accounts along with the rates of taxation that various governments are imposing.

Mr. DRYSDALE: The point I was trying to raise is that the price of these volumes would attract primarily those who are in organizations where the organization would acquire them. I thought perhaps there is not too accurate an indication as to public interest. I am wondering whether or not any consideration has been given perhaps to reducing the price, possibly on a trial basis, in order to get an indication of the public interest.

Mr. HENDERSON: In answer to Mr. Drysdale, I might mention that Mr. Spencer, I believe it was, at the last meeting exhibited a breakdown of the report which Mr. Balls had put together and at the same time stated that the number of pages which would be eliminated as a result of this report would be in the order of 140 pages. Other than that I do not think any figures were given in terms of savings. So far as the three volumes are concerned you will find a reference to this in the report:

> The subcommittee suggests that, in order to encourage a wide distribution of volume I, in particular, a separate price should be assigned to each of the three volumes.

I think the committee felt that was about as far as they wished to go in terms of this aspect at this time, because they were concentrating on the content rather than the saleability.

Mr. DRYSDALE: I was wondering whether or not some consideration could be given, say for one year, to a trial reduction in the price of the volume to perhaps $1 or $2, a nominal price, in order to find out what the public response is likely to be.

Mr. HENDERSON: I would certainly hope that would be done, because this year the book has been priced at $15. This report of mine to parliament is available for fifty cents. Somewhere in between those two prices the department of printing and stationery should be able to find an appropriate figure.

Mr. BELL (*Carleton*): May I suggest we might have the comptroller of the treasury, Mr. Balls, as a witness while we are considering this. After all he is the official responsible for the preparation of the public accounts.

The CHAIRMAN: Certainly. It was an oversight on my part and I apologize to you, Mr. Balls.

We might take up your suggestion *in camera* tomorrow, Mr. Drysdale.

Paragraphs 5 and 6 agreed to.

The CHAIRMAN: Are there any questions on paragraph 7?

Mr. FISHER: I have often felt there is a certain redundancy created by questions and returns ordered for members of parliament as a result of use of the order paper; that is, there is a duplication between that and what is in the public accounts. I wonder if the committee considered this factor at all; that is, the cost of providing answers in parliament to members of parliament in respect of fields which are covered by the public accounts. Did they consider whether or not the new arrangement would better provide such information and perhaps save us some of the expense the government now is required to meet in answering questions.

The CHAIRMAN: We have an expert witness here.

Mr. H. R. BALLS, (*Comptroller of the Treasury*): Mr. Chairman, the subcommittee did give a great deal of consideration to this subject. During the course of the subcommittee's inquiries I was asked what would be the cost of obtaining information in answer to questions. The answer necessarily had to be that the cost varied considerably depending upon the type of the question asked. There was one very simple question which I had costed for Mr. Winch. As I recall it the cost was $1.40. There was another question in respect of which we attempted an approximate costing. In this case hundreds of man hours of labour were involved and the cost worked out to some hundreds or thousands of dollars. I think the conclusion of the subcommittee was that by the rearrangement of the public accounts in the form which the subcommittee has suggested the material would be more accessible to members and as a result would permit them to obtain information more readily and it would not be necessary to obtain it by answers to questions in the House.

The CHAIRMAN: Are there any further questions on paragraph 7?

Mr. HALES: Mr. Chairman, I think this is the most valuable part of the report. Here recommendations are given as to the pages which might be deleted. At this point I think Mr. Balls might be able to give us his opinion in respect of these suggestions for the deletion of pages. Perhaps he knows the number of times this information has been requested and just how important these pages are.

Mr. BALLS: Mr. Chairman, this is a difficult question to answer. Very briefly, I should say that the appendices of an historical nature are such as to be of interest to a number of people. In the Department of Finance and in my own office, we receive a number of inquiries for information with respect to prior years, and that is the sort of information which is contained in these historical appendices.

In regard to the other classes, we do not receive very many inquiries for the information contained therein; but, the fact that the information is published in the public accounts, is probably one reason why many people may be able to obtain the information they require directly.

As an officer of the Department of Finance, it is very difficult for me to assess the demand made for this type of information. I think it is something that members of the house and of this committee could assess more acurately than I.

Mr. HELLYER: Could you say approximately how much of this information would have to be prepared at some time or other for use either by members of your department, or as a result of inquiries from members of parliament, or others?

Mr. BALLS: All this information would be available in the records of the comptroller's office. The information would be available to answer any queries which are made.

Mr. HELLYER: This would be the only means available to us for that information.

Mr. BALLS: I think that is substantially so in regard to the items listed in paragraph 7.

Mr. BENIDICKSON: With respect to the first item, appendices of an historical nature, involving only nine pages, do you receive a number of inquiries in regard to that? Is this not one of the items which are recommended for elimination?

Mr. BALLS: That is correct.

Mr. BENIDICKSON: In respect of the 80 pages mentioned in the second paragraph, to what does that relate in the final recommendations? Is it information with respect to payments for contracts of $25,000 or over in paragraph 3, or can we relate the subparagraph in paragraph 7 to the final recommendations of the committee in paragraph 10, on a basis of pages?

Mr. BALLS: In regard to this latter point, may I first point out that the items listed in paragraph 7 are not specifically the items recommended for deletion by the committee. As the chairman of the subcommittee mentioned at your last meeting, the recommendation of the subcommittee will result in a reduction of approximately 140 pages of the public accounts. What you have listed in paragraph 7 are matters submitted for consideration by the subcommittee, which amounted to 233 pages.

Mr. BENIDICKSON: I understood that. Is it possible to relate the items in paragraph 7 directly to the recommendations in paragraph 10?

Mr. FISHER: For example, the listing of salaries and expenses, against the recommendations.

Mr. BENIDICKSON: Yes, that is what I mean. Is there any way of comparing that with, say, the 80 pages of statements and listings of a statistical nature?

Mr. BALLS: Yes, I think this is possible, and it is a matter that the Auditor General might speak on, as well. Briefly, the reference to the appendices of an historical nature are those recommended for deletion in paragraph 10 (*i*). I would think that those in paragraph 10 (*ii*) are included in the 80 pages of a statistical nature. The items involved in this recommendation for deletion are relatively insignificant, and it would be almost impossible to indicate how many pages are involved.

Paragraph (*iii*) of paragraph 10 is included in the listings of payments to suppliers and contractors in the various departmental sections, which total 99 pages, as noted in paragraph 7.

Paragraph (*iv*) of section 10, deals with the listing of salaries and travelling expenses which, as noted in paragraph 7, amounts in all to 45 pages.

Paragraph (*v*) of section 10 is included, I should think, in the listings of a statistical nature, and paragraph 6 relates to payments to suppliers and contractors and is included in that 99 pages.

Mr. BENIDICKSON: Perhaps that could be put another way. Has an estimate been made in respect of paragraph 10 and each subparagraph as to the number of pages for deletion involved in each case; could you say that, in aggregate, it totals 140 pages?

Mr. BALLS: Yes.

Mr. BENIDICKSON: That information has not been given yet.

The CHAIRMAN: Are there any further questions in connection with paragraph 7?

Mr. FISHER: In so far as the statistics are concerned, is not the most use made of them by civil servants, and, perhaps, not directly in relation to any work they are doing, but merely by way of watching other people's

salaries and travelling expenses in order to obtain some point of correlation with other branches. I wonder how useful the members of the committee would consider that particular need?

Mr. BALLS: I think this might be something which a member of the sub-committee might answer.

Mr. FISHER: I will ask Mr. Bell, since he is in Ottawa.

Mr. BELL (*Carleton*): I am not a member of the committee.

The CHAIRMAN: Perhaps Mr. Henderson would care to make a comment on this.

Mr. HENDERSON: Mr. Fisher, do I understand that you are referring to the listing of the salaries?

Mr. FISHER: Yes, and expenses.

Mr. HENDERSON: And the travelling expenses?

Mr. FISHER: Yes.

Mr. HENDERSON: Under section 10, salaries in the amount of $12,000 per annum and over will remain, but the travelling expenses will be dropped.

Subject to correction by Mr. Stewart, I think the members felt that the travelling expenses—I will take them first—were reimbursement for out-of-pocket expenses as distinct from remuneration, and the work involved in their publication hardly seemed to justify the cost. You are reimbursing, as distinct from giving remuneration. If you pick up the $12,000 and over, on the salary side, at least you will have the major items.

I think your question had reference to the possible scrutiny that a listing might be subjected to by other members of the public service. I do not think that particular point was dwelt on, although I do recall a reference to the fact that there are a number of agencies whose business it is to keep a watchfull eye on the salary levels in the government. I think the members of the sub-committee felt, that parliament and the public were getting sufficient information if they had the salaries of $12,000 and over.

Mr. FISHER: How large a group does $12,000 and over corral?

Mr. BALLS: As to the number, I cannot give any estimate.

Mr. HENDERSON: Obviously, it will cut out quite a number of pages.

Mr. BALLS: It will result in the elimination of approximately 37 pages, and this is the only basis on which I can give you an estimate.

Mr. FISHER: I was just curious from the point of view of the criticism that might arise from members of parliament concerning their own expenses, and the income they have received.

Mr. HENDERSON: If I may continue, I think it was Mr. Stewart who pointed out that the sub-committee members felt, with some justice, that the amount of remuneration they are paid is fixed, and therefore well known. Again, everyone knows who the members of parliament are, so why repeat it all?

Mr. BENIDICKSON: But it is not known, unless you make an inquiry.

Mr. STEWART: Members of parliament salaries.

Mr. BENIDICKSON: Oh, I see. I could not hear Mr. Fisher; he is not speaking very loudly this morning.

Mr. FISHER: I am modest.

Mr. DRYSDALE: I could quote you something to show that you are not.

Mr. FISHER: Mr. Chairman, the last question I have relates to the use made of the public accounts by the press and the financial papers, which tend to follow this section of government activity more than most. Have the sub-committee received any opinions from people representing the press?

I wondered if the subcommittee heard any opinion from people representing the press or the financial papers on the use they have made of the public accounts in the past, and what opinions they might have on the changes. I am not suggesting that this might be a vital point, but since they are the people who are going to be commenting on the new form, it interests me.

Mr. HENDERSON: Mr. Fisher, if I could answer that, they did not call in any outside witnesses from any of the financial publications but, in arriving at the three volume proposal they were guided by seeking to get the very essence of the accounts into volume I, and they expressed the hope that it could be accurately priced so as to invite wider scrutiny by the financial writers of the country—along the same lines that you find in the case of a corporation when it brings out its annual report. The annual report of a corporation is brought out as a brief, attractive report, highlighting certain points.

Mr. DRYSDALE: What was considered as an attractive price?

Mr. HENDERSON: They left that, depending on the cost and production of the finished job.

Mr. DRYSDALE: I do not think we are much farther ahead here.

Mr. HENDERSON: The general feeling was that it would be two or three dollars, or something like that, but depending upon the cost of getting it out in the final analysis. However, it would seem to me that it would have to be properly priced.

Mr. DRYSDALE: It is then a definite criteria that it has to break even?

Some hon. MEMBERS: No.

Mr. HENDERSON: Before you set the sale price, you sometimes look at the cost.

Mr. DRYSDALE: Do I understand from that, that you are going to try and sell at a break-even price, as far as the Queen's Printer is concerned?

Mr. HENDERSON: That is a matter for the printers.

Mr. BALLS: Mr. Chairman, up until 1959-60, the charge for the public accounts was $5. On the recommendation of the Queen's Printer we increased the price to $15 to cover the cost of the two volumes. The recommendations of the subcommittee, if adopted, would mean the production of three volumes: the first being approximately twice the size of the report of the Auditor General. Mr. Bell has a pro-forma copy in his hand. It includes the information as recommended by the subcommittee. I would expect the cost of that volume to be something between $1.50 to $2.50.

Mr. DRYSDALE: That will be very good.

Mr. HELLYER: Mr. Chairman, what is the actual estimated savings of deleting listing of salaries and travelling expenses in 45 pages?

Mr. BALLS: Thirty-seven pages, on the basis of the 1959-60 report.

Mr. HELLYER: What is the estimated saving involved?

Mr. BALLS: In the cost? I cannot give you that.

Mr. HELLYER: The question I have is the extent to which mere publication of these statistics, including travelling expenses, acts as a restraint on individuals in the public service, and their comings and goings. I think the fact that it is known in advance that the figures will be published is bound to exercise some influence.

I have the same question in respect to the listing of payments to suppliers and contractors. My question there is related to the publication of extra payments. Here are payments for extra work done over and above the original contractual agreement to small contractors. Would this information be available

to the public at large if it was not included in the public accounts without specific questions being asked?

Mr. BALLS: I would say, the information would not be available to the public without a specific question being asked in the house. It would, of course, be available in order to permit a reply to a question being raised in the house.

Mr. HELLYER: I think, Mr. Chairman, that we are raising a very important matter because it seems to me that, particularly in respect to small contracts and the extras involved in small contracts including those for which tenders are not called, it is most important that that information be published to act as a check on extravagance and carelessness as to actual amounts for renegotiation.

The CHAIRMAN: Mr. Stewart, will Mr. Spencer be here tomorrow?

Mr. STEWART: No, I do not expect him.

The CHAIRMAN: In view of the wide and proper interest in this report—it is obvious it will take considerable time—I was wondering if we could not consider it *in camera* tomorrow and draft a report to submit to the House. We have the Canada Council standing by, and far be it from me to try to rush this important matter.

Mr. HELLYER: It is an excellent suggestion. We are going at it too quickly.

Mr. BROOME: I would like to make an observation because of Mr. Hellyer's remarks, and that is that scrutiny of expense accounts is properly the job of the supervisor of the department. The fact that these are not listed in public accounts does not mean that the individual members of parliament should start taking over the job of the individual administrators in the civil service. Secondly, in regard to contracts, they are either on a tender basis—and that is certainly public knowledge—or the committee states that any cost-plus contracts of $5,000 or over—which is exactly as it is now—shall be listed in public accounts. I just want to make those observations in order not to leave any misunderstanding in the minds of any persons who may be listening to Mr. Hellyer's remarks.

Mr. HELLYER: I was really thinking of facilitating the hon. gentleman in the future when he will be sitting in the opposition.

Mr. BELL (*Carleton*): In view of Mr. Hellyer's remarks to the effect that the committee is going at it too quickly, it should be made clear that this did not originate with the minister in any way. This arises out of the Auditor General's report. It is not being pressed for by the minister in any way.

Mr. BENIDICKSON: We recall that was made clear.

Mr. BELL (*Carleton*): And we have before us what I understand to be the unanimous opinion of the subcommittee upon which Messrs. Deschatelets and Robichaud sat.

Mr. HELLYER: There is no reason why we should not look at it carefully.

The CHAIRMAN: Gentlemen, getting back to a peaceful subject, may I suggest this be postponed until tomorrow for *in-camera* consideration first thing at 9.30. Is that agreeable?

Mr. FISHER: I have one question. After the *in-camera* sitting, will the committee be open to whatever may go on after this; or is this going to be the only subject on the agenda?

The CHAIRMAN: It looks as if this will be the only subject. The report should be either accepted or rejected.

Mr. BROOME: It will be much shorter if there are no members of the press present.

Mr. HELLYER: I do not agree. If this is the only subject, we should have it open.

The CHAIRMAN: Is it the wish of the committee to consider this *in camera* tomorrow morning?

Gentlemen, there are one or two little technical bits of business to clear up. Mr. Henderson wishes to file two statements in answer to questions raised some time ago, and after that we will hear the Canada Council.

Mr. HENDERSON: Mr. Chairman, there were two matters remaining from the last meeting having to do with paragraphs 41 and 45 of my report on which I was requested to bring back further information. I would therefore like to report quickly on those. I will deal with paragraph 41 first: prairie farm emergency fund deficit.

Mr. DRYSDALE: Would it be possible to file it as an appendix to the report, and if there is any question on it it could be raised at future meetings? You indicated we are going on with Canada Council. They are standing by.

The CHAIRMAN: It might save time.

Mr. BELL (*Carleton*): I was wondering if we should not ask Mr. Balls to comment on some of this. My own reaction is that it would be preferable to leave it until such time as we have an opportunity to finish the discussion, while the matter is fresh in our minds.

The CHAIRMAN: Would there be any objection to that?

Mr. HENDERSON: I would be happy to file this statement and also my statement on paragraph 45 on the civil service insurance fund and related funds.

Mr. DRYSDALE: I would so move, if a motion is necessary, that it be filed as an appendix.

The CHAIRMAN: Seconded by Mr. Fisher. Mr. Balls will have an opportunity to comment after he has seen the statements.

Mr. BELL (*Carleton*): I find this an irregular procedure, but if that is what the committee wishes to do, I will agree.

The CHAIRMAN: Those in favour of the motion? Those opposed?

Motion agreed to.

The business for the meeting this morning is the Canada Council. I apologize to Dr. Trueman and his associates for delaying them so long, but we now have the welcome opportunity of listening to them.

Mr. HELLYER: I cannot hear anything you say, Mr. Chairman.

Mr. DRYSDALE: I wonder if we could clear up some of the questions that were raised at the last meeting. I am particularly interested in an answer to my own question.

Dr. A. W. TRUEMAN (*Director, Canada Council*): Mr. Chairman, after the meeting last week I talked with the chairman of the Canada Council, Dr. Bissell, who unfortunately cannot be with us today. He suggested to me that, if it was agreeable to the chairman and the committee, I might make a little opening statement dealing with one or two matters which had come up. It may be that the one which has already been raised on the floor is included with the ones with which I will deal.

Perhaps I might be allowed to refer to and comment on one or two points that were made at the last sitting. One of the hon. members, in speaking about the raising of additional funds by the council, used the following words:

> I regret that this has not been realized; no one in particular may be to blame; it may be only due to the unfortunate illness of the former chairman that this has not been pursued over all these years.

In fairness to the council may I point out the following.

We are a young organization as yet. The expression "over all these years" suggests rather a longer period than actually has elapsed. In any event I would like to make this proposal, that when an organization has

been given a sum of money that is bound to appear as large in the public mind as $100 million does, it is impossible, I suggest, to go out and ask for more money very soon. Before that can be done three conditions, it would seem to me, have to be fulfilled. First, a decent interval has to elapse; second, the council by administering a program over a reasonable period has to establish a measure of public confidence in its program of grants and, certainly in our case, in its investment practices and in the general management of its affairs; and third, the council has to be in a position really to demonstrate that it needs more funds to meet legitimate and adequately proved needs.

It is my belief and the belief of the council that we have only now moved into this period; the decent interval has elapsed; I think we have a reasonable measure of public confidence; and we have, I think, been able to demonstrate that needs now exist which it would be wholly proper for the council to meet if it could be provided with additional revenue for the purpose.

As far the the discussion concerning scholarships and fellowships in law is concerned, I have this to say. First, I have a list of such grants made to date, which I shall be glad to hand to the hon. member who made the inquiry.

Mr. DRYSDALE: How many are there on the list at this point?

Dr. TRUEMAN: There are 45 scholarships and six grants which were made in relation to projects relating to law.

The CHAIRMAN: Are you filing that as an exhibit?

Dr. TRUEMAN: I can, or I can give it to Mr. Drysdale.

Second, I should like to refer back to the debate in the House of Commons on January 18, 1957, and to the Massey report. While it is true that the terms of the Canada Council Act leave the council a wide measure of independence in determining what shall be done, under the general statement that the council is for the encouragement of the arts, humanities and social sciences, I think we all like to try to divine what the purpose of the act was held to be by those who drafted it and by those who passed it.

The then Prime Minister, Mr. St. Laurent, in the debate in the House of Commons on January 18, 1957, at page 394 spoke as follows:

> The report—

—I assume he meant the Massey report—

> —expresses the view that assistance should be given to students of the humanities and recommends specifically that the Canada Council should be given funds for the establishment and maintenance of scholarships for post-graduate students of Canadian universities in the humanities, social sciences and even law. Comparative law, you know, is of great value....

Mr. DRYSDALE: On what page of *Hansard* is that?

Dr. TRUEMAN: It is the unrevised *Hansard*, page 394.

> ...not only in the settlement of disputes between individuals, but I think it is also of great value in bringing about the goal of the recognition of the international law that should be followed by civilized nations.

Then later on page 398:

> What I refer to is the study and, I hope as a result of the study, the acquired knowledge of the treasures that have been provided by the experience, studies and philosophies of past generations. When I say "past generations" I mean the generations that have succeeded each other for many thousands of years in the world. I mean that general

knowledge of proper human behaviour that results from the accumulated experience of mankind since history has commenced to be written—

This is the point I wanted to make from the Prime Minister's statement—

—and not those special things that prepare for the exercise of a special avocation or profession. I mean the general broadening and training of the human mind so that the human individual whose mind it is may have as great benefit as one can derive from the accumulation of lore and knowledge over the centuries.

In a general way this is the sort of distinction that the council has tried to keep in mind. On page 358 of the Massey report I note the following:

> We suggest that there should be awarded eventually about one hundred and fifty annual scholarships for students at the pre-doctoral level, about twenty fellowships for work following the doctor's degree and an appropriate number of scholarships for advanced study in law.

It would appear that there was not quite the same certainty about law as was felt about the other subjects. The truth is that we have had as yet only comparatively few applications in this subject. Is it not evident that greater interest needs to be developed in the advanced study of the law as opposed to the technical studies which prepare for general practice? I think what we have in mind is the kind of work which will begin to produce in our country some—so to speak—philosophers of the law, some great students of jurisprudence; work which will give further help in the training of great jurists, and contribute no doubt in other ways to the higher elevation, consideration and understanding of law as the essential element in the fabric of civilized societies. This, believe me, is intended in no way to under-rate the importance of the practical, money-making aspect of the law. Far from it. But the council has felt that taking into consideration what appears to be the purpose of the act and the limited amount of money that is available for that purpose, it is right to take the line I have tried to indicate.

That was the general statement I wished to make.

Mr. DRYSDALE: Mr. Chairman, I would like to make one or two comments. I consider this to be a matter of great importance. I would like to put on the record a reference to *Hansard*, volume 2, 1957, at page 1295, where the Right Hon. Mr. St. Laurent stated:

> I think the term "social sciences" is generally taken to mean the study of anthropology, economics, geography, law—not municipal law, but law in its general, broad application—political science, psychology, sociology and the related subjects.

Unfortunately I do not have the reference to the Canada Council Act, but I have before me the Awards for Graduate Study and Research 1961 dealing with various Canada Council awards. It says:

> The objectives of the council are "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences". For the time being, at least, these objectives are taken as not including social work, theology, pedagogy, applied mathematics and, generally, studies at professional schools.

I would appreciate it if in a few moments Dr. Trueman would clarify the definition of professional schools.

I would like to refer to the *Canadian Bar Journal*, volume 4, No. 1, dated February, 1961. At page 21, there is an article by Dean George F. Curtis which deals with trends in legal education. Dean Curtis is the dean of U.B.C. law school, which is also my alma mater, if I were to disclose personal in-

terest. I would like to refer precisely to his article. At page 22 he seems to feel there is a difficulty:

> One consequence, I should think would be to put to rest the misconception that law is not an academic discipline fully within the tradition of liberal learning. It is surprising how persistent this misconception has been. The ghost is not quite fully laid. For instance, we have not been able to persuade the Canada Council that legal studies should be an object of the bounty of that body—a bounty, which, by statutory direction, is "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences." I gauge the reason to be that legal studies are considered solely professional and not a branch of the humanities and social sciences. With every respect, I must say that it escapes me how training in, say, economics, as part of the qualification for the teaching of discipline, as a professional occupation or for the practice of business consultation, again as a profession, should be held to be within the statutory mandate, but the pursuit of legal studies, even at the post-graduate level,—that is, beyond the stage necessary to qualify for admission and call—should be thought to be outside it. It is to be hoped that the position will be reviewed at an early date. For the unfortunate result at present is that legal studies, alone of the secular disciplines, fall outside the aid which on the one hand is received by the physical and biological sciences from the national research council, the defence research board, and similar bodies, and on the other hand is available to the humane disciplines from the Canada council.
>
> To exclude legal studies from the category of humane learning may have been defensible when apprenticeship was the prime qualification for the practice of law and law school attendance, where followed, was but a supplement to this training. But the position which we have now reached where attendance at a law school for a period of not less than three years preceded by general university studies of like duration makes it unfounded any longer to assert that legal studies have not—as, indeed, they should have—the creative and imaginative qualities which we associate with the humane approach to learning.

I would like to refer very briefly to a paragraph on page 25 which I think keynotes the problem:

> Men who have taken post-graduate training in law form the pool of talent and training from which teachers are drawn: indeed as a practical matter, post-graduate training is necessary if men are to look forward to satisfactory advancement in academic circles, and that is why I single out the provision of post-graduate awards as one of the keys to the solution of the problem of staff recruitment.

Dean Curtis also said:

> Up until 1945, the maximum full-time complement of a law school was thought to be four men. This circumstance explains in part why there are so few senior law teachers in Canada; there are indeed but eight or nine men teaching full time today who were teaching in Canada before 1945. This is the sort of statistic that cuts pretty closely to the bone. Can it be said that the education of a great profession is in good order if but eight or nine men are available with more than fifteen years teaching experience?

The point I am trying to emphasize is, the categorizing of it as professional training has cut off the most important feature which I think is the teaching aspect. The only way we can encourage this in Canada is for the Canada council to take the initiative. The United States has been very good; we have had many graduates who have gone to United States universities on scholarships. Perhaps to a certain extent this is a matter of self interest, because I am a lawyer. I do believe, however, that it is important we have the best law teachers in Canada and that every encouragement be given to them by the Canada Council.

Dr. TRUEMAN: I am completely in agreement with your last statement and I think the Canada Council is. I do think, however, there is a difficulty about this. I think Dean Curtis is incorrect in saying they have not been able to persuade the Canada Council that legal studies should fall within its benevolence. I have pointed out there are forty-five scholarships in law.

Mr. DRYSDALE: Are there any scholarships to U.B.C.? That might be the difficulty.

Dr. TRUEMAN: I have stressed what seems to be the nub of the question; the provision of scholarships in law for advanced study to those who will be available for teaching work in our faculties of law. It is precisely that group in which we are interested for the advanced study of the law.

We may be at cross purposes on another point. So far as I know the council does not propose to give scholarships for studies for the B.C.L. We are in the post-graduate field of study. This raises a difficulty for a student who has his B.A. and then branches over into a study of the law. Is this post-graduate work in so far as his study of law is concerned? The council says no; he is a beginner. It is true that he is required to have an arts degree, but he is now beginning the study of law. I think we have taken what is a logical viewpoint. After he has his first degree and wants to go into advanced studies, then we are interested in him.

I do not know whether or not Mr. Drysdale would agree with me but the general opinion we seem to get—and I hesitate to say this lest I should appear to be critical of a great profession—is that there has not yet developed amongst the legal people themselves a sufficient interest in the advanced study of law. Here, I have used rather lofty phrases about something to help provide philosophers of the law, to help train more great jurists of the law and great writers, and generally elevate to the teaching level and to the bench men who by their achievements and standing will re-inforce this notion that the law is the great binding cement in the fabric of any civilization. These are the views of the council.

Mr. DRYSDALE: I know we have some teachers from my own university who have gone to Harvard for post-graduate work, and presently at U.B.C. there are two or three professors from the United Kinkdom who are on exchange. It appears to me that perhaps the difficulty with law is that after seven years of academic training there is one year of articling in practice—vocational training. Does that one year of articling, which enables a lawyer to be qualified to practice in most provinces, prohibit him, so far as the Canada Council is concerned, from getting a scholarship for post-graduate research? I asked whether or not there were any scholarships for U.B.C. Could you indicate generally the nature of the scholarships and to whom the grants go; I do not want names.

Dr. TRUEMAN: For research on thesis for Ph.D. in law, the university of Paris; for research leading to law, the university of Paris.

Mr. DRYSDALE: These would be from Quebec in respect of civil law.

Dr. TRUEMAN: Yes.

Mr. DRYSDALE: Perhaps I may take a look at the list and save time in that way.

The CHAIRMAN: Yes.

Mr. MCGEE: I would like to go back to the three conditions suggested before any effort was made to raise money. When did either the Canada Council or any of its prominent members first publicly advertise the need for additional funds?

Dr. TRUEMAN: This is a difficult question to answer. I would have to do it by means of an intelligent guess. I should think that within the last year or year and a half this sort of thing perhaps has begun to appear in public addresses. Before that time I think public reference had been made to the provision in the act in the way of explaining generally what the nature of the council is and the terms of its reference. I know that within the last year and a half, in certain public speeches, I have said that the time has come when we have to consider this. I remember speaking to a group of business men in Toronto specifically on this subject when I urged them to give consideration to it.

Mr. FISHER: When was this speech?

Dr. TRUEMAN: Some time within the last year.

Mr. MCGEE: There have been some suggestions, editorially and otherwise, that perhaps the first port of call in a search for these funds might have been a pattern of solicitation through estates and otherwise. That was referred to at the last meeting. I am wondering what comment you might have in respect of the sequence of events. Do you think that perhaps the general public should have been solicited before the council turned up asking the government for an additional grant?

Dr. TRUEMAN: That is a possible point of view. I think the council would say we now feel ourselves to be in a position to demonstrate there is a need. From our point of view this is necessary. I think the council would say it was under an obligation to inform the government of this fact and to say: "Here is our problem, and here is something that we need." I do not think you could escape doing that.

Now, as far as going to the public is concerned, I do not recall at the moment whether Dr. Bissell referred to this the other day, but there is a problem here which I would like the committee members to think about.

We are making grants to a large number of organizations, orchestras, ballets, and so on; and we urge them—and I think quite properly—to try to increase the amount of support that they get from their private donors, from municipal governments, or even from the provincial governments. But we have been rather delicate about this, because we see the difficulty, Mr. McGee.

Let me use a concrete illustration. In going, let us say, to see anybody in Toronto, or in contacting commercial companies, banks, and large business houses with a view to asking them to give money to the Canada Council, you cannot escape immediately getting into the field of a local organization. For example, the Toronto symphony orchestra must go to the same people for money for the same purpose. I think you would be in trouble with, let us say, the Toronto symphony orchestra, or the Montreal symphony orchestra and others, if you started a public overall campaign amongst the business houses.

Mr. MCGEE: Are you not saying that you concede the futility of a public fund-raising campaign? But how else could it be raised?

Dr. TRUEMAN: The only thing we can do, I think, is to have a conversation with a few of the leading businessmen, to go into this problem. Another thing to do—as I think Dr. Bissell told you—is something we are engaged

in doing now, that is, to prepare a brochure to set out this whole situation and to put it in the hands of all lawyers, trust houses, legal corporations, and in fact anybody we can find who has, as part of his delightful duty, the advising of clients on the drafting of wills. This, I think, has already been explained at the last meeting.

I know that Mr. Claxton had three or four interviews with lawyers. Who have clients thinking of putting something in their wills for the Canada council. I have been through possibly three such interviews myself. One of them potentially involved a considerable sum of money. Now, if that can be steadily encouraged, it may, over the years, enable us to come into money from this source.

Mr. PIGEON: I know that the Canada Council has a fund with which to give scholarships. But in my opinion I feel (interpretation) that the federal government and the Canada Council should not go too far into fields which involve provincial jurisdiction, particularly in the field of scholarships.

Do you know the population of the Province of Quebec? (interpretation). The people of Quebec are not particularly pleased with federal intrusion, particularly into provincial fields in the matter of scholarships.

When the Canada Council was formed, a phophesy came from the Province of Quebec, and it is for that reason, and in my opinion, that I prefer decentralization in this matter.

So I would prefer that the Provincial governments should become more aware of their responsibilities in this matter and give the federal government a chance to withdraw from this field, which does not belong to it.

If the federal government goes into the grants field which does not belong to it, it is rendering a very poor service to the Canadian people. I think, from the sense of the federal effect, it is a decentralized power. That is my opinion.

I have a question for the next meeting, if it is possible. (interpretation). I would like to have for every Canadian university the number of scholarships, and the total amounts which were given last year for the master degrees, Ph.D.'s, and research. For the next meeting, would like to have the total amount, with the number of students.

Dr. TRUEMAN: This brings us back, if I remember correctly, to the position last year when, I think, there was a similar question asked by Mr. Pigeon.

As this body knows, under the terms of the Canada Council Act, I am its full-time executive, so I simply report here what their views are. And so far, the council has not provided figures of this kind. It has not broken down its scholarships into those that are going to individual universities.

I shall report Mr. Pigeon's question to the Canada Council, and they can decide what they will do. But I think perhaps, by way of explanation, I can only repeat what I said last year, that the Council has made it a principle not to take its revenues from the endowment fund and to divide theme up regionally and provincially, or by race, or language, or by any other means or device.

Mr. PIGEON: I do not want it by race or language. I want it according to universities.

Dr. TRUEMAN: If we began to break these figures down, then I suggest that there might be some kind of insistence upon the Council from outside that it should begin to make exact population allotments or regional allotments. For example, if the province of British Columbia should have one-tenth of the population of Canada, then they might say that one-tenth of the money of the Canada Council must be spent for scholarships for the province of British Columbia.

I suggest that the Council would be frightened in taking such a step as providing this kind of breakdown. But I am only now interpreting the views of the Council. I shall report to them, and we will see what they say.

Mr. PIGEON: I respect your opinion. And I give you the example of McGill University where you have many French Canadians studying, and at Montreal University as well; and it is the same here at Carleton. You have a few French Canadians studying there. At Ottawa University we have exchange students as you know, as well as at many universities in the country.

I think it is a privilege of a member of parliament. You mentioned that we should not talk about race and language. I do not want these details. I merely wish to have the total amount, not the names, for each university; the total amount of money for master's degrees, Ph.D.'s, and research. I would appreciate very much having that at the next meeting.

Dr. TRUEMAN: If I may say this on behalf of the Council,—perhaps my officers will correct me if I am wrong,—I see no objection in providing the committee with an analysis of our scholarship scheme, and the number of scholarships which have gone for studying for master's degrees, and for Ph.D.'s, and the number of grants which have been made for individual projects in research,—that is, a general analysis. Am I correct, Mr. Fullerton and Mr. Bussiere?

I still reserve whether they would do this by universities. I think it would be all right to say: we have spent so much money to support X number of students proceeding towards an M.A. degree, but I do not think the Council would care to break it down any further into the number of such students at each university. But that is problem for me. I have to take it to my Councli, and they may say: "Yes, go ahead." Or they may say: "No."

Mr. PIGEON: We are members of parliament, and if we want to have an explanation in detail, I submit that we are entitled to have it. That is my own opinion. In the house it is impossible to ask questions about the Canada Council. We have only two or three days each year when it is our privilege to ask those questions in this committee. It is my own opinion, but I am convinced in the matter, and I want to have an explanation. I want to have the details that I asked for last year. I think it is perfectly right that I should have those details, because it is a principle of democracy. So I would appreciate it very much if we could be given this information. It is not the Canada Council which should decide the matter but our representatives here, because we are representatives of the Canadian people, and we are here to decide it.

Dr. TRUEMAN: I appreciate your point of view, and I will bring it to the members of the Council with all the vigor and strength I can muster.

The CHAIRMAN: Mr. Fisher?

Mr. FISHER: Quite properly, I think, Mr. Pigeon has taken advantage of the fact that the committee is a microcosm of the house to express his views on the role of the Canada Council.

I do not want to try to paraphrase what his views are, but I do feel that it is incumbent upon me, as a fellow member of the committee, to suggest that the conception of the provincial-federal relationship in this particular field, in the terms of jurisdiction in education, is much different from the point he has expressed. That is to say, the people I represent, and the region I represent, do not see this the same way. We do not think that the federal government should get out of this particular area. As a matter of fact, we feel that it has an expanding role to play in this particular field. We feel that the federal government should play a greater role. I want to put this on the record as an opinion in contradistinction to that of Mr. Pigeon's, while recognizing very much his right to register his opinion here.

Now, If I might also express a view as to his request, I think that request should be met. I mean his request for information; because he is quite right when he says that we cannot get information about the Canada Council except in this committee.

I would agree that Dr. Trueman may properly reserve his opinion as to whether council will agree. It seems to me that the council has the power to refuse to members of this committee the kind of information that Mr. Pigeon wants. But I would suggest that, if they do so refuse it, they are damned fools, and I think Mr. Pigeon should have his information.

Mr. PIGEON: I want to make a remark. You said a moment ago that you would refer this question to the Canada Council, and if they gave authorization, you would give that information to a member of the committee. I think you have a very, very bad opinion about progress here, and I want to stop that.

In my opinion some civil servants go too far. They take their own responsibility. (interpretation). I want to put opinions in their proper place. The Canada Council can say that we will consult together to see if we may possibly give this information. But I think it should depend on members of parliament. I think, for that reason, it is time that things were put in their proper place.

Mr. FISHER: I wanted—

Mr. BELL (*Carleton*): Is Mr. Fisher going on to another subject?

Mr. FISHER: Yes.

Mr. BELL (*Carleton*): Well then, may I ask Mr. Fisher what purpose he has, and what purpose Mr. Pigeon thinks would be served by giving that information? At the moment I have an open mind on the matter. But I have not been clear as to what purpose or function would be served by the production of that information.

Mr. FISHER: Well, Mr. Chairman, since Mr. Bell has asked me, let me say that I am not in agreement with Mr. Pigeon's purpose. But as one of my peers, I think he should have the right to ask for it. It seems to me that members of parliament have little enough right today in getting information; and even if Mr. Pigeon's purposes are mischievous, I think he has the right to that information.

M. PIGEON: What is the main reason that you refuse to give us, for each university, the total number of scholarships, and the total amount for each? Can you explain that?

The CHAIRMAN: I take it that your question is directed to Dr. Trueman, not to me.

Dr. TRUEMAN: I can only give you the answer which I attempted to give before.

Mr. PIGEON: I do not see a scandal in that. I think it is a principle of democracy.

Dr. TRUEMAN: It may be that that is a proper view. I shall report it to the Council members, and point out the arguments which have been advanced for it. If I understand their thinking at the present time, it is that that kind of public analysis is the first step towards the suggestion that this money should ge distributed in some kind of regional way, mathematically, according to a formula. This is the thing, I am sure, that they have in mind. They feel that it would be wrong—if I might use a university analogy—to have the names of the schools brought in. They feel it would be wrong if the Canada Council were to set out a list of the universities in Canada and to say that students would be eligible to obtain scholarships, or to enter into scholarship competitions in accordance with the size of the institution, or on the application of a mathematical calculation, and thus to say that the university of British Columbia should receive so many, the university of Alberta should receive so many, and so and so on.

We have on our list about 90 different universities. Should we give them one scholarship or ten scholarships, or two and one-half scholarships,

and so on down the line? This is the short of thing, and they say that such a practice would be impossible.

I am only interpreting their thinking now by saying that this kind of analysis, they feel, would be the first step towards that kind of thing. One university might say: "We did not get very much money last year. We did not get our fair share. So let us seek more in this respect." Whereas the Council is concerned with the talented student, wherever he may be. One year there may exist in a particular university a large number of talented students, while in another year, not so many. This particular mathematical approach would be frightening.

Mr. PIGEON: (*interpretation*). I want you to give us the details for each university. Let us suppose that Queen's University has a student who requires a scholarship for his Ph.D. I am sure that the Queen's authorities would try to present more candidates for the Ph.D.; and it is the same thing in research, and for master's degrees in all the universities. If you have five doctoral applicants at Queen's for the Ph.D., let us suppose you grant three scholarships. People will not be surprised; they will not be surprised if you give only three scholarships to Queen's.

Could you not give us these illustrations, and the number of applicants?

Dr. TRUEMAN: May I ask a question for clarification?

The CHAIRMAN: Certainly, surely.

Dr. TRUEMAN: One small difficulty arises right away. In giving such an analysis, do you mean, when you ask how many scholarships go to each university, the university from which the candidate is leaving or the university which he is entering for his Ph.D.? How do you rank the Queen's university man who received his M.A. at Queen's and, through some process of reasoning, has decided to go to the University of Toronto for his Ph.D. degree? I mean, is this scholarship given to Queen's or is this one given to the university of Toronto?

Mr. PIGEON: I mean, if the student made his start at the University of Toronto, and if he made application to have a scholarship for his Ph.D., this scholarship, in my mind, is going to the student who came from Toronto University. It is the same thing for Montreal, Queens', and Carleton.

Dr. TRUEMAN: One other difficulty, it seems to me, is beginning to arise already. We, in this conversation, are saying, scholarships given to such-and-such a university. We are not giving scholarships to universities, but to individuals. This is another thing entirely.

Mr. PIGEON: Yes, I know. I do not think it would be difficult for you to find a way of answering my question. However, I appreciate it very much. I might say that we are all Canadians.

The CHAIRMAN: Gentlemen, if it is your desire to continue until 12 o'clock or a little later on with the Canada Council, we might endeavour to complete their evidence this morning.

Mr. MCGEE: Mr. Chairman, I would like to add this comment: I think that Mr. Pigeon is under some delusion as to the role of the members in this committee. I asked the previous chairman how he would view a unanimous decision of the members of this committee. He replied at the time that he would view it in the same light as an editorial in a newspaper. I asked the present witness if he shared the view of his predecessor, and he said he did. I have not come to the point of requesting that confirmation from the newly elected chairman, but I assume he would share that view.

It seems to me that what Mr. Pigeon was getting at was that he was going to challenge, through the members of this committee, the decisions of the

council. According to the present witness, the effect of this would be the same effect that would obtain from the writing of an editorial somewhere.

Mr. DRYSDALE: Mr. Chairman, this is a very important point. Two things are being confused here. Mr. Pigeon is asking for statistical information, which I suggest would be readily available. He could ascertain the name and address of the person who is receiving the scholarship which would indicate, in all likelihood, the area, perhaps provincially, and then there could be an indication as to what university the scholarship is granted to. If the person already has a degree, it would be possible to put after his name "B.A., U.B.C.", Laval, or McGill. That would provide him with the statistical information. As a committee, I think we are entitled to have that statistical information.

Dr. Trueman's difficulty concerns what use is going to be made of that information. However, I would suggest that in going to the council his function is to indicate that statistical information should be supplied, and, at the time it is supplied, I think it would be proper for him to make a statement, or whatever he feels is necessary, regarding the use of this information. I do think that the committee definitely is entitled to the statistical information, even though Dr. Trueman might not be too happy at the use to which he thinks Mr. Pigeon is putting it.

I think we should keep these two things separate. I think Mr. Pigeon is entitled to have the statistical information.

The CHAIRMAN: Gentlemen, is it your wish to continue sitting?

Mr. FISHER: No.

Mr. DRYSDALE: He sounds like the Russians.

The CHAIRMAN: Could we have a further expression of opinion.

Mr. MORTON: I think we should continue for a while.

The CHAIRMAN: We will continue until someone moves that we adjourn. Have you a question, Mr. Broome?

Mr. BROOME: I agree with Dr. Trueman when he says that intellect is not on a regional basis, and what he says in regard to the awarding of these scholarships, I will support all the way through. However, at the same time, I think he pays no compliment to the Canada Council, if he thinks that giving this type of information to a committee of parliament and, through their members, to the public of Canada, means that his council is just going to be put into a position whereby pressure will be exerted on them to change their method of awarding scholarships. If such is the case, this means that this is a pretty weak council.

This council has a great degree of independence. In fact, it is totally independent. It is charged with the responsibility of using these moneys to the best advantage—and not to the best advantage of regions and thereby promoting, say, the maritimes or British Columbia. Although I am not concerned in the least about the information, I think that if informaion is requested and it can be provided, it should be provided. I think your council is on very weak ground if they do not agree—unless it means it is going to be a fantastically expensive job to do it. Now, if any member wants to use that later on, and say that he is not getting a fair break, then is just shows that, well, that member can do it, and when he comes up for his next election, his people will agree or disagree with him on that and other points. This is the same thing that happens in connection with every subject which comes before parliament.

I can see what is in the back of his mind: French-speaking Canada gets this much and English-speaking Canada gets this much. This would be the key to it. However, it is rather insulting to the council to think that they would bend to that type of pressure and so abdicate their responsibilities.

Mr. DRYSDALE: Mr. Chairman, if I may, I would like to give a concrete example of that situation.

Through Dr. Trueman, I was able to get a copy of the names of these various people who were doing work in law as a result of a Canada Council scholarship. As Dr. Trueman indicated, there was a total of 45 granted. Twenty-one of those were people from other countries of the world and, for the most part, they were going to McGill to attend the Institute of International Air and Space Law. Eighteen of them indicated the province of Quebec as their residence; 5 from Ontario, and 1 from New Brunswick, making a total of 45. This will be perhaps an example on a very small scale. At the time Dr. Trueman was mentioning what was being done in so far as legal research was concerned, and then I asked him what was happening at U.B.C. I find, through checking the list that there are none from the University of British Columbia.

Mr. MCGEE: On a point of order, Mr. Chairman. This is getting surely to a ridiculous point. Mr. Drysdale has gone up to the front, secured a piece of paper, read it, and is now issuing the summary of those statistics. Mr. Pigeon has asked for the same type of thing and, presumably, for the same purpose, and it is being denied.

Mr. DRYSDALE: On the point of order raised by Mr. McGee—

Mr. MCGEE: It would appear to me that there is a basic contradiction in these proceedings.

Mr. DRYSDALE: If Mr. McGee had been following the proceedings, he would have realized that Dr. Trueman stated that he was prepared to file this particular document. He indicated there were 45 people. I stated that I had skimmed through the document, and I recall this breakdown, according to the information available, as to residence. It may be possible for the hon. member to check the document. I will pass it to him now, if he wants to make his own check on it, or he can check it when the proceedings come out. I think it is quite proper. I was using it as an illustration of how I thought the information could, or should, be used and I agree with Mr. Broome. I think this statistical information should be brought out because it indicates the relative amount, in this particular illustration, of legal research afforded through the Canada Council to Canadian students living in Canada. If they choose to alter the situation I shall be very pleased and, if they do not choose to alter it then I have no alternative.

The CHAIRMAN: I think the discussion this morning has cleared the air vis-à-vis Dr. Trueman.

Mr. MCGEE: If I may continue on the point of order I have raised, I have not heard any ruling from the Chair. Mr. Drysdale has succeeded in making public mention of what is news to me, that the university of British Columbia receives no law scholarships. I do not know what Mr. Pigeon's purpose was, and I do not want to get into that area, but I fail to see, as a result of Mr. Drysdale's reply, any substantial difference between his request and the granting of a document to him across the table, and Mr. Pigeon's request.

Dr. TRUEMAN: May I reply to that? The annual report of the Canada Council gives a list of the names and addresses of all scholarship winners and in this document handed to Mr. Drysdale there is exactly the same procedure. For example, there is Mr. X of Ottawa, Ontario, subject history of law, renewal 1958-59 award for research leading to a Ph.D in law at the university of Paris. There was no breakdown given of Canadian universities. All we have given is the names and home addresses. We have not given Mr. Drysdale information which we are apparently denying Mr. Pigeon. That is not the case at all. This is exactly the same thing which appears in the annual report.

In all the annual reports there are lists of these scholarships. For example there is: "Allan, John R., 15 Emerson Street, Hamilton, Ontario—category two." That is what we have given already and all we have given Mr. Drysdale is the subject the scholar is studying and where he is going to study it, but there has been no analysis made of scholarships to Canadian universities.

Mr. DRYSDALE: On the same point of order—

The CHAIRMAN: Mr. Morton has been trying to speak.

Mr. MORTON: There are two things which I am rather inspired or compelled to say as a result of what Mr. Pigeon has said. As far as this committee is concerned, I think it is generally understood we have nothing to do in questioning the policies carried out by the Canada Council, but I do feel that restricting us in asking for information which would give us an intelligent basis on which to make an appraisal as to how these policies may be carried out is something which may cause misunderstanding. I think this committee, as do other committees, feels that if it is to achieve anything at all in an intelligible approach to its work it should be entitled to all the statistics as such. But I do not think the committee wants to foster any parochial views on the application of those policies because I think we all realize that, regardless of what universities they may come from or may go to, once students get into graduate studies their talents are growing and they become, hereafter, more or less a national property because they will be travelling from one university to another, pursuing their studies, and after securing their degrees they will be settling down in different parts of the country.

The second thing from which I want to dissociate myself is the idea that there is no right under the constitution to foster scholarships. My interpretation of the constitution is that it sets out in that particular provision to protect the rights of the provinces in education and in culture, but in no way does it limit the development of education on a national basis, especially in the field of higher learning. I think it would be highly retrograde to say that the provinces alone can deal with education because, as we know, some provinces have not got the resources which others have and, if we are going to have equal opportunities for all in education then it is a matter of pooling our national wealth to see that opportunities for education are given to all persons regardless of where they are born and where they are brought up, and I greatly object to this attitude of trying to make education a parochial matter. It is a national concern and I hope we do not fall for that parochial point of view.

Mr. BISSONNETTE: May I say that I understand Mr. Pigeon's intention very well. We, as members of parliament, are supposed to be informed. The representatives of the Canada Council are here this morning to inform us and we must be informed because we are often asked about these matters when we return to our constituencies in the provinces. If we cannot answer, then we are responsible to the people. Not only are we responsible to the people but we are responsible to the other members of parliament, to the taxpayers and to those who have to answer to the taxpayers. Therefore, I think it is very good policy to be informed and to ask questions like Mr. Pigeon did this morning.

Mr. PIGEON: May I express my point of view through interpretation? (Interpretation): History has shown that if the province of Quebec had not

its individual characteristics there would be no Canadian federation. It was precisely for this reason that the fathers of confederation limited certain jurisdictions, including education. There is no problem in the province of Quebec regarding Canadian minorities, no matter what they may be, and it is for that reason the people of Quebec consider it is of primary importance that the federal government should, in no way, intervene in any field either of education or culture.

Mr. FISHER: I should like to move that we adjourn.

The CHAIRMAN: The meeting is adjourned. Our next meeting will take place to-morrow at 9.30 in room 356-S of the Senate.

APPENDIX "A"

Statement by the Auditor General to the Standing Committee on Public Accounts with reference to Paragraph 41 of his Report to the House of Commons for the year ended March 31, 1960

It will be recalled that at the Committee's meeting on March 22nd, the Comptroller of the Treasury referred in his evidence to the expenditures totalling $2,295,700,000 listed on page 35 of the Public Accounts. These are the Statutory Charges to Expenditure for 1959-60.

At the close of the Comptroller's evidence, several members asked if I would prepare a report showing the statutory authorities for these expenditures so that the Committee might examine the difference between the basis for the charge made for the deficit in the operations of the Prairie Farm Emergency Fund and the statutory authorities existing for the other charges.

The attached statement lists the statutory charges shown in the summary given on page 35 of the Public Accounts and shows the specific statutory authorities relied upon for the inclusion of the different amounts as statutory charges to Expenditure for the 1959-60 year. As Note 1 on this report shows, it is the inclusion of the Prairie Farm Emergency Fund deficit among these statutory charges to which objection is taken in Paragraph 41 of my Report and to which objection has been taken by my predecessor in prior years.

I believe my position on this is clear. Subsection (8) of section 11 of the Prairie Farm Assistance Act reads:

> If at any time the Fund is insufficient to pay awards made under this Act the Minister of Finance may, out of unappropriated moneys in the Consolidated Revenue Fund, with the approval of the Governor in Council, make an advance to the Fund of the amount required to meet the deficit.

This means that the Minister of Finance is authorized to make advances to the Fund to the extent that may be required when the receipts credited to the Fund are insufficient to cover the payments charged against it.

Subsection (9) of section 11 of the Act provides an advance made under the section is repayable out of the Fund without interest. This means that if after an advance has been made under subsection (8) the receipts are in excess of the payments, the excess is to be used towards repayment of the advance. However, when repayment of an advance cannot be made in this way, it has been the Audit Office view that specific parliamentary authority is required to write off the amount of the advance as a charge to Expenditure. In other words, although parliamentary authority existed under subsection (8) of section 11 of the Act for the making of the advances of $12,529,000 to the account to cover the deficit in the operations of the Fund in 1959-60, there was no clear parliamentary authority for writing off the advances as a charge to Expenditure.

It was for this reason that I suggested that the Committee recommend that consideration be given to amending the Prairie Farm Assistance Act to provide for the inclusion of an item in the Estimates to cover a deficit anticipated in the operation of the Fund for any year.

I drew attention to the fact that by reason of such a provision in the Agricultural Stabilization Act, the supplementary estimates recently tabled in the House of Commons included an amount of $69,504,548 for the estimated amount required to recoup the Agricultural Commodities Stabilization account to cover the net operating loss of the Agricultural Stabilization Board as at March 31, 1961.

Another similar instance is the deficit of the Canadian National Railways. Under the Canadian National Railways Financing and Guarantee Act, 1960, Parliament authorized the government to make loans as required during the year to the C.N.R. but it did not authorize writing off any portion of the loans at the year-end. This is why the C.N.R.'s $67 million deficit was likewise included in the 1960-61 supplementary estimates.

I am simply suggesting to the Committee that they might recommend similar treatment for the Prairie Farm Emergency Fund deficit. Why should not this $9 million deficit be submitted to Parliament for due consideration, discussion and approval in the same manner as the Agricultural Commodities Stabilization account deficit and the C.N.R. deficit?

SUMMARY OF STATUTORY CHARGES TO EXPENDITURE, 1959-60
(as listed in the Public Accounts, page 35)

SHOWING RELATIVE STATUTORY AUTHORITIES

	Statutory Charges to Expenditure (in millions of dollars)		Statutory Authority
Interest and other public debt charges			
Interest on public debt	600.9		Sec. 50 of the Financial Administration Act, c. 116, R.S.
Interest on deposit and trust accounts	3.6		Sec. 61(2) of the Indian Act, c. 149, R.S.; sec. 52 of the Post Office Act, c. 212, R.S.; sec. 20(2) of the Financial Administration Act; and other statutory authorities
Interest on annuity, insurance and pension accounts	131.1		Sec. 24(1) of the Canadian Forces Superannuation Act, c. 21, 1959; sec. 15(2) of the Government Annuities Act, c. 132, R.S.; sec. 32(1) of the Public Service Superannuation Act, c. 47, 1952-53; sec. 20(2) of the Financial Administration Act; and other statutory authorities
Amortization of bond discount, premiums and commissions; commission for payment of interest on public debt, registrar's fees, etc.; and cost of issuing new loans	47.9		Sec. 51 of the Financial Administration Act
		783.5	
Family allowances		491.2	Sec. 3 of the Family Allowances Act, c. 109, R.S.
Tax-sharing, subsidy and other payments to provinces			
Subsidies to provinces	20.7		British North America Acts 1867 to 1952 and other statutory authorities
Payments to provinces	485.4		Sec. 3(2) of Federal-Provincial Tax-Sharing Arrangements Act, c. 29, 1956
Transitional grant to Newfoundland	.7		Sec. 28(1) of the Act to approve the Terms of Union of Newfoundland with Canada, c. 1, 1949
Additional grants to Newfoundland	7.3		Sec. 2 of Newfoundland Additional Grants Act, c. 48, 1959
		514.1	
Government contribution to the Public Service Superannuation Account		40.0	Sec. 32(1) of the Public Service Superannuation Act, c. 47, 1952-53
Government contribution to the Unemployment Insurance Fund		45.7	Sec. 83 of the Unemployment Insurance Act, c. 50, 1955
Government contributions under the Hospital Insurance and Diagnostic Services Act		150.6	Sec. 6 of the Hospital Insurance and Diagnostic Services Act, c. 28, 1956-57

	Statutory Charges to Expenditure (in millions of dollars)		Statutory Authority
Old age assistance, disabled persons allowances and blind persons allowances			
Federal share of old age assistance	30.3		Sec. 8 of Old Age Assistance Act, c. 199, R.S.
Federal share of disabled persons allowances	16.1		Sec. 8 of Disabled Persons Act, c. 55, 1953–54
Federal share of blind persons allowances	4.2		Sec. 8 of Blind Persons Act, c. 17, R.S.
		50.6	
Unemployment assistance		40.2	Sec. 6 of Unemployment Assistance Act, c. 26, 1956
Assistance re storage costs of grain		42.3	Sec. 3 of Temporary Wheat Reserves Act, c. 2, 1956
Prairie Farm Emergency Fund deficit		12.5	Prairie Farm Assistance Act, c. 213, R.S., and Financial Administration Act (*Note 1*)
Trans-Canada Highway — contributions to provinces		53.2	Sec. 4 of the Trans-Canada Highway Act, c. 269, R.S.
Emergency gold mining assistance		13.1	Sec. 9 of Emergency Gold Mining Assistance Act, c. 95, R.S.
Contribution to Railway Grade Crossing Fund		5.0	Sec. 265(5) of the Railway Act, c. 234, R.S., as amended by c. 40, 1958
Maintenance of trackage (C.N.R. and C.P.R.)		7.0	Sec. 468 of the Railway Act, c. 234, R.S.
		2,249.0	
All other statutory expenditures		46.7	Various statutory authorities
Total		2,295.7	

Note 1: Minutes of Proceedings and Evidence, March 22, 1961, page 125.
See also paragraph 41 of the Auditor's General's Report, 1959–60.

April 18, 1956.

APPENDIX "B"

Statement by the Auditor General to the Standing Committee on Public Accounts with reference to Paragraph 45 of his Report to the House of Commons for the year ended March 31, 1960

It was indicated at the March 22nd meeting of the Committee that I would report back on the question of the expenditure charges that had been made to adjust insurance account balances, as mentioned in paragraph 45 of my report, which reads:

> 45. *Expenditure charges to adjust insurance account balances.* The following insurance plans were established many years ago: Civil Service Insurance Fund, actuarially calculated at 6% interest; Returned Soldiers' Insurance Fund at 4% interest; and Veterans' Insurance Fund at 3½% interest. Notwithstanding the fact that interest credits were discontinued on the first of these accounts as at March 31, 1954, and on the other two as at March 31, 1952, the operations of the accounts reflected actuarial surpluses at March 31, 1956, as follows: Civil Service Insurance Fund, $8,267,453; Returned Soldiers' Insurance Fund, $4,301,701; and Veterans' Insurance Fund, $2,643,070. These surpluses, which totalled $15,212,224, were credited to Net Debt Account in the fiscal year 1956-57, in order to adjust the balances in the accounts to the amounts of the respective actuarial liabilities at March 31, 1956.
>
> No interest has been credited to the accounts since these adjustments were made and actuarial deficits have arisen. These have been made good by means of annual non-cash charges to Expenditure, the 1959-60 charges with respect to the several funds being: Civil Service Insurance Fund, $589,000; Returned Soldiers' Insurance Fund, $520,000; and Veterans' Insurance Fund, $328,000. The charges were reported as special "statutory" items in the Public Accounts (pages N-2 and AI-3).
>
> We would point out that in no case does the governing legislation contain provision for the making of such charges.

In the course of his evidence before the Committee on March 22nd, the Comptroller of the Treasury stated that he had been advised informally that, in the view of the law officers, the Governor in Council could authorize a book-keeping entry to be made from time to time, crediting the account with the amount necessary to make the balance in the account equal to the estimated liability, under the authority of paragraph (f) of section 18 of the Civil Service Insurance Act. Section 18 of the Civil Service Insurance Act, c.49, R.S., reads, in part:

> "The Governor in Council may, for the purposes of this Act, from time to time make regulations for
>
> (f) prescribing the accounts to be kept and their management."

I submit to the members of the Committee that this is simply a general provision—"from time to time make regulations for prescribing the accounts to be kept and their management"—*not* a clear-cut authority to write up an under-stated liability by charging expenditure. In my view, this expenditure charge has been incurred without clear authority having been given by Parliament.

I put the Audit Office view with regard to this question before the Committee on March 15th (Minutes of Proceedings and Evidence, page 112) as follows:

> "Following the adjustment of the balances in the three insurance accounts to their respective actuarial liabilities at March 31, 1956, as mentioned in the paragraph, the accounts could have been continued in substantial actuarial balance had the crediting of interest on the balances been resumed, at a rate fixed by the Minister of Finance with the approval of the Governor in Council under section 20 of the Financial Administration Act.
>
> "Had this been done, the interest charges would have been properly included in interest on the public debt, as reported in the Department of Finance section of the Public Accounts. Instead, as is noted in the paragraph, the expenditure charges made to adjust the actuarial balances have been shown as 'statutory' in the Public Accounts, pages N-2 and AI-3, although there are no provisions for this in the legislation.
>
> "So with a view to remedying the situation for the future, I am hopeful that the Committee could recommend that interest be credited annually on the balances of the accounts at a rate fixed by the Minister of Finance with the approval of the Governor in Council, and I think if this were done it would keep the accounts substantially in actuarial balance".

The statutory authority for the crediting of interest to the accounts, as thus suggested, is provided by section 20 of the Financial Administration Act, which reads:

> "20. (1) Money received by or on behalf of Her Majesty for a special purpose and paid into the Consolidated Revenue Fund may be paid out of the Consolidated Revenue Fund for that purpose, subject to the provisions of any statute applicable thereto.
>
> (2) Subject to any other Act, interest may be allowed and paid from the Consolidated Revenue Fund in respect of money to which subsection (1) applies, in accordance with and at rates fixed by the Minister with the approval of the Governor in Council".

APPENDIX "C"

THE CANADA COUNCIL

SUMMARY OF SCHOLARSHIPS AND FELLOWSHIPS IN THE FIELD OF LAW

Year	Category	Number of Awards	Total	Grand Total
1958–59	2	2		
"	8b	3	5	
1959–60	2	3		
"	7	3		
"	8b	5		
"	Special Senior Award	1		
"	Visiting Lecturer	2	14	
1960–61	2	1		
"	7	3		
"	8b	8		
"	10	1		
"	Special Senior Award	1		
"	Visiting Lecturer	1	15	
1961–62	2	2		
"	3a	2		
"	3b	1		
"	7	1		
"	8b	5	11	45
		Number of Projects		6
		Total Awards		51

AWARDS GRANTED IN THE FIELD OF LAW FOR THE YEAR 1958–59

Category	Name & Address	Field	Remarks
2	DESGAGNE, André (LL.L.) Québec Québec.	Civil Law	For research on thesis for Ph. D. in Law at the University of Paris. Subject of thesis: "Le rôle de la notion de devoir de famille dans le code civil de la Province de Québec".
2	L'HEUREUX, Jacques (LL.L.) Ottawa, Ontario.	History of Law	For research leading to a Ph. D. in Law at the University of Paris.
8b	HJALSTED, Finn (Master of Laws, Univ. of Copenhagen)	International Law	Attended the Institute of Air and Space Law, McGill University where research was carried out on "Objective Liability and Subjective Liability in general, with some examples from aviation".
8b	SUNY, Ismail (Doctorandus (Law) Univ. of Indonesia)	Constitutional Law	For work on Master's Degree in Constitutional Law at McGill University.
8b	TURI, Giuseppe (Diploma di laurea in giurisprudenza, Univ. of Naples) Italy	Law	For research on course work toward Ph.D. in Law at the University of Montreal.

AWARDS GRANTED IN FIELD OF LAW FOR THE YEAR 1959–60

Category	Name & Address	Field	Remarks
2(R)	L'Heureux, Jacques (LL.L.) Ottawa, Ontario.	History of Law	RENEWAL of 58–59 award for continuation of work on Ph.D. in Law at the University of Paris.
2	Pratte, Louis (LL.L.) Ste. Foy, Que.	Comparative Law	For study of methods of interpretation between French and English Law. Working for Ph.D. at the University of Paris.
2	Taschereau, Louis Philippe, (LL.L.) Montreal, Que.	Civil Law	For study of the principles of the procedure of Civil Law for Ph.D. at the University of Paris.
7	Crepeau, Paul A. (Ph.D. (Law) University of Paris) Assistant Prof., Faculty of Law, Univ. of Montreal.	International Law	A short term grant for the study of International Law. Research carried out in Luxembourg.
7	Cohen, Maxwell (LL.M.) Faculty of Law, McGill University.	International Law	A short term grant for research on book entitled "International Law and Canadian Practice".
7	Morin, Jacques Y. (LL.M.) Faculty of Law, Univ. of Montreal.	International Law	Research for thesis for Ph.D. in Law. Subject: "The Implementation of Treaties in Federal States—with particular reference to Canada".
8b	Feng, James S. (B.A. (Law) National Taiwan Univ.) China.	International Law	For work on Master's degree at the Institute of International Air and Space Law, McGill University.
8b	Guerreri, G. (B.A.(Law)) Italy.	International Law	For post-graduate work in Law at the Institute of International Air and Space Law, McGill University.
8b(R)	Hjalsted, Finn (Master of Laws, Univ. of Copenhagen) Denmark.	International Law	RENEWAL of 58–59 award for continuation of work at the Institute of International Air and Space Law, McGill University.
8b(R)	Suny, Ismail (Doctorandus (Law) Univ. of Indonesia) Indonesia.	Constitutional Law	RENEWAL of 58–59 award for continuation of work in Law at McGill University.
8b(R)	Turi, Giuseppe (Diploma di laurea in giurisprudenza, Univ. of Naples) Italy.	Law	RENEWAL of 58–59 award for continuation of work in Law at the University of Montreal.
Special Senior Award	Beaulieu, M. L. (LL.D., C.R., F.R.S.) Faculty of Law, Laval University.	Law	Labour relations.
Visiting Lecturer	Le Balle, Robert, (Professor) Faculty of Law, Univ. of Paris.	Law	To lecture in Law to Ph.D. students at Laval University.
Visiting Lecturer	Perrot, Roger (Professor) of the Faculty of Law, Strasbourg Univ.	Law	To lecture to Ph.D. students in law at Laval University and at the University of Montreal.

AWARDS GRANTED IN THE FIELD OF LAW FOR THE YEAR 1960–61

2(R)	Pratte, Louis (LL.L.) Ste. Foy, Que.	Law	RENEWAL of 59–60 award for work on Ph.D. in Law at the University of Paris.
7	Crepeau, Paul A. (Ph.D. (Law) Univ. of Paris) Assistant Prof., Faculty of Law, Univ. of Montreal.	International Law	RENEWAL of 59–60 short term grant for the study of International Law. Research carried out in Luxembourg.
7	Edwards, J. H. J. (Ph.D. Univ. of London) Faculty of Law, Dalhousie Univ.	History of Law	For study of position of Attorney General and its relationship to other branches of the Executive.

Category	Name and Address	Field	Remarks
7	SHEEHAN, (Rev.) Michael M. (Licentiate in Mediaeval Studies) Toronto, Ontario.	History of Law	To edit a collection of 13th century English wills.
8b	TANCELIN, Maurice (Diplôme d'études supérieures, Univ. of Paris), France	International Law	To study at the Institute of International Air and Space Law at McGill University.
8b	FREITAS, Jorge (B.A. (Law) Rio de Janeiro Univ.) Brazil.	Law	For study toward Master's Degree in Law, McGill University.
8b	SAND, Peter H. (Diplôme Supérieur de Droit Comparé, Univ. of Luxembourg), Germany.	International Law	To take post-graduate work in Law at the Institute of International Air and Space Law, McGill University.
8b (R)	GUERRERI, G. (B.A. (Law)), Italy.	International Law	Renewal of 59–60 award which was declined.
8b	Cocco, Constantino (Docteur en Droit, Univ. of Rome) Italy.	Law	For post-graduate study in Law at the University of Ottawa.
8b	DAVALOS, Juan (Licentiate in Law, Univ. of Mexico), Mexico.	Corporation Law	To attend the University of Toronto for post-graduate work in Corporation Law. Award was declined.
8b	MEROZ, Jean (Doctorate en Droit), Switzerland.	International Law	For post-graduate study in Law at the Institute of International Air and Space Law, McGill University.
8b	DZUNOV, Todor (Diploma, Univ. of Skofoje) Yugoslavia.	Law	For post-graduate study in Law at the University of Toronto.
10	COTE, Albert (LL.B.), Montreal, Que.	Labour Legislation	To go to France to study legislation and techniques of collective bargaining.
Special Senior Award	SCOTT, F. R. (B.C.L., F.R.S.), Faculty of Law, McGill University.	Constitutional Law	For research in Constitutional Law with particular reference to comparative constitutional law and the protection of human rights.
Visiting Lecturer	CASTEL, Prof. J. G. (P.H.D. (Law) Harvard Univ.) Osgoode Hall, Toronto, Ont.	Comparative Law	To lecture in Comparative Law at Laval University.

AWARDS GRANTED IN THE FIELD OF LAW FOR THE YEAR 1961-62

2	BAUDOIN, Jean-L. (Diplôme d'études Supérieures de Droit Civil, Univ. of Paris), Montreal, Que.	Comparative Law	For research in Law toward Ph.D. at the University of Paris.
2	BRIERLEY, J. E. C. (B.C.L.) Montreal, Que.	Civil Law	To study within the area of "Laws of Real Property" at the University of Paris for Ph.D.
3a	LASKIN, Bora (LL.M.), Faculty of Law, Univ. of Toronto.	Constitutional Law	For research in England in preparation of a treatise on Canadian Constitution Law.
3a	MARCEAU, Louis (Doctorat d'Etat, Univ. of Paris) Faculty of Law, Laval University.	Comparative Law	Research for a treatise on private and comparative law in collaboration with Professor Roger Perrot at the University of Paris.
3b	MORIN, Jacques (LL.M.) Faculty of Law, Univ. of of Montreal.	Constitutional Law	For research at Harvard Law School. Project: "The Treaty Making Power and the Implementation of International Agreements in Federal States".

Category	Name and Address	Field	Remarks
7	DESGAGNÉ, André (LL.L) Faculty of Law, Laval University.	Law	To go to the University of Michigan to carry out research on "Legislation, Introduction to the Legal System, Municipal Corporations, and Administrative Tribunals".
8b	VILLENEUVE, Jacques (Doctorat en droit, Univ. of Paris) France.	International Law	To study at McGill Institute of International Air and Space Law.
8b (R)	TANCELIN, Maurice (Diplôme d'études supérieures, Univ. of Paris) France.	International Law	RENEWAL of 60-61 award, for study at the McGill Institute of International Air and Space Law.
8b (R)	SAND, Peter H. (Diplôme Supérieur de Droit, Univ. of Luxembourg) Germany	International Law	RENEWAL of 60-61 award, for study at the McGill Institute of International Air and Space Law.
8b (R)	Cocco, Constantino (Docteur en Droit, Univ. of Rome) Italy.	Law	Short term RENEWAL of 60-61 award for continuation of study in Law at the University of Ottawa.
8b	TORFASON, Hjortur (Final degree in law, Univ. of Iceland) Iceland.	Corporation Law	For post-graduate work in Corporation Law at the University of Toronto.
		SUMMARY:	Law (general) 11 Civil Law 3 Constitutional Law 5 History of Law 4 Comparative Law 4 Corporation Law 2 Labour Legislation 1 International Air and Space Law 10 International Law 5 45

THE CANADA COUNCIL

PROJECTS IN THE FIELD OF LAW

GRANTS TO INDIVIDUALS		
1958-59	Professor L. Baudouin.....	Travel grant to Brussels to attend 1958 meeting of the International Association of Legal Sciences.
	E. J. Cosford.....	For work on the subject of public international maritime law.
1959-60	Dr. Horace E. Read.....	Travel grant to attend a conference of the International Law Association in Hamburg.
	Professor Edward McWhinney..	Travel grant to Luxembourg to lecture in Comparative Law.
GRANTS TO ORGANIZATIONS		
1958-59	Association Henti Capitant pour la Culture Juridique Française	Aid in publication of works presented at Third International Canadian Congress in September 1958. $3,000
1959-60	Association of Canadian Law Teachers	For a special conference of British, American, and Canadian Law Teachers in New York in September 1960 $5,000

The Committee adjourned.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

Public Accounts of Canada—Vols. I-II
Report of the Canada Council—March 31, 1960
Including Second Report to the House

WEDNESDAY, APRIL 19, 1961
TUESDAY, APRIL 25, 1961

WITNESSES:

From the Canada Council: Dr. Claude Bissell, Chairman; Dr. A. W. Trueman, Director; Mr. E. Bussiere, Associate Director; and Mr. D. Fullerton, Treasurer.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24945-8—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark
Beech
Bell (*Carleton*)
Benidickson
Bissonnette
Bourbonnais
Bourget
Brassard (*Chicoutimi*)
Broome
Bruchési
Campeau
Chown
Danforth
Denis
Deschatelets
Drysdale
Dupuis
Fisher
Grenier
Hanbidge
Hellyer
Keays
Lahaye
Macdonnell
McGee
McGrath
McGregor
McMillan
Martel
Morissette
Morton
Noble
Nugent
Pigeon
Pratt
Regier
Robichaud
Rouleau
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Woolliams
Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

REPORT TO THE HOUSE

WEDNESDAY, April 19, 1961

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

SECOND REPORT

1. Pursuant to its Order of Reference dated February 15, 1961, your Committee has considered the form and content of Public Accounts of Canada, Volumes I and II, and has unanimously agreed to report as follows.

2. Your Committee was informed of the historical background of the annual reporting of expenditure details, from Confederation to the present time. From 1867 to 1878 these details were included in the Public Accounts; then, up to 1942, the information was compiled by the Auditor General and published in his annual reports. Over the years up to 1940, the information was given in minute detail, without benefit of guidance from either the House of Commons or the Standing Committee on Public Accounts. In 1940 this detail was eliminated to a considerable extent by the Auditor General—mainly by reducing the information given for purchases, to include only the more sizeable amounts, and by limiting the salaries reported. In 1942, the responsibility for the reporting of details of expenditures was transferred to the Comptroller of the Treasury who has since included the information in the Public Accounts.

3. The Public Accounts for 1959-60 consists of two volumes comprising 1,250 pages (exclusive of table of contents and index), divided approximately as follows:

Volume I

	Pages
1. Summary Report entitled "Survey of the Public Accounts" (pages 11 to 94)	84
2. Statements of Expenditure and Revenue and Assets and Liabilities, with supporting assets and liability schedules (pages 96 to 117)	22
3. Appendices (pages 118 to 138)	21
4. Summarized statements of expenditure and revenue, by departments (Part II, pages 2 to 11)	10
5. Departmental Sections (in total):	
(*a*) Summaries of Appropriations and Expenditures (e.g., pages A2 to A4)	41
(*b*) Summaries of allotments and expenditures, by individual votes, with explanatory notes and supplementary statistical statements and listings (e.g., pages A6 to A8)	570
(*c*) Revenue summaries (e.g., A40 to A41)	35
(*d*) Asset and liability accounts ("open accounts"), with explanatory notes (e.g., pages A41 to A46)	78
(*e*) Accounts receivable summaries (e.g., page A46)	3

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(*f*) Listings of salaries and travelling expenses (e.g., A46 to A49)	45
(*g*) Listings of payments to suppliers and contractors (e.g., pages A49 to A53)	99
(*h*) Summaries of expenditure, by object of expenditure headings (e.g., pages A53 to A54)	31
(*i*) Appendices (e.g., pages A55 to A56)	48
6. Special statutory statements (required by various sections of the Financial Administration Act)—at the end of Volume I	15
	1,102
Volume II	
Financial statements of Crown corporations	148
	1,250

4. Subsection (2) of section 64 of the Financial Administration Act reads:

"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."

5. In its study, your Committee has been guided throughout by this statutory requirement. It has also had in mind what was said by the United Kingdom Committee on the Form of Government Accounts, in paragraphs 15 to 17 of its report of June 1950, as follows:

Increasing public interest

15. The inferences commonly drawn from analogies which we thus believe to be insecure spring from a marked widening of public interest in the conduct of the national finances. This development might perhaps be sufficiently explained by the figures cited in paragraphs 4 and 5 (under the heading "Growth of Government Operations") but we think it goes deeper than concern with the magnitude of Government outlays and the incidence of revenue provisions. Public finance has come to be vested with an economic significance which went unrecognized until recent years; it has become, as Budget speeches and the material that accompanies the Financial Statement now regularly acknowledge, a major factor in shaping the course of economic conditions in general. Accordingly it has seemed to us that critical examination of the system of Government accounts must proceed in part from a desire to ensure that, in the highest degree that may be practicable, the published statements—or at least such of them as are most widely used—shall give the public full, clear and properly proportioned information as to the conduct of the national finances. With

full regard for the necessity of avoiding any impairment of the Parliamentary prerogative in these matters, we have therefore felt free, and indeed bound, to proceed on the basis of due recognition of the extra-Parliamentary demand for clearly presented data which convey their own demonstrably accurate and relevant meaning.

Purposes of Government accounts

16. Once this deeper and wider interest in public finance is recognized, it is seen that 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 authority 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 nowadays 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 and range of Government operations make it imperative that a 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 interests 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 assessment of the future. As

to 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 values of Government assets of every kind.

17. The mere recital of these groups of purposes—whether or not every one of the questions asked of Government accounts is capable of satisfaction in any manner that will convey a definable meaning—is sufficient to engender grave doubts whether all of them can be met by the automatic outcome of a single set of accounting processes and records. It has, indeed, been pointed out to us that, while an accurate account subject to audit is indispensable for the purpose of Parliamentary control, what may be called accounting statistics are sufficient for some other purposes.

6. Your Committee considered the form of the Public Accounts from the standpoint of clarity, conciseness and attractiveness of presentation. It reviewed the contents from the standpoint of the 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 to the House of Commons.

7. Particular consideration was given to the following areas where it felt that there might possibly be appropriate reductions in the size of Public Accounts in future:

	Pages
Appendices of an historical nature, not required by statute (included among the appendices given on pages 118 to 138, 1959-60)	9
Statements and listings of a statistical nature supplementing summaries of allotments and expenditures in various departmental sections (including analyses of expenditures under functional or geographic headings)	80
Listings of salaries and travelling expenses in the various departmental sections	45
Listings of payments to suppliers and contractors in the various departmental sections	99
	233

Consideration was also given to the possibility of reductions being made in the balances listed in the asset and liability schedules and in the details given for "construction" votes in the various departmental sections.

8. Your Committee also considered what additional information might, with benefit, be included in the Public Accounts.

Recommendations

9. Your Committee recommends that Volume I of the Public Accounts be divided into two volumes in future, the first to contain mainly the summary report and financial statements, and the second mainly details of expenditures and revenues. These two volumes would then comprise:

Volume I

(1) A summary report on the financial transactions of the fiscal year and the financial position at the year-end, together with various appendices.

(2) A statement of expenditure and revenue, signed by the Comptroller of the Treasury and certified by the Auditor General.

(3) A summarized statement of appropriations and expenditures, by departments, signed by the Comptroller of the Treasury and certified by the Auditor General, followed by departmental summaries of appropriations and expenditures, in the format used in the Main Estimates.

(4) A summarized statement of expenditure, by departments, classified by standard object headings.

(5) A summarized statement of revenues, by departments, classified by main sources, signed by the Comptroller of the Treasury and certified by the Auditor General.

(6) A statement of assets and liabilities, signed by the Comptroller of the Treasury and certified by the Auditor General, followed by supporting schedules and supplementary explanatory notes.

Volume II

(1) Departmental sections, each containing:
  (i) a summary of allotments and expenditures under each vote, by standard object of expenditure headings, with explanatory notes and other material;
  (ii) a summary of revenues, with supporting details and explanatory notes;
  (iii) a summary of accounts receivable; and
  (iv) appendices relating to departmental operating activities, etc.

(2) Miscellaneous statements, as follows:
  (i) statutory statements (required by various sections of the Financial Administration Act);
  (ii) listing of salary rates (above the established minimum amount) in effect at the year-end, by departments; and
  (iii) listing of payments to suppliers and contractors (above the established minimum amount) during the year, by departments.

The present Volume II, which contains the financial statements of the Crown corporations and the audit reports thereon, would then become Volume III.

Your Committee feels that were the foregoing form of presentation followed, Volume I would give an effective over-all financial summary on a broad basis, with Volumes II and III being available to persons who are interested in the more detailed or specialized information that they would contain. In this connection, the Committee is of the opinion

that the importance of the financial statements of Crown corporations justifies their being presented in Volume III, notwithstanding the fact that they are to be found also in the separate annual reports of the corporations concerned. The Committee suggests that, in order to encourage a wide distribution of Volume I, in particular, a separate price should be assigned to each of the three volumes.

10. Your Committee recommends that the following additional information be included in the explanatory notes following the summary of allotments and expenditure for each vote, in the departmental sections of Volume II:

(i) Explanation of the cause of the variation, if significant, between the appropriation and the total of expenditures charged thereto.

(ii) Reference to any ex-gratia payment in excess of $100 entered as a charge to the vote.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 19, 1961.
(9)

The Standing Committee on Public Accounts met at 9.30 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Brassard (*Chicoutimi*), Bruchési, Chown, Deschatelets, Hales, Hellyer, Keays, Macdonnell (*Greenwood*), Macnaughton, McGrath, McMillan, Pigeon, Regier, Smith (*Simcoe North*), Stefanson, Stewart and Villeneuve.—21

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; Mr. H. R. Balls, Comptroller of the Treasury; and Mr. G. G. E. Steele, Secretary, and Mr. J. A. MacDonald, Assistant Secretary, Treasury Board.

The Chairman opened the meeting by expressing, on behalf of the Committee, good wishes to Mr. Eric Jones who was Acting Clerk of the Committee this day, on his impending retirement.

On the invitation of the Chairman, Mr. Steele presented a document prepared by the Staff of the Treasury Board dated April 14, 1961, and entitled *Possible Changes in the Form of Annual Estimates,* copies of which were distributed to the Members present. Mr. Steele briefly explained the purpose and content of the document. It was agreed that the said document be appended to the Minutes of this meeting (*See Appendix "A" hereto*).

The Committee further agreed that the Auditor General be asked to study the proposed changes as set out in the said document and to report his observations thereon to the Committee in due course; and that the Committee consider the said proposals in detail after Members had had an opportunity of studying them.

In camera, the Committee then resumed from April 18th consideration of the Report of the Sub-Committee on the Form and Content of Public Accounts, Messrs. Henderson, Balls and Stevenson remaining in attendance.

Following discussion during which Messrs. Balls and Henderson answered questions, it was moved by Mr. Smith (*Simcoe North*), seconded by Mr. Deschatelets, that the Report of the said Sub-Committee on the Form and Content of Public Accounts be concurred in with the exception of paragraph 10 thereof. The said motion was carried unanimously. Messrs. Henderson, Balls and Stevenson then withdrew from the meeting.

The Committee then considered a draft of a report to the House based on the above-mentioned Report of the Sub-Committee on the Form and Content of Public Accounts.

On paragraph-by-paragraph consideration of the draft report, certain minor revisions were made thereto and, in addition to omitting paragraph 10 of the Sub-Committee's Report, paragraph 12 of the said Report was deleted.

Ordered (unanimously),—That the draft Report, as amended, be presented to the House.

At 10.25 a.m. the Committee adjourned to meet again on Tuesday, April 25, 1961.

Eric H. Jones,
Acting Clerk of the Committee.

APPENDIX "A"

POSSIBLE CHANGES IN THE FORM OF ANNUAL ESTIMATES

(Prepared by the Staff of the Treasury Board, April 14, 1961)

INTRODUCTION

Traditionally the annual Estimates are prepared as far as possible in the same form year after year to fulfil two important needs of Parliament: (1) to allow ready comparison between the new year proposals and the appropriations granted for the past year and (2) to allow for the development of a comparable statistical trend of estimates and expenditures over a series of years. Invariably, however, this observance of historical practice leads eventually to obsolescence and it becomes necessary to substantially revise the form in which annual Estimates are presented to Parliament.

The two most recent occasions on which the form of the annual Estimates was substantially revised occurred in 1937 and in 1950. On the former occasion, the main element of change involved a switch from a purely accounting-type of vote breakdown to the functional vote pattern or performance-budget breakdown to which we are accustomed today. In 1950, the main changes were (*a*) the division of the estimates for each function into separate Items for (1) Administration, Operation and Maintenance and (2) Construction or Acquisition of Buildings, Works, and Land and Equipment, (*b*) the provision of expenditure and revenue reports for each vote for the past fiscal year (actual) and the current fiscal year (forecasts), (*c*) the provision of more than the usual standard object breakdown for certain votes (e.g., a geographical breakdown for the Penitentiaries Vote in Justice), and (*d*) the addition of a table (in an envelope in the back of the Blue Book) showing total estimates broken down by standard objects of expenditure and special categories.

After 10 years of experience with the existing form, it is perhaps timely to again review this subject with a view to up-dating and improving the manner in which Estimates are presented to Parliament.

Most of the changes put forward for consideration in the attached material are reasonably firm ideas, for example, the adoption of an improved Vote Numbering system and the inclusion of Vote numbers in the Details Section of the Blue Book, the provision of information respecting services which Departments receive free of charge and which, therefore, are not included in their Estimates, and the presentation of staff detail in a form which will make possible a better year-to-year comparison as well as analysis of any one year.

There are other changes possible in the form of Estimates but these are also the more complex questions, such as, whether to "vote-in-net" rather than in the gross as at present and whether to change the number and nature of Parliamentary Votes. These questions are under active consideration but it has not been found possible to put forward firm conclusions. While more work has to be done in connection with these questions, limited reports on them have been included in this material in order that the Committee may have an appreciation of the considerations which appear to apply at this time. Discussion by the Committee and a consequent expression of opinion concerning them would be helpful.

The material contained in this document has been developed by the Staff of the Treasury Board and checked for practicability with the Comptroller of the Treasury.

SUMMARY OF POSSIBLE CHANGES IN THE FORM OF ESTIMATES

A. Inclusion of information for each departmental area showing the estimated value of services provided free of charge by other agencies.

B. Presentation of staff detail in a form which would enable better year-to-year comparison as well as analysis of any one year.

C. Provision of separate summaries at the end of each departmental or agency grouping, rather than at the end of each major section, in order that the sources of the amounts carried forward into the overall summary are clearly evident.

D. Establishment of a separate Estimates class for "Old Age Security Payments".

E. Simplification of the titles of Estimates volumes.

F. Adoption of new Vote Numbering system and inclusion of Vote Numbers in the Details Section of Estimates.

DISCUSSION PAPERS

G. Calculation of estimates provision on a net basis (i.e., less service revenues) rather than on the gross basis as at present under which receipts are not credited to appropriations.

H. Revision of the number and nature of Votes.

INCLUSION IN BLUE BOOK OF INFORMATION WHICH WOULD SHOW ESTIMATES OF VALUE OF MAJOR SERVICES PROVIDED FREE OF CHARGE TO EACH DEPARTMENT

A criticism of Canadian Estimates in the past has been that the total cost of a particular service or a departmental area is difficult to assess because the estimates for them do not contain provision for common services which are performed by other government agencies and provided to them free of charge.

To assist in arriving at a reasonable picture of total cost without the introduction of costly accounting practices, there could be included in the Details of Services for each departmental or other Class of Estimates (i.e., for each area identified in the overall Summary in the front of the Blue Book) a list of the major services provided free of charge to that department and their estimated costs.

In the preparation of these lists, the following practices are suggested:

1. To distribute only the costs of those services whose total annual costs exceed $2 million.
2. In determining the cost of accommodation:
   (*a*) to limit coverage to buildings in use;
   (*b*) for Crown-owned buildings, to use a square foot cost based on
      (i) the relevant year's element of amortized capital cost,
      (ii) a factor for grants paid to municipalities in lieu of taxes,
      (iii) a factor covering lighting, heating and furnishing (if provided free of charge);

(c) for leased accommodation, to use the actual rentals paid plus the cost of cleaning and maintenance in cases where such services are provided free of charge.

3. Direct the providers of common services to include in the cost they allocate to others a fixed percentage of their costs to represent the value of common services they themselves receive.

The sample on page A-3 illustrates the form which such a list might take. It could be located first among the details for each Class of Estimates.

This suggestion probably constitutes as much progress as is practical in the quest for a more complete estimate of the costs of government services. For the majority of administrative and operational services provided for in annual estimates, accrual accounting methods to achieve total costing would involve greater costs than might be considered justifiable in terms of the resultant additional information. While some activities of government of the trading or commercial type, such as the National Film Board and the Department of Public Printing and Stationery are susceptible to the "balance-sheet" treatment because of the more meaningful relationship between income and costs in these areas, the introduction of that type of information would likely complicate the Estimates in that it is not comparable with the information presented for other items. Moreover, recognizing that it would not likely be possible to consolidate, with Estimates, all business-type budgets which are now presented to Parliament, (e.g., the budgets of Crown Corporations), a preferable alternative might be to make such specialized accounting treatments the subjects of separate reports to Parliament.

DETAILS OF SERVICES

Number		Details	Amount	
19 –	19 –		19 –	19 –
			$	$
		AGRICULTURE		
		APPROXIMATE VALUE OF MAJOR SERVICES NOT INCLUDED IN THE ESTIMATES OF THIS DEPARTMENT		
		Accommodation (provided by the Department of Public Works)		
		Accommodation (in this Department's own buildings)		
		Accounting and cheque issue services (Comptroller of the Treasury)		
		Contributions to Superannuation Account (Department of Finance)		
		Employee surgical-medical insurance premiums (Department of Finance)		
		Employee compensation payments (Department of Labour)		
		Carrying of franked mail (Post Office)		
		DETAILS OF SERVICES		
		Minister of Agriculture—Salary and Motor Car Allowance		
		Salary (1)	15,000	15,000
		Motor Car Allowance (2)	2,000	2,000
			17,000	17,000
		ADMINISTRATION BRANCH		
		Departmental Administration		
1	1	Deputy Minister	18,000	20,000
1	1	Senior Officer 3 ($16,500–$18,000)	18,000	16,000
1	1	Senior Officer 1 ($14,000–$15,000)	14,625	12,000
1	1	Chief, Organization and Personnel, Agriculture ($12,500–$13,500)	13,500	10,140
1	1	Administrative Officer 8 ($11,000–$12,500)	12,500	10,140
1	2	Administrative Officer 7 ($9,940–$11,200)	9,940	16,680
1		Administrative Officer 6 ($7,920–$9,300)	8,190	
2	3	Administrative Officer 5 ($7,260–$8,340)	15,960	22,410
2	1	Administrative Officer 4 ($6,660–$7,680)	15,270	6,780
2	2	Administrative Officer 3 ($6,420–$7,140)	13,440	12,360
6	2	Administrative Officer 2 ($6,000–$6,660)	36,840	11,700
1		Administrative Officer 1 ($5,460–$6,180)	5,640	
2	2	Administrative Assistant ($4,620–$5,160)	9,240	8,962
2	2	Management Trainee	10,000	10,000
1	1	Executive Assistant to the Minister	7,500	7,500
1	1	Technical Officer 10 ($8,820–$10,500)	8,820	8,340
	2	Technical Officer 7		13,980
2		Technical Officer 6 ($6,840–$7,860)	14,700	
	1	Private Secretary to the Minister (Technical Officer 5)		6,660
1	1	Technical Officer 5 ($6,420–$7,140)	7,140	6,210
	3	Technical Officer 4		17,100
2	1	Technical Officer 3 ($5,460–$6,180)	10,920	5,130
1		Personnel Officer 6 ($7,920–$9,300)	9,300	
3	2	Personnel Officer 4 ($6,660–$7,680)	21,600	12,420
1	1	Associate Private Secretary to the Minister	5,430	5,430
	1	Assistant Private Secretary to the Minister		4,680
1	1	Confidential Messenger ($2,850–$3,300)	3,300	3,150

APPENDIX I

A review of 1961-62 Main Estimates points up the following services whose functions clearly imply the performance, free of charge, of services for or on behalf of other departments and which might be included in the table herein proposed:

	Finance
$21,579,725	Comptroller of the Treasury
47,600,000	Government's Contribution to Superannuation Account
8,000,000	Government's share of Medical-surgical insurance premiums
* ————	Grants to municipalities in lieu of taxes
	Labour
2,100,000	Payments of Compensation
	Post Office
6,000,000	Carrying of franked mail
	Public Works
* ————	Construction of Public Buildings
* ————	Maintenance and Operation of Public Buildings
* ————	Furniture and Furnishings

* Reflected in proposed entry for each Department entitled "Accommodation".

PRESENTATION OF STAFF DETAIL IN A FORM WHICH WOULD ENABLE BETTER YEAR-TO-YEAR COMPARISON AS WELL AS ANALYSIS OF ANY ONE YEAR

Under present Canadian practice, the continuing personnel establishment is set out in the printed Details of Estimates in a manner which shows the numbers of positions and the amounts of salary provision required for each group of positions of the same classification title. The amount required for casual and other non-continuing assistance is provided in bulk in a single entry for each Estimates Item. The position titles are grouped (but not so designated) into three main categories, viz., Classified non-clerical, Clerical, and Prevailing Rates. Within each group, the classifications are listed in descending order of salary.

This detail, which accounts for about 200 of the 503 pages of Details in the Blue Book for 1961-62, involves Departments in thousands of man-hours of work calculating the detailed costings it contains. Moreover, because of its size and complexity its value to Members of Parliament as supporting detail for the "Salaries" Object of Expenditure is questionable.

Examination of U.K. and U.S. practices in this respect shows that attempts have been made to restrict such detail to its meaningful elements. The U.S. Budget includes, in a seperately bound Appendix, staff detail comparable to ours for Full Time positions over a salary or wage rate of $9,890. Under $9,890, general schedule grades and other collective groupings are employed for purposes of detailing salary provision. Part Time and "temporary" positions are grouped under one entry.

In the U.K. Estimates, officers and skilled craftsmen are presented in the same fashion as is employed in Canada. However, other positions (generally the Clerical and Technical ones) are grouped as follows:

"Clerical, typing, & c., staff"
"Office keepers, messengers & c."
"Assistants, Technical, Grade I, II and III"
"Tradesmen, Labourers"
"Other non-industrial staff"
"Stores staff"
"Industrial staff"

Salary rates or ranges appear after the position titles for classes peculiar to one department. For those common throughout the Service an appendix to each Class of the Estimates gives the salary range for each class title.

The grouping of various classes might be considered to represent an improvement over present Canadian practice. However, neither U.K. nor U.S. practice has streamlined the process of costing staff Estimates inasmuch as each line entry in their staff details demands a separate calculation of cost. For the purpose of Canadian Estimates, therefore, it might be best to adopt the more desirable features of U.K. and U.S. practices and develop further refinements.

The attached sample illustrates a new form of staff detail which might be considered for use in Canadian Estimates. The total personnel establishment provided for in each Vote is first divided (to show tenure or security of employment) into "Continuing Establishment" and "Casuals and Others". For the former, both numbers of positions and their man-year equivalents are provided. The addition of man-years for "Casuals and Others" provides a total measure in other than dollar terms for the total establishment. Within the Continuing Establishment positions are grouped in a manner which identifies certain terms and conditions of employment and categorizes the numbers of positions in accordance with the nature of the work to be performed:

Salaried Positions—annually rated

Administrative and Professional
Technical and Service
Clerical

Prevailing Rate Positions—hourly rated

Ships' Officers and Crews—annually and monthly rated

Local Assistance—annually rated in foreign currencies

Costing of individual line entries is considered undesirable because the experience of past years shows that the aggregate of all such individual costings for each Vote invariably exceeds reasonable estimates of annual salary costs. Substantial over-estimates caused by detailed costings methods have been offset by the introduction of bulk reduction entries ("Less—Anticipated lapses") but this fact supports rather than contradicts the argument against the time-consuming costing methods now employed by departments in the preparation of salary estimates.

Several years ago, Treasury Board Staff developed a technique for assessing the salary costing in departmental Estimates. Rather than duplicate the departmental method of arriving at, and totalling, the individual amounts required for each position, the new technique works from a base of actual expenditure (for each Vote) for the last completed year. Through progressive adjustment, reasonable estimates of requirements for the current year, and for the Estimate year, are arrived at. The effectiveness of this technique has been proven during the annual Estimates process of 1958-59, 1959-60, 1960-61 and 1961-62 and it is considered practicable to have departments substitute this technique for their present detailed methods in the calculation of salary estimates in future years and thereby save thousands of hours of work.

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ESTIMATES, 19 –

DETAILS OF SERVICES

Number (figures in brackets are man-years)		Details	Amount	
19 –	19 –		19 –	19 –
			$	$
		DEPARTMENT		
		BRANCH		
		Vote Title		
		Salaried Positions:		
		Administrative and Professional:		
1	1	Deputy Minister ($20,000)		
2	2	Senior Officer 3 ($16,500–$18,000)		
3	3	Senior Officer 2 ($15,500–$16,500)		
5	4	Senior Officer 1 ($14,000–$15,000)		
2	2	($12,000–$13,999)		
1	1	($10,000–$11,999)		
3	2	($8,000–$9,999)		
3	1	($6,000–$7,999)		
2	2	($4,000–$5,999)		
2	2	(Part Time)		
		Technical and Service:		
1	1	($10,000–$11,999)		
3	4	($8,000–$9,999)		
20	19	($6,000–$7,999)		
3	3	($4,000–$5,999)		
14	17	(Under $4,000)		
		Clerical:		
8	7	($6,000–$7,999)		
31	29	($4,000–$5,999)		
4	4	(Under $4,000)		
2	2	(Part Time)		
4	3	(Seasonal)		
		Prevailing Rate Positions:		
201	200	(Full Time)		
21	20	(Part Time)		
94	89	(Seasonal)		
		Ships' Officers and Crews:		
175	148	(Full Time)		
137	180	(Seasonal)		
		Local Assistance Abroad:		
7	7	(Full Time)		
3	3	(Part Time)		
472	417			
(442)	(362)	Total Continuing Establishment	3,671,000	3,466,000
(40)	(40)	Casuals and Others	200,000	200,000
(482)	(402)	Total Salaries and Wages (1)	3,871,000	3,666,000
		Overtime (1)	300,000	300,000
		Allowances (2)	8,000	10,000

PROVISION OF SEPARATE SUMMARIES IN VOTE SECTION FOR EACH CLASS OR SUB-CLASS FOR WHICH THERE IS AN ENTRY IN THE OVERALL SUMMARY

A separate Estimates class has been established for each department and for certain other agencies, such as the Atomic Energy Control Board and Atomic Energy of Canada Limited, the Board of Broadcast Governors, and the Chief Electoral Officer. However, agencies such as the International Joint Commission, the Dominion Coal Board and the Board of Transport Commissioners, although independent of the Department for which their Minister is responsible, have their estimates included with his departmental estimates in the Blue Book. In these cases, the summary at the end of the classes shows combined totals for the departments and agencies whereas the overall summary in the front of the Blue Book shows separate totals for each.

The value of the combined totals in the Vote section in these cases is not apparent. A clearer arrangement might be one which would readily show the sub-class totals which are carried forward into the overall summary. Separate summaries similar in form to the ones now given for each class could be struck at the end of each group of items for which a total is shown in the overall summary.

ESTIMATES, 1961-62

TRANSPORT—*Continued*

No. of Vote	Service	Details on Page No.	1961-62	1960-61	Compared with Estimates of 1960-61	
					Increase	Decrease
			$	$	$	$
	A—DEPARTMENT—*Concluded*					
	AIR SERVICES—*Concluded*					
	Telecommunications and Electronics Branch					
	Radio Act and Regulations—					
440	Administration, Operation and Maintenance including Canada's share of the costs of the international radio, telegraph and telephone organizations listed in the Details of the Estimates	562	2,971,548	2,879,198	92,250	
441	Construction or Acquisition of Buildings, Works, Land and Equipment	564	400,500	360,200	40,300	
	Telegraph and Telephone Service—					
442	Administration, Operation and Maintenance	565	72,115	232,050	.....	159,935
443	Construction or Acquisition of Buildings, Works, Land and Equipment	566	77,400	238,300	.....	160,900
			36,896,343	34,670,729	2,225,614	
	Meteorological Branch					
444	Administration, Operation and Maintenance, including Canada's assessment for membership in the World Meteorological Organization and $25,000 for grants in aid of meteorological research in Canadian universities	566	17,121,292	15,860,370	1,260,922	
445	Construction or Acquisition of Buildings, Works, Land and Equipment	569	1,769,800	1,214,250	555,550	
			18,891,092	17,074,620	1,816,472	
	SUMMARY					
	To be voted	.....	**254,613,578**	226,531,046	28,082,532	
	Authorized by Statute	.....	**17,000**	17,000		
	Total, Department	.....	**254,630,578**	**226,548,046**	**28,082,532**	
	B—GENERAL					
	AIR TRANSPORT BOARD					
446	Salaries and Other Expenses including the Canadian Delegation to the International Civil Aviation Organization	570	550,469	506,191	44,278	
	Appropriation not required for 1961-62	571	.....	125,000	.....	125,000
			550,469	**631,191**	.....	**80,722**

ESTIMATES, 1961-62

TRANSPORT—*Continued*

No. of Vote	Service	Details on Page No.	1961-62	1960-61	Compared with Estimates of 1960-61	
					Increase	Decrease
			$	$	$	$
	B—GENERAL—*Continued*					
	BOARD OF TRANSPORT COMMISSIONERS FOR CANADA					
(S)	Salaries of Commissioners (Chap. 234, R.S., as amended)	571	89,000	89,000		
447	Administration, Operation and Maintenance	571	1,249,433	1,190,512	58,921	
(S)	Railway Grade Crossing Fund (Chap. 234, R.S., as amended)	573	5,000,000	5,000,000		
448	Amount to be credited to the Railway Grade Crossing Fund, in addition to the amount to be credited to the Fund under the Railway Act in the current fiscal year, for the general purposes of the Fund, and authority, notwithstanding section 30 of the Financial Administration Act, to make commitments pursuant to this item for the current and subsequent fiscal years not to exceed a total amount of $10,000,000	573	5,000,000	10,000,000	.....	5,000,000
(S)	Payments to the Canadian Pacific Railway Company and the Canadian National Railway Company equal to the annual cost of maintaining the trackage between specified points, in Ontario, on the transcontinental lines of the said Railways in accordance with Chapter 234, Revised Statutes	573	7,000,000	7,000,000		
			18,338,433	23,279,512	.....	4,941,079
	SUMMARY					
	To be voted	.....	**6,249,433**	11,190,512	.....	4,941,079
	Authorized by Statute	.....	**12,089,000**	12,089,000		
			18,338,433	**23,279,512**	.....	**4,941,079**
	CANADIAN MARITIME COMMISSION					
449	Administration	573	169,955	156,138	13,817	
450	Steamship Subventions for Coastal Services, as detailed in the Estimates	574	6,466,459	6,169,286	297,173	
			6,636,414	**6,325,424**	**310,990**	

ESTIMATES, 1961-62

TRANSPORT—*Concluded*

No. of Vote	Service	Details on Page No.	1961-62	1960-61	Compared with Estimates of 1960-61	
					Increase	Decrease
			$	$	$	$
	B—GENERAL—*Concluded*					
	NATIONAL HARBOURS BOARD					
451	Advances to National Harbours Board, subject to the provisions of section 29 of the National Harbours Board Act, to meet expenditures applicable to the calendar year 1961 on any or all of the following accounts:					
	Reconstruction and Capital Expenditures—					
	Halifax.....$ 905,065					
	Saint John..... 2,452,000					
	Chicoutimi..... 15,000					
	Quebec..... 2,120,000					
	Churchill..... 2,460,000					
	Generally—					
	Unforeseen and Miscellaneous.. 200,000					
	$8,152,065					
	Less—Amount to be expended from Replacement and Other Funds..... 1,962,513					
		576	**6,189,552**	**2,633,099**	**3,556,453**	
	ST. LAWRENCE SEAWAY AUTHORITY					
452	Operating deficit and capital requirements of Canals and Works entrusted to the St. Lawrence Seaway Authority with the approval of the Governor in Council, and to authorize, notwithstanding the Financial Administration Act or any other Act, the disbursement by the Authority of revenues derived from the operation and management of such Canals and Works.....	576	**1,123,356**	**2,355,969**	.....	**1,232,613**

ESTABLISHMENT OF SEPARATE ESTIMATES CLASS FOR OLD AGE SECURITY PAYMENTS

Old Age Security Payments are, by Statute, payable from the Old Age Security Fund. Parliament has also provided this Fund with its own sources of revenue. Therefore these Payments are not Budgetary Expenditures. Historically, however, an Item for Old Age Security Payments has been included with budgetary items in the Estimates class entitled "National Health and Welfare". There were two reasons for this: (1) the Item for pension payments to Provinces which it replaced had been in that position in Estimates for many years, and (2) it seemed reasonable to list it among other somewhat related Items such as Family Allowance Payments, Old Age Assistance, Blind Persons Allowances and Disabled Persons Allowances.

Undoubtedly this treatment was helpful during the transition from one system to another but, on a continuing basis, the inclusion of this totally different type of expenditure complicates the class summary (p. 54, Main Estimates, 1961-62) and requires the withdrawal of the Item from the National Health and Welfare figures in the overall summary in the front of the Blue Book. It also is withdrawn from the standard object data in the table contained in the envelope in the back of the Blue Book.

SIMPLIFICATION OF THE TITLES OF ESTIMATES VOLUMES

Each year it is inevitable in Canadian practice to have at least three sets of Estimates tabled in Parliament: the Main Estimates tabled before the year commences, the summer Supplementaries tabled before the Session ends and the Further Supplementaries at year-end. So long as it remained usual practice to have only these three sets of Estimates per year, these titles clearly identified the volumes comprising a complete set of annual Estimates and also described the content and timing of each.

Over at least the last ten years, however, it has become more and more common to table additional volumes of Estimates at other times each year and the traditional titling practice was adjusted to meet these new circumstances. Estimates for 1960-61, for example, were entitled as follows:

Main Estimates	tabled February 4, 1960
Supplementary Estimates	tabled April 26, 1960
Further Supplementary Estimates (1)	tabled June 3, 1960
Further Supplementary Estimates (2)	tabled June 8, 1960
Further Supplementary Estimates (3)	tabled August 8, 1960
Further Supplementary Estimates (4)	tabled November 21, 1960
Further Supplementary Estimates (5)	tabled March 15, 1961

The fact that the regular summer Supplementaries were entitled Further Supplementary Estimates (2) in the fiscal year 1960-61 and may bear a different title in another year indicates that present titling practice can no longer clearly identify the nature of each Estimates volume. While this fact may have to be accepted, it is considered by librarians and others who conduct searches and studies into annual Estimates that the titles could more clearly distinguish each volume of Estimates as a particular segment of a complete

set of publications for the year in question. To this end, titles could be given Estimates in the order in which they are tabled in Parliament, as follows:

Estimates
Supplementary Estimates (A)
Supplementary Estimates (B)
Supplementary Estimates (C)
Supplementary Estimates (D)

These ideas for the titling of Estimates volumes tie in directly with those concerning alternative methods of numbering Votes (see section F which follows).

ADOPTION OF NEW VOTE NUMBERING SYSTEM AND INCLUSION OF VOTE NUMBERS IN THE DETAILS SECTION OF ESTIMATES

From time to time in recent years, comment has been made, both on the floor of the House of Commons and during meetings of House Committees, that it would be easier to follow discussions concerning Estimates if the Vote Numbers were printed in the Details Section. It has not been possible to do this before because the vote numbering system now in effect is such that printing the vote numbers in the Details might have caused undesirable delays in the tabling of Estimates. An improved vote numbering system has now been devised that will allow the printing of vote numbers in the Details of Estimates without causing delays in tabling Estimates and it also has other advantages over the present numbering system.

The essence of the new system is that annually recurring Votes would be designated by the same Vote numbers from year to year and Supplementary Votes would bear the same basic numbers as their related Main Estimates Votes. To achieve this end-purpose, the Vote numbers for each departmental class (and for the Loans group) would commence at 1 and proceed with sufficient spacing to allow for the insertion of new Votes in all future Estimates, either Mains or Supps. For example, the votes for Departmental Administration in the various sets of Estimates of a typical department would be

Vote 1 in the Main Estimates,
Vote 1a in the first set of Supplementary Estimates,
Vote 1b in the second set of Supplementary Estimates, etc.

If there were no vote in the first set of Supplementary Estimates for Departmental Administration, an item for this service in the second set would still be Vote 1b (in order to identify it as being included in the second set of Supplementary Estimates). This form of presentation would render unnecessary the current practice of including the phrase "Further amount required" in the title of a true supplementary vote.

Items in Supplementary Estimates which do not supplement items in previous Estimates for that year will be assigned numbers not used in those previous Estimates and such numbers will be underlined. Since most new items in Supplementary Estimates are non-recurring items the vote numbers assigned to them would be available for new items in the Estimates of following years. Conversely, recurring items will have already received their "permanent" vote numbers.

The numbering of a department's votes through the Estimates of one year and into the Main Estimates of the following year might then be:

Current Year				New Year
Main Estimates	Supps A	Supps B	Supps C	Main Estimates
1	1a		1c	1
	2a	2b	2c	2
5		5b		5
10	10a		10c	10
	11a			
15	15a			15
		16b		16
20				20

In this illustration it will be noted that the numbering system, when first applied, would contain gaps of 3-4 numbers between each Main Estimates Item. This reserve of unused numbers is expected to accommodate any new Items which may be required over the next several years.

Vote numbers for items under "Loans, Investments and Advances" would be prefixed by the Letter "L" to preclude confusion with the budgetary expenditure items of the departments concerned.

In addition to allowing for the printing of vote numbers in the Details of Estimates, other principal advantages of the new vote numbering system would be:

(*a*) from year to year the items in the Main and all Supplementary Estimates which provide for the same service or function would all carry the same vote number (Such "permanent vote number" systems are already in use in the Public Service for the Comptroller's machine accounting processes as well as for departmental purposes. The adoption of such a system for Estimates would make available one numbering system for use in all appropriation processes: Estimates, management and control processes throughout the year, and finally the Public Accounts.);

(*b*) it would be readily apparent from the vote number whether an item is in the Main or in a particular set of supplementary estimates.

A necessary corollary to the adoption of the foregoing ideas is that, in referring to a vote, the department to which it belongs will have to be mentioned to distinguish it from a vote with the same number in another department (e.g., Agriculture Vote 1, Citizenship and Immigration Vote 13, etc., for verbal references and some form of abbreviated prefix—Agr. 1, Cit. 13, etc., for written references).

CALCULATION OF ESTIMATES ON A NET BASIS (I.E. LESS SERVICE REVENUES) RATHER THAN ON THE (PRESENT) GROSS BASIS

In 1950, the Auditor General of Canada suggested to the Public Accounts Committee that voting the deficiency between gross costs and receipts, in the case of revenue-producing services, might place Parliament in a better position to evaluate the necessity of various estimates items. The Second Report of your 1950 Committee contained the following conclusion on this point:

> Your Committee agrees with the view expressed by the Auditor General that 'Parliament might be in a better position to evaluate the necessity of various estimates items were service income directly associated with expenditures resulting from performing the services'. It does not

consider, however, that the appropriation, in the case of revenue producing services, should be for the deficiency between cost and income and agrees with the Treasury Officials that the difficulty in forecasting revenues for such services, from year to year, might result in a less satisfactory picture being given to Parliament of the net appropriation needed by a department. Your Committee feels that Parliament can secure a more effective control by voting the gross amount needed by these services; but it is of the opinion that when any given service is revenue producing the revenue figures for the past year might be supplied in the estimates book so that Parliament may have an opportunity to see the net cost of that service for the preceding year.

Between 1950 and the present, revenue statistics have been introduced into the Details section of the Blue Book. The experience gained since then has confirmed the difficulty of estimating revenues. This experience, supplemented by further studies, in the judgment of Treasury Board supported the 1950 conclusion of the Committee quoted above. The Board accordingly decided to continue the practice of presenting Estimates in the form of appropriation in gross. There are, however, some exceptions to this rule. The majority of estimates items, to which receipts continue to be credited, are those which are involved in cost-sharing arrangements with other agencies. These are permanent exceptions to the rule. The few other exceptions have been under review and may be adjusted as circumstances permit. Appendix I on page G-3 lists the exception; that is, the items to which *receipts* are credited. Appendix II on page G-7 sets out revenues identifiable as being earned but not credited to the relevant votes.

U.K. practice has been quite different since 1891 inasmuch as all estimates are presented on a gross and net (i.e., excluding direct revenue) basis and Parliament appropriates both the net requirements and the amounts of revenues which may be spent. On the other hand, although there are many differences between Canadian and U.S. practices, it is interesting to note that U.S. practice is to appropriate in gross.

There are two apparent arguments for voting net requirements only. One is that doing so reflects the true cost of a service and, therefore, the amount of savings which could be effected if the service were terminated. The other is that by so doing we avoid inflating both sides of the budget by the amount of the service revenues credited to votes.

The first argument over-simplifies a complicated situation. Because there are so many common services provided to Departments free of charge by other agencies within the Public Service (PWD provides accommodation and furnishings, the Comptroller of the Treasurer carries out the paymaster function and provides many accounting services, the Bureau for Translations does work for all Departments), the estimates for agencies providing services free of charge are now over-stated and those of agencies receiving these services are under-stated. Without the introduction of very complex and expensive accounting procedures, true net (or even gross) cost figures can not be obtained for each vote.

With respect to the second argument—namely, that of avoiding inflation of both sides of the budget—it should be pointed out that all service revenues which have or could have been credited to Canadian votes in 1959-60 amounted to less than *2% of the total estimates for that year. The actual amounts by departments can be seen in Appendices I and II. In the U.K. Estimates for 1959-60, which amounted to £4,074 million in the aggregate, revenues which were voted as additions to the net cash requirements of votes

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* Excluding Post Office

amounted to £510 million, or 12% of the total estimates for that year. From these figures it will be seen that the difference between gross and net estimates in Canada is not significant.

Furthermore, a strong argument against voting in net in Canada was put forward by the Comptroller of the Treasury before the Public Accounts Committee in recent years. He indicated that our commitment control procedure, established by Section 30 of the Financial Administration Act, is unique among government financial operations. Were Parliament to vote net amounts and expect the commitment control system to be applied within those net amounts, then the ability of departments to place orders and otherwise commit their total program would be directly limited by the inflow rate of service revenues. Application of commitment control to amounts in excess of the net appropriations (say, up to the total gross amounts of the Items) would allow departments to proceed promptly with the implementation of their gross program plans (as is now the case) but could result in a rash of small Supplementary Estimates if revenues fall below the estimates of them.

A final observation should also be noted. Generally, U.K. Estimates are presented in much more detailed and complicated form than Canadian Estimates. Although Canadian "Details of Estimates" can easily accommodate (and do now, in some cases) a recoverable or revenue entry, introduction of the U.K.-type practice into the Vote Section of Canadian Estimates (and, therefore, in the Appropriation Act as well) would complicate considerably our current, relatively clear and simple form of presentation.

In summary, the inability to arrive at an exact overall or net costing position for most services, the small significance of the results that would be achieved in most cases and the difficulties which would be raised in connection with our commitment control system, would appear to support a recommendation that the present, simple system of appropriating gross amounts be retained.

APPENDIX I

AMOUNTS CREDITED TO CIVIL VOTES—1959-60

Department	Vote Title	Amount	Source
		$	
AGRICULTURE	Maritime Marshland Rehabilitation Act	338,518	Recovery from Province of Nova Scotia—shared cost project.
ATOMIC ENERGY OF CANADA LTD.	Construction, etc.	729,708	Retained earnings.
C.B.C.	Int. Broadcasting Service—Maintenance and Operation.	327,875	Rental of facilities.
DEFENCE PRODUCTION	Departmental Administration	91,613	Salaries of employees of cloth warehouse—charged to revolving fund.
EXTERNAL AFFAIRS	NATO administration expenses and salaries	31,194	Recovery from NATO.
FINANCE	Cost of telephone service at Ottawa	112,581	Recovery from other departments using Toronto and Edmonton Switchboard Services.
FISHERIES	Fisheries Research Board		
	—Operation and Maintnance..	449,538	Cost of work carried out for Great Lakes Fisheries Commission and Int. Joint Com.
	—Construction	24,248	
		473,786	
JUSTICE	Operation and Maintenance of Penitentiaries	*33,849	Recoveries from sale of customs work to staff of penitentiaries.
MINES AND TECHNICAL SURVEYS	International Boundary Commission	90	Recovery from U.S. Government.
	Provincial and Territorial Boundary Surveys	3,450	Recovery from Provincial Governments.
	Mines Branch—Administration	78,880	Amount provided by Dept. of National Defence.
		89,320	
NATIONAL HEALTH AND WELFARE	Indian and Northern Health Services—Operation and Maintenance.	356,051	Recovered for services on behalf of Yukon and Northwest Territories.
NATIONAL RESEARCH COUNCIL	Salaries and Other Expenses.	2,598,590	Transfer from the Special Fund and offset to various expenses.
NATIONAL REVENUE	Ports—Operation and Maintenance	1,194,168	Recovery from firms requiring special services.

* See note on p. 232

AMOUNTS CREDITED TO CIVIL VOTES—1959-60—*Continued*

Department	Vote Title	Amount	Source
		$	
NORTHERN AFFAIRS AND NATIONAL RESOURCES	Water Resources Branch	14,100	Recovery from Manitoba *re* Lake of the Woods and Lac Seul regulating expenses.
	N.W.T. and Other Field Services: —Operation and Maintenance	469,203	Recovery from N.W.T. and Yukon *re* duties performed on their behalf, particularly children's education.
	—Construction, Acquisition, etc.	87,925	Recovery from N.W.T. for expenditures *re* construction, particularly of educational facilities.
		571,228	
PUBLIC ARCHIVES	General Administration, etc.	29,046	Central Microfilm Unit Revolving Fund.
PUBLIC PRINTING AND STATIONERY	Departmental Administration	63,943	Portion of salaries of Traffic Section, chargeable to Queen's Printer Advance Acc't and recoveries for services.
	Purchasing, Stationery and Stores	98,840	Portion of Stores Section salaries chargeable to Queen's Printer Advance Acc't.
		162,783	
PUBLIC WORKS	Roads and Bridges	79,054	Recoverable from trust account to which is credited income from operation of New Westminster Bridge.
NATIONAL CAPITAL COMMISSION	Administration, Operation and Maintenance	159,985	Sales.
	Interest charges on loans	133,515	Rentals of property.
		293,500	
R.C.M.P.	H.Q. Administration, etc.	*4,534	Receipts from sale of clothing and kit to Members of the Force.
	Land and Air Services—Operation	*68,177	
	Marine Services	*1,750	
		74,461	
TRANSPORT	Marine Service Steamers	1,890,225	Other Depts.; for services provided.
	Aids to Navigation—Administration	86,551	Portion chargeable to the Manufacturing Suspense Account.
	Met. Branch—Administration, Operation and Maintenance	81,568	Recoveries from Nat. Defence and salaries to Manufacturing Suspense Account.
	Meteorological Branch—Administration, Operation and Maintenance	*1,587,755	Recovery from Dept. of national Defence for services undertaken on its behalf.

* See footnote on p. 232

AMOUNTS CREDITED TO CIVIL VOTES—1959-60—*Concluded*

Department	Vote Title	Amount	Source
		$	
	Meteorological Branch—Construction. acquisition, etc..	*75,054	Recovery from Dept. of National Defence for services undertaken on its behalf.
	Airports and Other Ground Services— Operation and Maintenance	261,000	Recovery for services at Frobisher.
	Air Traffic Control.....	*924,675	Recovery from Dept. of National Defence for services undertaken on its behalf.
	Civil Aviation Branch—Construction.....	*21,265	Recovery from Dept. of National Defence for services undertaken on its behalf.
		4,928,093	
Veterans Affairs.....	Treatment Services.....	13,563,307	Charges for hospital treatment, staff meals and accommodation.
	Prosthetic Services.....	172,683	Recovery from outside organizations.
		13,735,990	
	Grand Total.....	26,251,408	

* Beginning in 1960-61, these amounts, totalling $3,073,110 were no longer credited to the Votes concerned, but are being paid into the C.R.F. as the result of a review by Treasury Board pending a decision on the question of revenue-netting generally.

APPENDIX II

*REVENUES RECEIVED IN 1959-60 AND NOT CREDITED TO VOTES

Department	Vote Title	Amount	Source
		$	
AGRICULTURE	Research Branch	910,694	Sale of produce and livestock, rentals.
	Fruit and Vegetable Division	287,650	Inspection, registration and licence fees.
	Health of Animals Division	5,170	Rentals.
	Animal Pathology	13,795	Rentals, sale of livestock.
	Compensation for animals slaughtered	52,046	Sale of destroyed sheep.
	Livestock Division	165,262	Record of performance fees, sale of livestock.
	Supervision of Race Track Betting	673,917	Charges for supervision of betting at race tracks.
	Plant Products Division	351,741	Inspection fees, seed testing, licence fees.
	Plant Protection Division	10,390	Fumigation fees.
	P.F.R.A.	826,658	Pasture fees, breeding fees, rental of land, sale of livestock, etc.
	Major Irrigation, etc.	278,462	Water charges, sale of land, etc.
		3,575,785	
AUDITOR GENERAL'S OFFICE		4,647	Recovery of costs on outside audits.
CITIZENSHIP AND IMMIGRATION	Citizenship Registration Branch	330,622	Fees for citizenship certificates.
	Field and Inspectional Service —Canada	96,448	Services to transportation companies, rentals, etc.
	Field and Inspectional Service —Abroad	11,884	Visa fees, etc.
	Indian Affairs Branch	422,241	Rentals, etc.
		861,195	
	Not allocated to votes	65,020	
		926,215	
EXTERNAL AFFAIRS	Dept. Administration	717,697	Passport and visa fees.
	Not allocated to votes	80,514	
		798,211	
FINANCE	Inspector General of Banks Office	31,785	Total cost for calendar year 1959—recovered from chartered banks.
	Royal Canadian Mint	5,616,536	Profit on coinage, handling charges, refining charges, etc.
		5,648,321	
	Not allocated to votes	195,652	
		5,843,973	

* Other than (*a*) return on investments, (*b*) refunds of previous years' expenditures and (*c*) windfall items.

*REVENUES RECEIVED IN 1959-60 AND NOT CREDITED TO VOTES—*Continued*

Department	Vote Title	Amount	Source
		$	
Fisheries	Industrial Development Service	23,336	Sale of fish, rentals, etc.
	Conservation and Development Service	139,422	Fisheries licences, fines, sales, rentals.
	Inspection and Consumer Service	12,925	Inspection fees.
	Newfoundland Bait Service	66,729	Sale of bait, locker rentals, etc.
	Fisheries Research Board—HQ	11,111	Sale of fish, rentals, etc.
		253,523	
	Not allocated to votes	38,771	
		292,294	
Insurance	Not allocated to vote	629,467	Assessment of Departmental expenses against companies, etc.
Justice	N.W.T. Territorial Court	7,522	Fines and fees.
	Yukon Territorial Court	16,480	Fines and fees.
	Combines Investigation Act	65,000	Revenues from prosecutions under the Act.
	Bankruptcy Act	104,075	Licensing of trustees, levies on payments by trustees.
	Penitentiaries	699,908	Sale of farm products and manufactured goods, etc.
		892,985	
	Not allocated to votes	1,857	
		894,842	
Labour	Not allocated to votes	95,087	Miscellaneous.
Legislation			
(Senate)		113,130	Fees on private bills and sale of certified copies.
(House of Commons)		32,719	
		145,849	
Mines and Technical Surveys	Explosives Act	8,571	Import permits, storage licences, fines.
	Canadian Hydrographic Service	70,528	Sale of Nautical Charts, etc.
	Legal Surveys	12,892	Sale of Canada Air Pilot maps.
	Map Compilation	115,997	Sale of maps and charts.
	Geological Surveys	24,073	Sale of maps.
	Mines Branch	8,042	Assays and analyses charges.
		240,103	
	Not allocated to votes	14,125	
		254,228	

*REVENUES RECEIVED IN 1959-60 AND NOT CREDITED TO VOTES—*Continued*

Department	Vote Title	Amount	Source
		$	
NATIONAL HEALTH AND WELFARE	Laboratory and Advisory Service	36,355	Film monitoring.
	Medical Advisory Diagnostic and Treatment Services	454,704	Tonnage duties
	Admin. of Food and Drugs	17,469	Analysis fees and fines.
	Admin. of Opium and Narcotic Drugs Act	9,494	Licence fees and fines.
	Indian and Northern Health Services	2,185,905	Charges for hospitalization of patients not responsibility of this vote.
	Civil Defence Program	15,961	Sale of meals.
		2,719,888	
NATIONAL REVENUE (non-tax revenues)	Customs and Excise	1,191,881	Customs seizures, proceeds from sales, etc.
	Taxation	361,665	Fines, forfeitures, etc.
		1,553,546	
NORTHERN AFFAIRS AND NATIONAL RESOURCES	National Parks and Historic Sites	1,847,740	Vehicle permits, bathhouse receipts sewer and water rates, etc.
	Water Resources Branch	58,455	Recoveries from provincial governments, etc.
	Northern Administration—Branch Administration	235,839	Oil and gas royalties and fees, gravel permit fees, etc.
	Yukon Territory	220,311	Oil and gas permits, mining fees, mining and timber royalties, etc.
	Northwest Territories	3,895,933	Oil and gas permits, mining fees and royalties, sales, etc.
	Forest Research Division	67,445	Sale of timber and cutting permits.
		6,325,723	
POST OFFICE		167,607,242	Net revenue.
PRIVY COUNCIL	Prime Minister's Residence	5,426	Annual payment by Prime Minister for food, logding and sundries.
PUBLIC ARCHIVES	Not allocated to votes	2,397	Fees for photostats.
PUBLIC PRINTING AND STATIONERY	Printing and Binding of Publications	973,169	Sale of official documents.
	Printing of Canada Gazette	122,170	Sale of Canada Gazette.
	Printing and Binding of Statutes	15,308	Sale of annual statutes.
		1,110,647	
	Not allocated to votes	9,733	
		1,120,380	
PUBLIC WORKS	Graving Docks	356,044	Fees.
	Testing Laboratories	1,843	Fees.
		357,887	
	Not allocated to votes	1,579,554	Rental of buildings, sales, charges for steam, electricity, dockage, etc.
		1,937,441	

*REVENUES RECEIVED IN 1959-60 AND NOT CREDITED TO VOTES—*Continued*

Department	Vote Title	Amount	Source
		$	
Royal Canadian Mounted Police	H.Q. Administration	53,591	Deductions from pay for meals, rations and quarters.
	Land and Air Services	11,339,785	Policing of provinces and municipalities, deductions from pay, race track supervision, etc.
	Marine Services	28,723	Deductions from pay for meals, rations, quarters.
		11,422,099	
Secretary of State	Dept. Administration	9,413	Fees for certificates and copies.
	Companies Division	566,954	Charters, returns from companies, etc.
	Trade Marks Division	302,164	Fees.
	Patent Division	1,793,685	Filing fees, assignments, final fees, searches, etc.
	Copyright and Indust. Designs Division	24,614	Copyrights, etc.
		2,696,830	
Trade and Commerce	Exhibitions generally	12,799	Trade fair gate receipts, etc.
	Standards Branch	1,886,408	Electricity and gas inspection services, weights, and measures inspection services.
	Dominion Bureau of Statistics	15,590	Sale of bulletins.
	Board of Grain Commissioners	2,595,622	Inspection and weighing fees.
	Canadian Government Elevators	2,091,981	Storage and other charges.
		6,602,400	
	Not allocated to votes	50,538	
		6,652,938	
Transport	Canal Services	334,573	Water power, land and wharf rentals, linesmen's fees, etc.
	Marine Service Steamers	2,598,158	Freight charges on cargoes, etc.
	Aids to Navigation	889,732	Wharf rental and wharfage fees, harbour dues, etc.
	Nautical Services	99,258	Ship registry fees, port warden fees, fines, etc.
	Pilotage Service	512,991	Pilotage fees.
	Steamship Inspection Service.	165,463	Steamship inspection fees, etc.
	Ship Channel Service—St. Lawrence and Saguenay Rivers	13,421	Rental of equipment.
	Radio Aids to Air and Marine Navigation	1,741,601	Rentals, air-ground radio service, commercial message tolls, etc.
	Radio Act and Regulations	859,806	Radio station licence fees, etc.
	Telegraph and Telephone Service	66,632	Earnings of telegraph and telephone lines.
	Meteorological Div.—Administration	157,405	Rentals, etc.

*REVENUES RECEIVED IN 1959-60 AND NOT CREDITED TO VOTES—*Concluded*

Department	Vote Title	Amount	Source
		$	
TRANSPORT—*Concluded*.....	Control of Civ. Aviation.....	40,968	Aircraft registration and pilots' certificates, fines.
	Airport and Other Ground Services—Operation and Maintenance.....	9,144,204	A/c landing fees, concessions, rentals, sales, etc.
		16,624,212	
	Not allocated to votes.....	518,339	
		17,142,551	
VETERANS AFFAIRS.....	Not allocated to votes.....	217,016	Water rates, sales, etc.
	TOTAL.....	232,864,075	
	Post Office.....	167,607,242	
	Excluding Post Office.....	65,256,833	(of which $2,868,603 is not "identifiable as pertaining to" specific votes.)

REVISION OF THE NUMBER AND NATURE OF VOTES

Current U.S. and U.K. practices serve as a useful background when viewing Canadian Vote pattern wherein (in 1951-62) we have 598 budgetary items of which 478 are annually voted and 120 are items authorized by continuing Statutes.

	Classes under which Items are Grouped	Number of Items	
	UNITED KINGDOM (based on 1960-61 Estimates)		
I	Central Government and Finance	29	
II	Commonwealth and Foreign	11	
III	Home Department, Law and Justice	33	
IV	Education and Broadcasting	22	
V	Health, Housing and Local Government	13	
VI	Trade, Labour and Supply	11	
VII	Common Services (Works, Stationery, etc.)	10	
VIII	Agriculture and Food	12	
IX	Transport, Power and Industrial Research	9	
	Pensions, National Insurance and National Assistance	8	
	Revenue Departments	3	
			161
	Air	12	
	Navy	16	
	Army	12	
	Defence	1	
			41
			202 Items
	UNITED STATES (based on 1961-62 Budget)		
	Legislative	114	
	Judiciary	16	
	Office of President	14	
	Funds Appropriated to President	23	
	Independent Offices	83	
	General Services	18	
	Housing	3	
	Agriculture	50	
	Commerce	39	
	Health, Education and Welfare	72	
	Interior	94	
	Justice	10	
	Labour	16	
	Post Office	2	
	State Department	27	
	Treasury	31	
	District of Columbia	1	
			613
	Defence (Military Services)	57	
	Defence (Civil Services)	17	
			74
			687 Items

The ambit of U.S. appropriation accounts, excluding those for public enterprise funds and intra-governmental funds, is markedly similar to that of Canadian Votes inasmuch as each covers the smallest self-contained and separately administered element of overall government program activity. U.K. practice differs from U.S. and Canadian in this respect by settling Vote pattern on a higher (and broader) plane—sometimes related to our Service or Branch level, sometimes a whole Departmental area. The following comparisons of Canadian and U.K. practice in related fields serve to illustrate this point.

CANADIAN	UNITED KINGDOM
SENATE (8 items)	HOUSE OF LORDS (3 items)
(STAT) 6 Items for Allowances, Indemnities, and Transportation expenses authorized by Senate and House of Commons Act	(STAT) 2 Items for Salaries and Pensions of Lords of Appeal in Ordinary
(V) Allowance to Speaker (V) General Administration	(V) All other costs of the House of Lords
HOUSE OF COMMONS (17 items)	HOUSE OF COMMONS (4 items)
(STAT) 8 Items for Allowances, Indemnities, etc., authorized by Senate and House of Commons Act	(STAT) 3 Items for Salaries of Speaker and Leader of the Opposition and Pension for ex-Speaker
(V) Allowance to Speaker (V) Allowance to Deputy Speaker (V) Allowance to Deputy Chairman of Committees (V) Expenses of Can. U.S. Inter-Parliamentary Group, etc. (V) Canada's share of expenses of Commonwealth Parl. Association (V) Grant to Can. NATO Parliamentary Association (V) General Administration—Estimates of the Clerk (V) Estimates of the Sergeant-at-Arms (V) Pension to M.P.'s sister (V) Library of Parliament	(V) All other costs of House of Commons, costed internally by: (1) Members (2) Clerk's Department (3) Speaker's Department (4) Sergeant-at-Arms
CIVIL SERVICE COMMISSION (1 item)	CIVIL SERVICE COMMISSION (1 item)
EXTERNAL AFFAIRS (39 items)	FOREIGN OFFICE (5 items)
(STAT) Minister's salary and three other items (V) 35 Administration and other Votes (mostly contributions)	
DEPARTMENT OF LABOUR	MINISTRY OF LABOUR AND NATIONAL SERVICE (1 item)
(STAT) Minister's salary and two other items	
(V) 12 items	

While this more summary Vote arrangement results in U.K. Votes extending over a broader area than do, in general, Canadian Votes, it does not follow that the U.K. Parliament is given any less information in the Estimates documents than is provided in Canada. In fact, the opposite is true. U.K. Votes are first subdivided by service or administrative units, then further subdivided by "objects" (as we know them) and, finally, details of the payments anticipated under each object (for salaries AND other expenses) are set out. In addition, a statement of total expenditure by and on behalf of the service concerned and its total receipts is provided.

Moreover, the question as to whether detailed control and effective control are directly related should probably be critically examined. Counteracting the fact that the Canadian Parliament, in granting its 478 separate Votes in 1961-62, has restricted any flow of moneys between these areas, it could be argued that the cushions inherent in each area's estimate results in a larger overall budget. Once appropriated, the components of the larger figure could become expenditure targets and therefore, presumably, larger total expenditures could result. There is, obviously, some point beyond which greater detail may frustrate, rather than serve, the control purposes of Parliament which are, first, to restrict financial support to those programs, and in those amounts which Parliament approves, and second, to confine total expenditures to the lowest level possible consistent with the first purpose.

From another point of view as well, United Kingdom practice may commend itself, namely, that Parliament would find fewer Votes more manageable in their consideration of Estimates. Related questions and comments would not have to await the calling of separate Resolutions and the time saved as a result of the calling of fewer Resolutions could be added to discussions of major policy and programs.

Apart from the broader considerations, it is apparent that over the years since 1937 when a functional pattern of Votes was first established in Canadian Estimates, differences have developed among the Votes of various Departments, e.g., in the Estimates of the Department of Public Works, almost all administrative and operating activity is provided for in a single Vote whereas the Estimates of the Department of Transport contain 16 Votes to provide for similar functions, the recent reorganization of the Science and Experimental Farms Services of the Department of Agriculture resulted in the amalgamation of 12 Votes (in 1959-60) to produce 3 Research Branch Votes (in 1960-61) but the Production and Marketing Branch of the same Department continues to finance its operations from 21 Votes (Main Estimates, 1961-62), etc. While general analysis of the United Kingdom practice with respect to Vote pattern may appear to provide a reasonable model for Canadian practice, it is considered that more basic study is required before firm conclusions are arrived at.

To develop a consistent and practicable pattern of Votes in Canada will require a comprehensive review of all existing program areas of the federal government and detailed study of the organizations and establishments which carry out those programs. Treasury Board, the Civil Service Commission, the Comptroller of the Treasury and each Department will have to collaborate to develop budget breakdowns suitable for both Parliamentary and operating purposes. Advice from the Public Accounts Committee concerning this or other attractive courses of action in the field of Vote pattern would be most helpful in determining the direction of future studies.

MINUTES OF PROCEEDINGS

TUESDAY, April 25, 1961.
(10)

The Standing Committee on Public Accounts met at 9.35 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Bruchési, Danforth, Deschatelets, Drysdale, Fisher, Hales, Macnaughton, McGee, McGrath, McMillan, Martel, Morton, Noble, Pigeon, Pratt, Spencer, Stefanson, Stewart, Tucker and Villeneuve.—22

In attendance: Mr. A. M. Henderson, Auditor General of Canada; *from the Canada Council:* Dr. Claude Bissel, Chairman, Dr. A. W. Trueman, Director; Mr. E. Bussière, Associate Director; Mr. D. Fullerton, Treasurer; Mr. P. M. Dwyer, Supervisor of Art Programme; and Miss L. Breen, Secretary.

Dr. Bissell made a short statement elaborating on the evidence given by Dr. Trueman at a meeting of the Committee held on April 18, 1961.

Messrs. Bissell, Trueman and Fullerton were further questioned.

Dr. Trueman produced for reproduction as an appendix to the record of this day's proceedings, a table entitled "Special Report on Scholarships, Fellowships and other Grants to Individuals tenable in 1960-61." (*See Appendix "B"*)

Messrs. Bissell, Trueman, Bussière and Dwyer were further questioned concerning the operations and views of the Canada Council; criteria for selection of students; fellowships, scholarships, awards, etc.; and the possible allocation of capital funds for other prime purposes.

The Chairman thanked Doctors Bissell and Trueman and their associates for their assistance to the Committee.

At 11.30 a.m. the Committee adjourned to meet again at 9.30 a.m., Wednesday, April 26, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

TUESDAY, April 25, 1961.
9.30 a.m.

The CHAIRMAN: Gentlemen, let us start our meeting.

After the last meeting I wrote to Dr. Bissell and asked if he possibly could arrange his schedule in order to come again this morning. Dr. Bissell is here, and we certainly want to thank him.

I believe Dr. Bissell would like to make a short opening statement.

Dr. CLAUDE BISSELL (*Chairman, Canada Council*): Thank you, Mr. Chairman. I would like to make just a few comments on the statement that Dr. Trueman made at the last meeting with respect to the problems facing the Canada Council in terms of its financial resources.

You will recall that Dr. Trueman pointed out three good reasons why the Canada Council has delayed taking any specific action about replenishing its funds. He pointed out that, after all, the Canada Council had been given a sum which, to the public, seemed to be very large, and that it was necessary for a decent interval to elapse before the Canada Council began to emphasize the need for more funds. Then, he pointed out that it also was necessary for the Canada Council to establish confidence in its program and in its investment policy. Finally, and most important, he mentioned that the Canada Council then could present a demonstrated case for additional funds.

I think all these reasons are valid. This statement by Dr. Trueman is set out at pages 184 and 185 of the report of the last meeting.

At this point I would like to add just one or two words. During the ensuing discussions, the suggestion was made at one time that perhaps the Canada Council should not have approached the government until the potentialities of private sources had been explored. I would suggest that the Canada Council is very much like the universities in their financial structure, in that it must be, by the very nature of things, primarily dependent upon government; they go to private sources to secure those funds which enable them to have that margin of flexibility which is so essential for a first class program.

I think it would have been unfortunate on our part if we had not presented our case to the government, when we did last fall, because I would like to emphasize again that there is a real question of national urgency here. I know that there can be differences of opinion as to the centrality or non-centrality of the arts, but there can be no difference of opinion about the need for strengthening our universities. In one respect the Canada Council can be looked upon as a magnificent organization for providing the teachers we so desperately need for our universities. Members of this committee may have noticed the chart which is set forth very clearly in the *Financial Post* of April 22nd, which indicates the tremendous gap which must be bridged before the universities can be in a position to meet the urgent needs that are developing. Unless we have these teachers we are faced with two unpleasant possibilities; either our universities close the doors to thousands of students, or they admit them in crowded classes under inadequately trained teachers.

I want to emphasize the point that there is a desperate national emergency here, and the Canada Council is one of the major means whereby universities in this country can be strengthened.

The CHAIRMAN: Thank you, Dr. Bissell.

Have you a question, Mr. Fisher?

Mr. FISHER: I would like to ask some questions relating to investment and the funds that are available. I understand that Harvard university which, I believe has the largest endownment fund of any university in the world, has recently transferred the management of its investments into the hands of an investment ad trust company, giving them entire control of making investments on behalf of the university, on the terms of a fee negotiated with the investment company. One of the university's prime reasons for doing that was to get higher earnings, and I should like to ask the opinion of people on your board, or the opinion of your investment men, on this step. It seems that your return is approximately a little over five per cent; on the bond debenture side it seems to be just over three per cent, and a bit higher on the common stocks.

I should like to know why you have not considered the kind of alternative which Harvard has introduced in order to get into growth funds. This is a very rough figure, but I have seen that one of the major growth funds in Canada made approximately 14 per cent and another made as high as 22 per cent last year. I am not suggesting that you take in the value of the increased increment from stock giving a return as high as that. It is, of course, probably very risky, but it seems to me that if you could increase the return from your investments by only two or three per cent it would not be necessary for you to go to the government, and I am wondering if your approach to the purchase of stocks may not be too conservative.

I should like to have some opinions and answers on the general problem, but I would not like to leave the impression that I know a great deal about these matters, or that I am making any recommendation. I have been looking at the Ford foundation report and the Carnegie foundation report outlining the yields on some of their investments, and it seems to me that here, in this field, there might be a practical possibility for more income.

Dr. BISSELL: I wonder if I may ask the director to reply to that. He has the statistics before him.

The CHAIRMAN: Certainly.

Dr. A. W. TRUEMAN (*Director, Canada Council*): The figures as I have them here, actually show that on the endownment fund the yield on cost is 5.2 per cent, for 1958-59, and 5.5 per cent for the year ending March 31, 1960. Now, Mr. Fisher has asked why we have not given consideration to this way of handling our investments. That, Mr. Chairman, is a question which I think would have to be answered by the investment committee under the chairmanship of Mr. Graham Towers. I presume you know the other members of that committee. I would hesitate to get bogged down in a discussion on a financial matter like that. Frankly, it is one about which I do not know a great deal, but we can certainly go to the investment committee and say this question has been raised and I have no doubt they will have answers for it.

Mr. FISHER: I have one more question. It is true that, in so far as the endownment fund is concerned, you have free play in terms of your investment power?

Dr. TRUEMAN: That is right.

Mr. FISHER: And you have set up your own rules on the advice of the investment committee?

Dr. TRUEMAN: That is right. In reference to common stock—I think Mr. Fullerton can correct me if I am wrong—I think the rules they set up allowed us to invest as high as 20 per cent in equities.

Mr. D. FULLERTON (*Treasurer, Canada Council*): That was our program. It was not a maximum.

Dr. TRUEMAN: I do not think they have actually ever reached 20 per cent.

Mr. FULLERTON: No.

Mr. FISHER: This is what I am concerned about. It seems that if these investment funds and growth funds are solid things, and they seem to be in view of the many millions of dollars pouring into them, and with their return so much higher, I wonder why we could not have more of that growth return coming in as it would obviate some of the beefs to the government.

Dr. TRUEMAN: Is it proper for me to ask Mr. Fullerton to comment on that?

The CHAIRMAN: Yes.

Mr. FULLERTON: I should like to point out to Mr. Fisher that stocks pay us three per cent and bonds pay us six per cent so, if you buy stocks it is, in effect, sacrificing current income for the expectation of greater income at some future time. The problem is balancing off current requirements, possibly cutting them down and sacrificing, in effect, scholarships now for, perhaps, a greater number of scholarships later.

Mr. FISHER: I am wondering would this be possible, to take your fund and open it for bids from some of these growth funds to see would they guarantee you, say, seven per cent plus an administration cost, and then give them a higher administration fee if it goes above that level? Is that impractical?

Dr. TRUEMAN: It is a question that certainly can be put to our investment committee but I may point out one thing now to Mr. Fisher, that the profits we have made on the endownment fund have not been spent. They have been added to the corpus of the fund. Harvard, I believe, has spent some of the profits it makes on those funds but we have regarded them as being something—I do not quite know what the legal position is—that should be part of the corpus of the fund and not for our expenditure.

If we had wanted to spend the profits—I think they are listed in the book at something over a million dollars—if we had wanted to spend that, we would presumably have had $350,000 more income each year. That is one aspect of the matter. Again it is a decision based on a long range view of the situation. I would also think that if there is any element of boldness or of conservatism here, you would expect perhaps a body like this to err on the conservative side rather than on the dashing side. Maybe, according to your point of view, this consideration does not come in as you are talking about this one fund.

Mr. FISHER: If you have anomalies such as Progressive Conservatives hyphenated, you have to expect that.

The CHAIRMAN: What is your average rate of return?

Mr. FULLERTON: The average on our capital is 5.8 per cent. If you added profits, that would bring it up to almost 7 per cent per annum.

Mr. NOBLE: Mr. Chairman, may I ask a question? Would this investment committee not use professional financial advisers?

The CHAIRMAN: Do you know who are on the investment committee? There is Graham Towers and Arnold Hart, head of the Bank of Montreal.

Mr. NOBLE: How can you improve on this? If we have these professional men advising I think we have the best brains in the country.

Mr. FISHER: In relation to this comment I would just like to say that it seems to me the most startling thing that happened in the financial world in the last decade has been the growth of financial funds and the unusually high yield in relation to what we have tended to expect from trust companies and firms like that. As far as I know, there is no one on this board who is involved with investment funds. Mr. Bronfman, Mr. Taylor and Mr. Towers are all big operators but I do not think they are in this field, and this just seems to

me to be a possibility. The point about the Carnegie foundation and the Ford foundation is that they seem to be out deliberately to diversify and extend their holdings and common stocks, which reflects the same kind of trend. I just thought it is worth while hearing from you about the possibilities.

Mr. McGEE: Mr. Chairman, before getting to the remarks I wanted to make, I just want to say that those are pretty queer sounds to be coming from a socialist. Perhaps we will let that pass.

Mr. FISHER: Can I let that go, Mr. Chairman? As a good Catholic, I would like to quote St. Thomas Aquinas to Mr. McGee.

Mr. DRYSDALE: Touché.

Mr. McGEE: Instead of quoting him to me, he should quote him to my banker.

I would like to direct some questions and comments to the chairman concerning his dual role as chairman of the Canada Council and president of the largest and presumably hungriest university in Canada. It relates to comments that had been made concerning probing a private sector for contributions. I am wondering how much difficulty the president and chairman might encounter if a source of funds had appeared to be in a given mood, whether the university of Toronto or the Canada Council would get a first crack at it or what the proportion might be.

I would like to make a further comment concerning the requirements of the universities. The chairman expressed, a few minutes ago, that it was the demand for teachers in the future that was the prime motive behind the request for additional funds. Some of us feel that the pattern of expenditure by the university in terms of broad areas is what I call bricks versus brains; in other words the emphasis on acquiring better teachers and paying them better before rather mammoth building programs are undertaken. It seems to me, in the requirements of the university, the teaching end of the thing would have first priority and that building programs and student ratio might take second and third place in that list of priority. I would appreciate very much hearing some comment concerning these two questions.

Dr. BISSELL: As to the first question, Mr. Chairman, I do not think there is any conflict here. After all, in the Canada Council there are now four heads of universities, so that my position is not peculiar. I think it is inevitable that the Canada Council will always draw upon academic membership.

As far as an appeal to private sources is concerned, the Canada Council is concerned primarily with an appeal for scholarships and fellowships. The universities in recent years have been more concerned, as you pointed out, with appeals for bricks and mortar, which seem to elicit from private corporations a more enthusiastic response. But I do not envisage any conflict because of the interests of the Canada Council or the interests of the universities. If a corporation came to me and said they wanted to give us a fellowship, I would suggest that one of the best ways to do it would be to have that fellowship channeled through the Canada Council, because the Canada Council serves as intermediary, serving the needs of all universities.

As to the second point, the priority as between bricks and mortar on the one hand and teachers on the other, I do not think you can erect these priorities in any categorical sense. It is true that unless you have teachers you cannot have a university; it is also true that unless you have a laboratory you cannot prosecute the study of the sciences. What we have tried to do—I think this is true of most universities—is to maintain an equilibrium between buildings on the one side and teachers and research scholars on the other. One of the reasons why I think the Canada Council is so terribly important is that it is the major means—I am speaking here of humanities and social sciences—for helping us to maintain this balance between buildings and men.

The CHAIRMAN: Mr. Fullerton, I believe you wanted to say something.

Dr. TRUEMAN: Just a note in passing. Mr. Graham Towers, who is chairman of our investment committee, is himself the chairman of the Canadian Investment Fund, which is the second largest fund of its kind in Canada. So there is something in that.

Mr. MCMILLAN: This is essentially a trust fund, and trust funds or trust companies have not made a lot of money. It is true that investment companies that have put forth risk capital have made money, but to put in too much money is unnecessarily risking capital.

Dr. BISSELL: That would be so. This is true also of any risk investment policy.

The CHAIRMAN: Do you think it would be possible, Dr. Bissell, to have one of your investment men here tomorrow—Mr. Arnold Hart or Mr. Graham Towers?

Dr. BISSELL: It would be pretty short notice.

Dr. TRUEMAN: It would be short notice. They are very busy men. Whether we might catch them or not at this time I do not know.

The CHAIRMAN: Let us see what happens.

At this stage I would like to welcome back Mr. Norman Spencer who has been ill for some time and I would like to thank him for the very hard work he put in as the chairman of the subcommittee on the form and contents of public accounts.

Mr. PIGEON: At the last meeting I raised before the committee a few questions about scholarships in regard to Ph.D. and general research. I would appreciate very much to have the answers as soon as possible.

Dr. BISSELL: The information is available here to the members of this committee and we would be very happy to circulate it now.

Mr. PIGEON: Thank you very much.

The CHAIRMAN: Would you like this put in today's proceedings?

Mr. PIGEON: Yes.

(See appendix.)

Dr. BISSELL: Just before Dr. Trueman explains the significance of these figures, I might just point out that Dr. Trueman raised this matter with me and we have decided that this information should be made available. I think Dr. Trueman was simply trying to express some of the genuine thoughts which existed in the Canada Council and I assure you that after very careful discussion this information is presented with the entire backing of the Canada Council. We are very happy to make this information available to you.

Mr. PIGEON: Thank you very much. We appreciate that.

Dr. TRUEMAN: The question which Mr. Pigeon put was:

> I would like to have for every Canadian university the number of scholarships, and the total amounts which were given last year for the master degrees, Ph.D's, and research.

This is the information that is now before you. Perhaps I can explain the document a little so that it will be clear. On the first page we have mention of three categories—categories 1, 2 and 5. Category 1, as the name suggests, is for students who have obtained a first degree and are proceeding to a master's degree. Category 2 is for those who have a master's degree or equivalent and are proceeding towards a doctorate. Category 5 is a special categary which we devised to see if we could give some special assistance to school teachers. A great proportion of the people in category 5, that is to say, school teachers, are people who want to get their M.A., or have their M.A. and want to go a little further with post-doctorate work.

We have listed in the column at the left the names of the universities involved. Then we give under each of the categories the numbers of scholarships which were granted. We had to have some basis for determining these figures. We have given the university at which the candidate's last degree was taken. A candidate who got his B.A. degree at the University of Montreal and goes on for his M.A., is listed as from the University of Montreal. I presume that if he went on to the University of Toronto and registered for the master's course and got a master's degree at Toronto and then, later on, applied to us for a Ph.D. grant, his last degree would be Toronto. This raises a question as to whether he should be listed as a Toronto man or a Montreal man, from which these degrees were taken. There are these little difficulties.

You see, then, the total of the sum of money awarded.

There is a group at the bottom of the page in which each item has an asterisk in front. These are people who are given awards—five in category 2 and two in category 5—and who did not hold Canadian degrees but who graduated from abroad. We could not list them under a Canadian university, but they were Canadian. All of them were Canadians.

On the second page we show the other group. This does not contain people who have been seeking for advanced degrees, but who are conducting research. I think Mr. Pigeon asked for that. On this chart we used as the basis of selection the university at which the individual is employed.

Category 3A in the year under review is for members of university faculties who were looking no longer for an advanced degree, but who have a research project of some kind on which they wish to engage, either for a year or part of a year, or for the summer. The names of universities given there represent the universities where candidates are earning their living.

Category 7 is for short-term grants. We have found there is a great demand in the academic fraternity for grants that cover only a short period. It occurs in the case of a man who is busy all through the year and who has perhaps three months or nearly four months in the summer when he is not committed to lecturing at the university or working in the summer-school program. He uses this time for the prosecution of some particular type of study or investigation. These grants amount to a maximum of $1,200 and they range from $300 or $400 up to $1,200.

Category 10 is next. You will see that not very many people are listed in this category. It is a kind of basket category which we devised at the end of our program simply to take care of special and exceptional cases which could not be easily fitted into any of the other nine categories listed in our brochure. It covers people who, for some reason or other, could not be put in one of these other categories. It may have been that some special opportunity suddenly presented itself after the date for application for another category had gone by. We have tried to tidy up the whole list of candidates by having this final basket class to be used in exceptional circumstances.

There you have the whole picture. At the bottom of the page there is a category marked "Other", with an asterisk. These were persons not employed by the university. They may be writers or people of that sort.

On the last page, there is some more information. This was not asked for, but we think it may be of interest to the committee. We have listed these candidates again, this time showing the universities at which they will hold their scholarships. This applies, therefore, only to categories 1 and 2. It does not apply to the other three. This shows where they will go. In their applications they have stated whether they wish to do their M.A. or Ph.D., and to which university they wish to go to study, and particularly the man under whom they wish to study. Therefore we have here the universities which are the destination, so to speak, of these applicants.

Mr. DRYSDALE: In regard to a question which was raised earlier on another point, I wonder if consideration could be given in next year's report, when listing the various scholarship holders, to putting after the names the degrees that they have, and in brackets the university which they attended. I think there is considerable value there to people who are pursuing the record especially if these were the subjects in which they were interested. It gives an indication as to where they got their background. Some universities are noted for certain courses, perhaps in English, or for engineering courses. If you have the degrees and the university attended you get a better idea as to the scope of the individual scholarship.

I would also suggest it might be of advantage to people who were planning on applying for Canada Council scholarships if with the names and addresses as you have them at present, you listed the university—for example, McGill. Then, if somebody were thinking of doing an M.A. at McGill and if they saw that somebody had done it with a scholarship, it would be possible to write and make direct inquiries. That would be of considerable value in supplementing this information which you have provided for Mr. Pigeon.

Dr. TRUEMAN: You mean the list we publish in our annual report starting at page 89?

Mr. DRYSDALE: Yes.

Dr. TRUEMAN: At present there we have given the names of the various categories. In category 2 we give pre-doctor's degree fellowship holders. Our first entry reads: "Allan, John R., 15 Emerson Street, Hamilton, Ontario." You propose we should list it in this way: "Allan, John R., B.A. (McMaster University), 15 Emerson Street, Hamilton, Ontario," and after that the university at which he intended to hold the scholarship?

Mr. DRYSDALE: Yes, if it is a university.

Dr. TRUEMAN: It may be that the officials would frown on having to do this, as it would mean some more cards and some more information; but I think it is possible to do it.

Mr. DRYSDALE: I think that would provide a more accurate record of the type of information that Mr. Pigeon has been asking for.

The CHAIRMAN: For the purposes of this special report—

Mr. PIGEON: I would like to ask a question. Last year did Father Levesque not submit a brief to the Canada Council, or a memorandum, concerning your present scholarship system?

Dr. TRUEMAN: That is a private document within the council, simply raising some questions for discussion in the Canada Council. It is not a public document. Members from time to time make statements about things which ought to be considered. This was a document of that kind, drawing our attention to certain things. I might say that at that time the council established a scholarship committee which held a meeting and went into these things.

Some questions regarding French Canadian participation in the scheme were brought up. Mr. Bussiere, the associate director, went to see the heads of departments and the deans of faculties and rectors of Laval University and Montreal to discuss with them the whole scholarship scheme and the question of applications, and so on. This was just routine, following up our plans to try to tidy up and improve it.

Mr. PIGEON: Is it possible for us to have a copy of this document?

The CHAIRMAN: If I may assist you, Dr. Trueman, that really is an internal matter. It certainly does not come within the scope of the Committee. I feel quite sure that it is an inter-departmental matter of correspondence.

Mr. DESCHATELETS: It is too bad, because it would help Mr. Pigeon very much.

The CHAIRMAN: I would like to ask Dr. Bissel to refer to page 13 of the report "the scholarship and fellowship program", where I am going to quote the first sentence of paragraph 35:

> The need for scholarships and fellowships continues to grow.

I think it would be very useful if you would enlarge on that, Dr. Bissell.

Dr. BISSELL: I would be very happy to. I would make one comment on the list which is now before you. Category I is perhaps the best indication of the spread of scholarships among the universities. You will notice that Laval secured 12 scholarships, and Toronto secured 17. These are for undergraduates about to receive their first degree and proceed into the graduate schools. Therefore all these candidates in category I are students coming from the particular university which is mentioned opposite their names.

I would suggest, from that, that it is not by any deliberate policy on our part, but simply by working out of the process, that there is very good equivalence here between scholarships awarded to the undergraduate population of the universities.

If you will look at category II, there would appear to be a larger distinction, since Toronto, which has been referred to as a greedy university—I take it greedy for knowledge—has 37 pre-doctoral candidates, and this seems to be a much larger proportion. Yet I would point out here that this number of doctoral candidates come from a great many universities. They are not necessarily graduates of Toronto. These are graduates from all the universities across Canada; and that is a point of importance.

It is also important to emphasize those two categories, because they are the all-important categories in terms of the training of college teachers.

In the report to which the chairman referred, statistics are given whereby it is predicted that by 1971 there will be 229,000 students eligible for university entrance and eager to take advantage of the university training.

In 1958-59 there were approximately 6,000 full-time teachers in the universities, with a ratio of 14.3 to one. Now, if we are to maintain that same ratio, we must in effect acquire before 1970 from 7,000 to 8,000 additional teachers.

The Canada Council is the means whereby we try heroically to meet that crisis. The Canada Council at the present time can grant only one in four applications.

Dr. TRUEMAN: Something like that.

Dr. BISSELL: Moreover, we give renewals only once, and then only rarely; so we are not able to support a graduate student throughout the totality of his graduate training.

As pointed out last time, the doctorate is essentially the basic requirement for university teaching. Therefore one of the main tasks of the Canada Council is to meet this tremendous crisis which is facing us. I would like to emphasize that again, sir.

Mr. PIGEON: I would like to ask another question: as you know, the Rhodes system gives scholarships. Have you some system whereby you give scholarships such as the Rhodes system?

Dr. BISSELL: No, sir. The Rhodes system uses, of course, a highly specialized technique. It requires not only intellectual distinction, but other qualifications on lines other than an academic nature. Our scholarships are given entirely in terms of academic achievement. That is the basic distinction.

Mr. MCMILLAN: Do you provide for training for the doctorate degree in the sciences?

Dr. BISSELL: No, we are restricted to the humanities and social sciences.

Mr. MCMILLAN: In connection with category I particularly, how are the candidates selected? Is it done on their academic standing?

Dr. BISSELL: Yes, basically on academic standing; but in addition, of course, each candidate must submit a list of references, and each candidate must indicate the kind of work upon which he is going to embark.

Dr. TRUEMAN: I do not think there is anything more to add to that. Selection, remember, as you might be interested to know, is made primarily by a special committee.

We work in connection with two organizations, the Humanities Research Council, and the Social Science Research Council of Canada. They form special committees to review our applications.

The applications come to the council in the first instance, where we review them and process certain applications and duplicate letters of reference and academic records; and when these dossiers are complete, they are sent over—say—to the humanities research council.

That council selects a committee of six or seven people and deals with these applications.

There were 508 applications in Category 2, for example, and we split them into the humanities on one side and the social sciences on the other; that was just about even. There were 250 applications in the humanities. These 250 applications went out to six different members, and they sat down and went through the 250 files. Someone estimated the other day—one of the judges—that if you required 30 minutes of time to assay each candidate, then 125 hours of work was necessary.

After the committee has gathered together in Ottawa, an intense study is made with a view to selection, and they go ahead and out of the 250 select 50 or 60, or something like that.

Mr. DRYSDALE: Just what sort of criteria do you use? What is it that you are looking for?

Dr. TRUEMAN: In a general way people who had from their past record demonstrated their capacity for post-graduate work in the field they are going into, and the kind of references they have to support their application. I do not think I could make it any finer than that.

Mr. DRYSDALE: Well then, if it is purely an arithmetical computation, it would be those who had the higher marks. Is that a sort of first class classification?

Dr. TRUEMAN: When they meet their practice, as I understand it—and I have been at several of their meetings—is to say to each man in turn: to whom did you give first rank? We find it is very interesting, even from representatives from all across the country, to see the considerable agreement there is among them. So, nearly one-half of the required number of scholarships can almost be determined right off. They will pick out the people who are right at the top.

Mr. DRYSDALE: But there is no suggestion of uniform criteria sent to each of them. As I understand it, it is done by agreement?

Dr. TRUEMAN: That is right.

Mr. DRYSDALE: As I understand it they are examining these files individually.

Dr. TRUEMAN: That is right.

Mr. DRYSDALE: And therefore they make their own assessment.

Dr. TRUEMAN: That is right.

Mr. DRYSDALE: The thing which has always concerned me and which is something we cannot get away from is the difficulty of assessing. To start with the individual professors, on their own, mark a standard, then you compound the difficulty by sending it out to six individual persons who apparently

apply their own individual criteria, and in turn meet as a group with, I suggest, some relatively vague criteria. I do not mean that in a critical sense. Probably what does come out is the best thing—I do not know. I am wondering, however, if there is any way by which an outsider like myself could assess what are the criteria and the weight they give to the various factors.

Dr. BISSELL: I think it would be true of most of our scholarship winners that they have a standing which is first-class and which is recognized all across Canada. It would apply to British Columbia, Laval and Dalhousie, and I do not think there are any basic distinctions, provided that the student has a first-class standing. This is a recognized criterion which is the basic rock on which all decisions are made.

Mr. DRYSDALE: In some universities it is relatively easy to get a first-class standing and in other universities the policy, rightly or wrongly, perhaps is to have very few persons in the first-class category. First of all, it is on a purely arithmetic computation, and if so how do you allow for this possible difference if it does exist? Do you consider there is a difference.

Dr. BISSELL: I do not think there is this degree of differentiation between universities in Canada. I have been a member of two universities in Canada.

Mr. DRYSDALE: To be precise, I do not say universities as a whole, but rather on certain courses, because they are subject to the idiosyncrasies of the individual professor. Some would feel they must mark very strictly; it does not matter how brilliant the student is, they are very parsimonious with first-class awards. Others may feel that education is of general value and let us give a few first-class standings. How do you compensate for this?

Dr. BISSELL: I think we must allow for an idiosyncrasy factor, especially at the academic level; but I do not know how to overcome it.

Mr. MORTON: I have a question concerning the matter of need. Perhaps this does not directly come under the Canada council, but it may be something in which Dr. Bissell, because of his dual capacity, might be able to assist. You know the number of scholarships available and the number of applicants, which apparently is about four to one. Do you have any knowledge of those who might be qualified to become part of a teaching staff, but are barred or prevented from this because of lack of financial assistance to further their education? If so, is there a large number of such applicants?

Dr. BISSELL: I think such studies have been conducted at the undergraduate level, particularly the level of students about to enter university; but I know of none at the graduate level. We, of course, are concerned only with graduate students. I would say there naturally would be a good many students who fail to go on to graduate study because of economic stringency. Once a person goes to graduate work he abandons most of his financial props and is on his own. I think the graduate student requires more help than the undergraduate student because of the abandonment of these props. I think it is true that those who apply and fail to receive the grant in a good many instances do not make the initial start because of the economic storms they are facing.

Mr. MORTON: I was wondering, because of his loss of potential teaching staff, whether or not it would be important at this time for someone to undertake a survey of this; or is the situation that serious?

Dr. BISSELL: I think it is important that such a survey should be conducted. A good many fellowships now are given only to students who say they intend to go into teaching. We mentioned fellowships which are perhaps the most important ones in the United States and Canada. We simply ask our applicants what they propose to do. We do not say to them that they must go into teaching, but we are hopeful they will.

Mr. MORTON: What would be the best group to undertake the survey? Would it be a combined group from the universities?

Dr. BISSELL: I would think the Canadian Universities Foundation would be the best group to undertake that kind of an analysis.

Mr. MARTEL: My question is along the lines of Mr. Morton's. As I understand it right now we are studying the question of making scholarship awards to future teachers.

Dr. BISSELL: We are hopeful.

Mr. MARTEL: Is the final decision in respect of post-graduate scholarships made on the basis of merit or qualifications of the applicant only? Do you take into consideration the financial need of a particular applicant?

Dr. BISSELL: I will ask the director to answer that.

Dr. TRUEMAN: As I understand the question it is, do we, in awarding these scholarships, make some attempt to find out the financial position of the candidate?

Mr. MARTEL: Yes.

Dr. TRUEMAN: No, we do not.

Mr. MARTEL: Is there no such question asked on the application?

Dr. TRUEMAN: No. The only question we ask is: are you in receipt of any other award of this kind? We put you on your honour to inform us if, after you have received our scholarship, you then receive some other award. The council holds itself free to adjust its award in accordance with that fact. The only other thing we ask is for a statement about the cost of the program of studies which he wishes to undertake— maintenance, travel if any, dues, fees, and of course, how much of this he is asking the council to supply. We know of no way, in handling 2,000 people across Canada, to set up any valid machinery to determine the financial position of these persons.

Mr. MARTEL: In respect of the letters of reference you mentioned a while ago, would it be possible for those persons giving reference to give information about the financial position?

Dr. TRUEMAN: It is perfectly possible for them to do so. I think this no doubt happens in some letters of reference. Someone might say he happens to know that this man needs financial assistance. This can happen, but there is no formal consideration on our part.

Mr. MARTEL: Do you think a letter of recommendation from a Conservative member would be of any help?

Dr. TRUEMAN: I beg your pardon?

Mr. DESCHATELETS: Mr. Chairman, I would like to know if we have many requests for scholarships from female candidates?

Are there any special allocations in respect of female categories?

Dr. TRUEMAN: No; they apply in all categories.

Mr. DESCHATELETS: I presume they are on the same level as the others?

Dr. TRUEMAN: That is right. The amount of money they receive are the same as the amounts given to the men. There is neither discrimination against, nor bias in favour of female aspirants.

The CHAIRMAN: Have you a question, Mr. Fisher?

Mr. FISHER: The question of need has been brought up. Although I know you cannot have a means test, would it be that difficult to ask that an estimate of the need be given? That is one question. I think a consequence of Mr. Drysdale's line of questioning is the feasibility, especially in connection with the pre-doctoral fellowships and scholarship, of having an examination. I know if I was one of 500 candidates and knew there was going to be only 125

awards, I would feel happier if I were in a competitive examination. Also, in lieu of the time you have indicated that a committee takes, would there be that much more time involved in a competitive examination?

Mr. EUGENE BUSSIERE (*Associate Director, Canada Council*): May I answer that question?

We have taken some steps in that direction, Mr. Fisher, in the sense that we now have requested the interested faculties to list, by order of priority, the applicants of their own university, and to send this as a guidance for the final selection. In asking them to help out in this way, we have indicated that they are in a better position than we are to evaluate their needs. For instance, if you have two equally well qualified candidates who apply, you, being the judge, are able to place a priority on the one who needs more financial assistance. We have asked them to give priority to those persons who are in need, and this is done indirectly through this list of priorities which we receive.

Dr. BISSELL: And, this will start next year?

Mr. BUSSIERE: It has been started partially this year.

Mr. FISHER: What about the possibility of examinations?

Dr. TRUEMAN: I shudder at the thought of it. I presume you are thinking of categories I and II, perhaps?

Mr. FISHER: Yes. I think this would solve the problem. Despite what Dr. Bissell says, I think there is an immense variation in quality across the country. I have been associated with a graduate school for several years. One can see immense variations, and I think the examination technique would level that out. It seems to me that professors are notoriously soft-hearted when it comes to giving recommendations, and they are also notorious jockeys.

Mr. DRYSDALE: Explain.

Mr. FISHER: Dr. Bissell made a statement last week in Montreal, wherein he said:

> The Canada Council ran the gamut of "cults, petty jealousies and prejudice" by relying on the opinions of such groups as the Humanities Research Council and the Canada Foundation.

I say, hear, hear, and all the more reason for using an examination technique.

Dr. BISSELL: If I may say so, I think that perhaps there is a good deal of merit in what the hon. member says. The American graduate schools do have what amounts to a graduate entrance examination for entrants. However, it is difficult to have an examination system which is applicable to post-M.A. students who will be sitting towards a doctorate shortly in a diversity of subjects. It would be difficult to devise an examination to test anything except native sagacity.

Dr. TRUEMAN: If there is a difficulty in making the examinations which are constantly set, how can you get around the difficulty by saying let us have more examinations?

Mr. FISHER: Well, at least you will be attempting to set a national standard. I am saying that you should judge your applicant on what he reveals on his examination, as you are the awarding authority.

Dr. TRUEMAN: Who would set these examinations?

Mr. FISHER: The Canada Council.

Dr. TRUEMAN: We are not competent to do that. We would have to go to this academic group—Dr. Bissell and Mr. McIntosh, and say to them: Please recommend some of these dubious characters to set a national examination.

Mr. FISHER: My reference was not to the dubious character of the examinations set for universities, but the dubious character of some of the recommendations and references. I think we are all aware of the kind of gamesmanship exhibited in the postgraduate field. You try to find a good opening, and then you take it from there. You go to a professor, and he works out with you the best kind of line to pitch, in order to make it sound good. I do not want to cast a slur, but this tends to be the procedure.

Mr. MORTON: Who would mark the examination?

Mr. FISHER: The Canada Council. You have said that you have these six people on the committee reading all these examinations, which consist of one-half hour each. Obviously, there is a diminishing return, and you cannot go on much longer if you do not get more funds.

Dr. TRUEMAN: I must admit that there is a problem growing, but I am doubtful whether this is the right solution for it.

Dr. BISSELL: You could have each candidate write, not an examination, but an essay which could be weighted with other factors.

Dr. TRUEMAN: We have asked the M.A. people to make some further statement of their own, apart from any recommendation, of what their course studies is—what their ambitions are, and so on, in order to have a more personal statement from the candidate. This is a long way from an examination, but it begins to approach the matter to which Dr. Bissell has referred.

Mr. MCGEE: Mr. Chairman, I would like to come back to this question of scholarships and so forth. I have had the happy advantage of having visited 16 Canadian universities in the last year or so—but not in any sense making an extensive tour; however, one encounters many members of the student body and faculty, as well as others. For instance, you come up with a situation where the faculty is undermanned. There are many crying needs in the area of the university and yet here is a marvelous new building, half of which is devoted to classrooms which have at the back a blackboard, and at the front, a stove, refrigerator and cupboards where presumably certain types of things are taught, and the final examination room is a formal dining room table, with a candelabrum on it. In effect, a great amount of money is represented on the same campus where the need is expressed for scholarships and teachers' salaries. We heard Dr. Bissell's statement earlier concerning the urgency of training more teachers. I am wondering how much of this there should be, prior to re-examining the priorities which I mentioned earlier. How much money is left in the capital grant for dormitories, for instance? And, if there is a substantial sum still left in that fund, has the council considered discontinuing that program of capital grants and investment and using the money to produce a yield for the scholarship fund which is so desperately required. Was this discussed? If so, what was the decision, and why?

The CHAIRMAN: May I interject? If you refer to page 7 of your report, you will see the same comment: For educational reasons, it is a proper use of the fund to give assistance in the construction of halls of residence. I believe that was a decision you came to after you appeared before this committee in 1959. We had questioned the sensibility—if I could put it that way—of while needing money for scholarships, of putting it in bricks and mortar. Is that not your basic question, Mr. McGee?

Mr. MCGEE: I am sorry. Someone interjected, and I did not hear the last part of your remark.

The CHAIRMAN: The basic question is this: If there is such dire necessity for the creation of more scholarships in terms of money, why take so much money and put it into bricks and mortar? That question was raised in 1959, and

you would seem to have answered it on page 7 of the report, in which you say this question was submitted to the Canada Council, and they decided it was a proper use of funds to put a substantial amount into bricks and mortar.

Mr. McGEE: Well, I am opening the question again. Although I agree with this need—and I hope no one misunderstands me—I think this is the first priority and that the fund should have that degree of priority, in terms of call on the fund. Has the Canada Council given consideration to recommending to the government that the frame of reference be altered to produce the result I have in mind?

Dr. BISSELL: Perhaps I could make one comment with respect to the general problem that Mr. McGee has mentioned which, I think, is a very real problem—the degree of priority as between bricks and mortar and teachers. I believe it is, perhaps, too easy to dismiss bricks and mortar as being secondary. After all, bricks and mortar mean libraries and, as Mr. Fisher is well aware, this country as yet has no first class research library comparable to the big ones in the United States. Therefore, I would plead for retaining those monies for that particular purpose. As to the suggestion that some of these monies should be divided into scholarships, I think there is a clear answer to that in the act.

Dr. TRUEMAN: I think the act would have to be altered completely.

Mr. McGEE: If this matter is so important as Dr. Bissell has so eloquently expressed, has the council given consideration to proposing to the government that, in view of the desperate urgency of this matter, the act be altered to accommodate the switch?

Mr. MORTON: Perhaps, Mr. Chairman, in education both are almost equal, and urging the government for a system of scholarships would be—

Mr. McGEE: I hate to take issue with Dr. Bissell on that. I concede you have to have a library and, perhaps my reference to kitchen school factories was facetious. Naturally, I shall agree with him on the need for scientific laboratories, but there are great areas in education where, perhaps, all that would be necessary are a teacher, four walls, a ceiling, a floor, some warmth, and safety in terms of fire hazard. These are the basic requirements and it is my very strong view that where there is not a need for elaborate, physical equipment such as technical laboratories, first things should be first and bricks and mortar can wait their turn.

Mr. MORTON: In regard to bricks and mortar, would it not be dangerous if the amount of money for bricks and mortar did not weigh? Would it not, in effect, be limiting the number who will be able to go to universities in future years? It must be remembered that there are growing numbers going to universities because of the growth of population.

Dr. BISSELL: I think that is true with regard to the capital needs for residences, and I take it there was explicit reference to residences. The percentage of money for that purpose last year was 7.43. The rest is going into basic buildings for instructional purposes, and into libraries. But also one has to have regard to the additional buildings which, to some people, may appear to be peripheral.

Mr. McGEE: Could I have an answer to this? How much money is left in that section of the fund?

Dr. TRUEMAN: It started with $50 million. It made $10 million by profit and interest, making $60 million. Of this, $25 milion have been authorized at the present time for payment, and most of it has been paid. $25 million from $60 million leaves $35 million, of which approximately 50 per cent is available to the universities in the province of Quebec, if they wish to take it, leaving something like $17 million or $18 million for universities elsewhere.

Mr. McGEE: Does this represent the capital sum needed which can produce a yield approximating to the request made to the government?

Dr. TRUEMAN: The request made to the government represented a capital sum of $10 million.

The CHAIRMAN: I have the following order of speakers: Mr. Deschatelets, Mr. Pigeon and Mr. McMillan.

Mr. FISHER: May I ask one supplementary on this? In terms of priority, what you have is weighted towards the new institutions?

Dr. BISSELL: At the present time we are working within the framework of general regulations that were determined by consultation with the N.C.C.U.C., which includes recent institutions, but admittedly does not enable them to claim large sums because of their lower enrolments. I think this is a problem which will press upon us and we have not yet resolved it. At the present time we are adhering quite rigorously to the framework we worked out in consultation with the universities, but I think there is every reason for the Canada Council to discuss the possibility of some re-weighting in terms of the pressing needs of the new institutions. Here I am speaking simply as one member of the council and am not expressing any deliberately evolved policy.

Mr. FISHER: So the situation now, under which "them that has, gets", is likely to be reviewed?

Dr. BISSELL: Yes, it would be reviewed.

Mr. DESCHATELETS: I have a few questions in connection with foreign students. Am I in order to raise them now?

The CHAIRMAN: Yes, surely.

Mr. DESCHATELETS: May I ask how many foreign students are now studying in Canada as a result of grants from the Canada Council? I have a list at page 100 of your report, but not the figure.

Dr. TRUEMAN: A list of scholarships is given on page 14 of the report and the number in which you are interested is that opposite category 8 (*b*). There were 261 applicants and there were 85 awards made, of which about 20 or 22 were renewals, that is to say, people who had been here the year before and who had their scholarships renewed. At the present time there are about 65 in all or, actually, less than that.

Mr. DESCHATELETS: What is the average grant permitting students from Africa or Asia to come to Canada?

Dr. TRUEMAN: The basic grant is $2,000 per scholarship. In addition to that the student gets travel—say—to Montreal and back again, and we also pay the tuition fees to the university which he attends. These fees vary considerably across the country and we have found them very high in some universities and comparatively low in others. If the student has a renewal, that is to say, if he is going to stay in Canada for a second year, we allow him $500 as a grant to see him through the summer. It is very difficult for foreign students to get work during the summer.

Mr. DESCHATELETS: Is there anything we do, or can do, for these foreign students while they are studying in Canada to travel and appreciate in a general way the Canadian life?

Dr. TRUEMAN: Well, there is nothing we can do except to provide the money for that. That is about the size of it.

Mr. DESCHATELETS: Mr. Chairman, I see, according to page 100 of the report for last year, we had two foreign students from India. Who determines the number of foreign students for a certain country? Is it government policy or Canada Council policy?

Dr. TRUEMAN: Canada Council policy.

Mr. DESCHATELETS: Does the Canada Council feel that we should have more students coming from India?

Dr. TRUEMAN: This takes us out of the period under review. However, I think I may say that at the present time the council is giving consideration to the very problem you have raised, but I do not think any final decision has been come to yet. The question does arise under present circumstances in the modern world as to whether these non-residential scholarships should, perhaps, be concentrated a little more emphatically in certain areas. However, we have made no final decision on that. I think I am right in saying so.

Dr. BISSELL: That is right.

Mr. DESCHATELETS: This is my last question. As far as foreign students are concerned are we giving priority to commonwealth countries?

Dr. TRUEMAN: We have included the commonwealth countries. We have given priority, in the sense that we have allowed a maximum number to Britain, but then again, we have allowed a maximum number to France. We have not given priority to commonwealth countries. We have included them, and that is about all I could say. Actually, our list covers 45 to 50 different countries.

Mr. PIGEON: Mr. Chairman, as we know, $16 million have been donated by the Canada Council for the province of Quebec. Have you had any negotiations with the provincial officials as to how you will apply this money to the province of Quebec?

Dr. TRUEMAN: We have not had any direct negotiation in relation to the university capital grants fund; no, we have not.

Mr. MCMILLAN: I would like to ask Dr. Bissell a question which is quite apart from the arts and humanities, and which may be a little out of order. In fact, I think it is out of order. I just want to know if Canada had anything equivalent to, or comparable with the teaching in the sciences—I have in mind the teaching of physics, particularly now in the space age and atomic age, when it seems to me that Canada and the western world are lagging in that teaching.

Dr. BISSELL: I think the answer is that we do have available very substantial resources for science teachers through the national research council which awards three or four times as many scholarships as we do. The sciences are doing quite well.

Mr. FISHER: As you quoted, I imagine approvingly, the *Financial Post* article on the purposes and importance of the present situation of the Canada Council, I would like to ask you about the story by Norton Anderson of Toronto, and I would like to have your coments on this paragraph:

> The Canada Council this month had money talks with the giant Ford foundation here, and went away empty handed.

Is that true?

Dr. BISSELL: I do not think it is fair to say that we had money talks. We had pleasant conversation with them, and we were simply discussing some of our common problems. Their problems were expressed in somewhat more magnificent terms than ours.

Mr. FISHER: Is it generally true that their reaction was that since you were a quasi government body to be placed in a class by yourself, you could no longer look forward to substantial support?

Dr. BISSELL: No, that was not raised; the question was not raised or discussed.

Mr. FISHER: What about the conclusion that Canada will have to dig into her own pockets?

Dr. BISSELL: I think there is a certain bitter truth about it.

Mr. FISHER: And about the concluding argument in this article, that there is still American foundation support for Canadian projects if Canadians know how to get it. Is this an indication that you may be able to get some very substantial or fairly substantial funds, let us say, from the Ford, the Carnegie, or the Rockefeller foundations, if you can block out projects which are considered worthwhile.

Dr. BISSELL: I think it is true that various foundations have their own various emphases, and give money for particular purposes. Therefore if we can have some projects which come within those purposes, then their eligibility is that much greater.

Mr. FISHER: I wonder if there is any central agency or any group which represents Canada as a whole, which is looking for this kind of support, and which approaches the big American foundations on a kind of reasonable basis, or which looks over the whole thing; or is it just done individually, sporadically, and at random?

Dr. BISSELL: No, there is no central agency. I think the American foundations prefer to have it as it is at present ordered, that is, in terms of individual approach and in terms of individual institutions. They like to be in a position to make the final decision.

Mr. FISHER: What liaison has your council established with these funds in order, perhaps, to advise them of the overall weaknesses that we have in this country?

Dr. BISSELL: It is true to say that in our conversations with the Ford foundation they did ask, in very general terms, about our program, and about some of the inadequacies with which we are confronted. But it was purely informal. There has been no formal pattern of approach.

Dr. TRUEMAN: In co-ordinating efforts across Canada, Mr. Stackpole of Carnegie, keeps in touch with a great many Canadian universities.

Mr. FISHER: I think we can never appreciate enough what these foundations have done, and to what extent most of them are shifting their emphasis towards undeveloped countries in Asia, and Africa, and that sort of thing, as well as the part and course they have taken in confronting the danger, and in shifting the American foundation emphasis to other parts of the world.

Dr. BISSELL: I think it is true to say that the foundations are shifting towards undeveloped countries. I do not think it is part of our creation, because our crisis is made nationally, and is our own product.

Mr. FISHER: In the projections which you have made of the need, this assumes a large growth in the pattern to bring about improvement in our university teaching or in the number of people you are bringing in.

Dr. BISSELL: I think an analysis of the future involves what is called a linear movement, that is, a regular increase year by year, but with no intensification within the regular pattern.

Mr. FISHER: It assumes that the present status is adequate?

Dr. BISSELL: Yes.

Mr. FISHER: That Canadian universities are meeting the needs of our society?

Dr. BISSELL: These rather alarming factors are continuing to the nth degree.

Mr. BEECH: Is there any co-ordination or collaboration with other agencies or people to award scholarships at all?

Dr. BISSELL: There is a good deal of collaboration and exchange of information. This is done because a student may apply for a Canada Council scholarship and also he may apply for a Woodrow Wilson fellowship, which is awarded by an American foundation. He may also apply for a provincial scholarship, or certain provincial fellowships. So at all times we must be aware of the fact that there is available to the applicant two or three possible sources.

Dr. TRUEMAN: We try to keep in touch with various projects. Sometimes we are asked to supply information to another group concerning the list of scholarships. Upon inquiry made to us, we will say that we have so and so on our list, and there is likely to be a conflict here. I think I must agree with the chairman that there is no type of co-ordinated inter-relationship set up.

The CHAIRMAN: Before calling upon Mr. Drysdale, Mr. McGee and Mr. Pigeon, do you think we have exhausted the Canada Council this morning, or is it your wish to continue with them tomorrow?

Mr. DRYSDALE: We will have to ask them.

Mr. FISHER: I have about five separate short lines of questioning.

The CHAIRMAN: They are prepared to return tomorrow morning when perhaps we could start with them.

Mr. MCGEE: How about our sitting a little longer this morning. Is there any objection?

The CHAIRMAN: Dr. Bissell says he will not be here tomorrow. Very well, Mr. Drysdale.

Mr. DRYSDALE: Mr. Chairman, I do not wish to elaborate the point I was raising earlier on the question of scholarship selection, but all I have drawn from the evidence before me is that applications are processed by the Canada Council and passed on to two organizations. This year there were some 508, and these were split equally between them.

As additional information, apparently this committee asks the individual universities to specify their top rank students. This to me appears to be a sort of, almost, regional allocation. Mr. Fisher has emphasized the Madison approach to scholarship application. I think that since this concerns a great many people, and since the problem has been raised, I think it should be clarified as to what the basis of selection is of the scholarship people. If you do not know, please say so; but I wonder if you could point out to us the criteria that is used as a point of basis?

Dr. BISSELL: I think the only short answer to your question is that the criterion is intellectual distinction based on the only evidence we have before us. As to the element of regionalism, I do not think this enters into it. The fact that you ask a university to list in priority its students does not indicate there will be an allotment in those terms.

Mr. DRYSDALE: First of all, is there any instruction at all given to this board of six as to what criteria they are to apply? If so, what is the list of criteria? Secondly, do they ask the universities to apply any criteria in the selection? There must be some criterion somewhere.

Dr. BISSELL: The criterion simply is, how has the student performed in the last four or five years and what are his prospects for doing post-graduate work. This seems to be a clear criterion.

Mr. DRYSDALE: Is there any priority in the selection? Are marks the prime measurement as to the choice in listing the individuals?

Dr. TRUEMAN: Marks always are bound to come into it, but you also have your letters of reference. I do not think there is any doubt in the world that occasionally a man will recommend a person who perhaps has not as many

marks as another because he feels in the long run his capacity for graduate study is better and his intellectual distinction is better.

Mr. DRYSDALE: I am trying to think on the spur of the moment, and sometimes this is not good. For instance, marks might be fifty per cent, recommendations from outside individuals in support might be twenty-five per cent, and the individual's own assessment might be twenty-five per cent.

Dr. TRUEMAN: No, I do not think so.

Mr. DRYSDALE: Then it is completely subjective so far as the individual examining these applications is concerned. There are no objective standards set out.

Dr. TRUEMAN: There certainly is no requirement that a man must have made eighty per cent in his final examination.

Mr. DRYSDALE: There is no suggested criteria to be followed by them in assessing the individuals? In other words, if you had a list of several criteria you would have some uniformity. I suggest at the present there is nothing like that in existence.

Dr. TRUEMAN: I do not think so.

Dr. BISSELL: The technique which has been used by the graduate schools of Canada and the United States—and I know of no other technique except that—is the individual's past accomplishment. A first-class student in British Columbia, Toronto or Laval automatically is a strong candidate for a fellowship; that is our final criterion.

Mr. MCGEE: I wonder if I may have an answer to the question I asked earlier. Has the Canada council considered making recommendation to the government that the funds unallocated of approximately $17 million in the capital fund be diverted and the yield from that used to further the scholarship?

Dr. BISSELL: We have not. At the present we are bound by the act. If I may attempt to express our point of view, we look upon these two funds as being of great importance and would regret very much having one diminished for the sake of replenishing the other.

Mr. MCGEE: In other words you have considered it and have decided against it. Is that the fast answer?

Dr. BISSELL: We have not considered it in this sense. I am giving you my own response to it. I think this might be the response of the Canada council. We have not considered it in the full sense of the term.

Mr. MCGEE: May I ask, will the council give consideration to it?

Dr. BISSELL: We would be very happy to give consideration to it.

Mr. PIGEON: Dr. Trueman, I believe you have had the pleasure of representing the Canada council in India. I would appreciate it very much if you would tell us the purpose of your trip?

Dr. TRUEMAN: The Canada council received an invitation from the appropriate body, whose name I cannot quote exactly; it is the body organized in India to conduct the celebrations for the 100th birthday of the great Indian poet philosopher and educator, Rabindranath Tagore. They were inviting delegates from all over the world to come to India to take part in a literary conference and help them celebrate the centennial of Tagore. The group was the all-India Bengal Literary Society. There were delegates from many countries of the world. The Canada council decided to accept that invitation. The director went and took part in the proceedings of Monday, January 2nd by making a speech and taking part in the deliberations. Since I was in India for this purpose and was a long way from home, I took advantage of the opportunity of discussing such questions as have been raised this morning—scholarships, allotments, the basis on which they should be selected, and various other matters in which the Canada council is interested.

Mr. PIGEON: Did you visit other countries?

Dr. TRUEMAN: I stepped across the border into Pakistan at Lahore and visited the university of the Punjab. While I was there I went into these matters in which we are interested, and took part in an exchange of opinions and lectures. On my way home I came by way of Australia where I was given an exhausting program in Sydney by the Australian-Canada committee and again went through this business of talking to scholarship people. I did the same thing in Canberra. Also on this occasion I gave about five talks, lectures, and radio and television appearances on the work of the Canada council, which I might say apparently is of very great interest both in Australia and India. I was away something less than four weeks.

Mr. PIGEON: I have another question to place before the committee. I read that the magazine *Liberté* received a grant from the Canada council. The manager of this magazine is Mr. Jacques Godbout. I would very much appreciate knowing what the grant was and who recommended it.

Mr. P. M. DWYER, (*Arts Supervisor, Canada Council*): The grant to *Liberté Soixante* was made on the general advice from our advisors that it is a young and lively magazine of the kind which should be stimulated. It has caused a great deal of criticism at times by the editorial policy. The editorial policy is that of the editor and not of the council.

Mr. PIGEON: I ask this question because as you know in Quebec now we have had many discussions on schools, and neutrality of schools. Mr. Godbout is the main person in this movement. For that reason I was very surprised about this grant.

Mr. FISHER: What movement?

Mr. PIGEON: Two weeks ago a large meeting took place at Montreal university unfortunately on the question of having non-denominational schools in the province of Quebec. Ninety-nine per cent of the population of Quebec does not believe in this. That is why I asked the question.

I have another question. What is the total amount this magazine received?

Mr. DWYER: $3,000.

Mr. PIGEON: I have another question to ask. I read in the newspaper *La Presse* that the newspaperman Lafond worked for *La Presse* for many years. He worked on the editing and preparation of a financial dictionary and he asked for a grant from the Canada Council. I would appreciate very much being told the reason why Canada Council refused a grant to this person who worked very hard for twenty years.

The CHAIRMAN: I am sorry, I have to interject. The Canada Council is not obliged to give reasons for rejections.

Mr. PIGEON: Mr. Chairman, I have another question which Mr. Bussiere could answer. Mr. Claude Brodeur from the province of Quebec received a grant. I would appreciate very much being told the amount of this grant, the purpose of this grant and who recommended him.

Dr. TRUEMAN: Is this in the report?

Mr. BUSSIERE: We cannot remember all the names. Normally, he would get the same amount as given in category 2.

Dr. TRUEMAN: Would you like to know what is the usual amount given in category 2? This is pre-doctoral; it varies from $1,500 to $2,500, plus travelling expenses, if travel is involved. It is in that range.

Mr. PIGEON: I have only one other question. Mr. Herve Bazin is a Frenchman. The Canada Council gave him a scholarship to study the history of Canada. I would appreciate knowing what is the total amount of this grant and why the Canada Council invited him and gave him a grant to fly to Canada to study our history.

Mr. DESCHATELETS: That is the best grant we ever made.

Mr. BUSSIERE: As you know, category 8 is divided into two sections, (*a*) and (*b*). Category 8(*a*) includes the few scholarships available for senior scholars or intellectuals from abroad, and it is received on application. We do not give very many of them. That year we gave four or five at the most, and Herve Bazin, a distinguished French writer, applied to the Canada Council for a grant because at that time he was unable to secure funds from France—he could not export funds. The amount of these scholarships for senior non-residents is normally in the order of $4,000 or $4,500 plus travel. In fact, Mr. Bazin was here only a few months. I do not remember all the details, but he never got the full amount of his grant because he did not stay the length of time he intended to primarily. He had to go back on account of illness.

Mr. PIGEON: Thank you very much.

Mr. DESCHATELETS: I would like to make one other observation on the same point. In order that the Canada Council be well known abroad I would suggest that we should duplicate, if possible, similar grants in the future, whatever may be the participation. But I think that if we do so it would suit the purpose much better if these grants were better known, if the publicity was better than it is.

The CHAIRMAN: You might speak to the council publicity director who is present, after the meeting.

Mr. FISHER: The money spent on UNESCO, other than in direct administrative expenses, has gone up somewhat. It is still not very large, but I wondered if there had been any consideration by the council that this is a rather unfair onus upon the endowment fund.

Dr. BISSELL: I do not think it is unfair in the terms of our mandate. Let us put it this way: it is not the reason why we need more money. Dr. Bussiere is the expert here.

Mr. BUSSIERE: You will recall that in the terms of reference of the Canada Council, as stated in the act, we have some obligations to secure some international exchange, and the fact that the commission is the organ of the Canada Council helped the Canada Council to avoid duplication. In fact many grants provided by the Canada Council are in line with what we are trying to achieve through the commission and vice versa.

Mr. FISHER: But, in a sense, our part in UNESCO is treated in other countries as a government responsibility. Is that not true?

Dr. TRUEMAN: That is true.

Mr. FISHER: You have almost a unique relationship with UNESCO as compared to other countries?

Dr. TRUEMAN: We have pointed this out before, that the Canada Council is doing what, for instance, in Britain is done by at least four separate organizations. This is in no way to undervalue the work of UNESCO, but it does constitute an administrative and grant expense which in other countries is not normally borne by a body such as this.

Mr. FISHER: What I am curious about is the allocation of funds. I think you would agree that you have not gone hog-wild in supporting UNESCO. But looking at it the other way, is there any chance that because of the choice of spending money and by this tremendous need for scholarships, you may not be giving the UNESCO relationship as fair a deal as it might deserve, I mean in terms of priority?

Mr. BUSSIERE: I think that so far the money provided by the Canada Council for activities of the commission has proved to be sufficient for the duties that we have to accept.

Mr. FISHER: The next question I would like to ask concerns the government determination of the make-up of the members of the council. I wondered if there has been any discussion within the council about the fact that they may not represent as broad a stratum in the country as might be desirable.

Dr. BISSELL: There has been no discussion about that problem. The Canada Council is quite widely representative of various strata in the country—there are university representatives, representatives from business, from labour, a representative who might be described as agricultural in his interests. I think it does represent a fairly broad spectrum, so that we have not been under any obligations to analyze this. We are not a perfectly representative body, but an approximation to perfection.

Mr. FISHER: I want to ask one question about one point, of the members of the council. Is it true that Mr. Walker has moved back to Scotland?

Dr. BISSELL: No.

Mr. FISHER: The last question I want to ask is in relation to your assistance to the arts conference which is coming up in a week or so. There are two grants. Was it that you found one was not enough that you had to increase it to put the show on the road?

Mr. DWYER: The initial sum of $10,000 was to help to assist the conference itself. The supplementary amount of $3,000 was to assist the conference in connection with the exhibition of paintings by Canada Council award winners. They are taking pictures from all over the country, to show at the conference. It was help given by the Canada Council to meet their additional expense.

Mr. FISHER: The last question relates to magazines. We had some discussion before on the nature of the magazine that was to be supported. Have you broadened your outlook at all?

Dr. BISSELL: We looked very carefully at this policy. We have not looked particularly at the phrase which was used—I think it was not a very happy phrase—"journals of opinion". We came to the conclusion that no magazine could exist today without being a journal of opinion, that opinion is the very heartbeat of a magazine. I would say that we have broadened our concept, that we are prepared to make it more flexible in these terms.

Mr. FISHER: I am pleased to hear that. The question I would like to ask Dr. Trueman relates to the support given to the projects of two Americans. I am not critical of the fact that they may have been given support, but I wanted to know what went into the decision. One was the support given to Miss Ellie Clark and the other to a project of Dr. Mason Wade. I know, Mr. Chairman, you have indicated that we really have no right to be privy to details but in this case, since these two people are Americans, I think it might be interesting if we could have the information.

Dr. TRUEMAN: You named, I think, Miss Clark. This was not a grant to Miss Clark. The grant was to McClelland and Stewart and was support for bringing out a book of which Miss Clark was the author, *"Canadian Indian Fireside Tales"* which was recommended to us. The grant to Mr. Wade was given on the basis that he was a distinguished scholar on Canadian history, and that he was pursuing further researches, and all our advisors recommended that we give him a small amount—I think, actually, it was $500 or something of that order, which was authorized. The project is: "Research in the Maritimes on the interaction of the Acadians, the Yankees and the British from the 1760's until the establishment of responsible government." It was just simply a grant under category 3A for a distinguished foreign scholar.

Mr. PIGEON: The last question I have is whether it would be possible to give grants only for university magazines, and not for private magazines such as *Liberté* or other magazines. In my opinion if some reviews or journals or

magazines receive grants others will want them. I will give you an example in a few moments about this magazine *Liberté*, and Mr. Jacques Godbout. It is not in the interest of the Canada Council and in the province of Quebec to give grants to this kind of review, to this man, Mr. Godbout. I would appreciate very much if the Canada Council would study the possibility of giving grants only to university journals or magazines. After all, you have only a certain sum of money and you cannot give subventions for all private magazines or journals.

Dr. BISSELL: I might say in general that the university magazine is usually subsidized by the university and consequently we do not look upon the university magazine as being one which requires financial support. Therefore, if we were to restrict our gifts to university magazines we would in fact be subsidizing enterprises which are already in relative terms well supported.

Mr. DESCHATELETS: Would you permit me a supplementary question? Since this matter has been brought up twice this morning, would it be possible to have the purpose of the grant to *Liberté* magazine?

The CHAIRMAN: I think Mr. Dwyer was replying to that. Perhaps he has something to add.

Mr. DWYER: I think the purpose of the grants to the magazine *Liberté* is first to provide an outlook for young Canadian writers who feel they have something to say and to give them a place to say what they have to say. This sometimes is something which is unpalatable to a section of the public.

Mr. DESCHATELETS: Did you receive any complaints because of the grants that you had given to them?

Mr. DWYER: Yes.

Mr. DESCHATELETS: You have received complaints?

Mr. PIGEON: I raised this question because I had received many complaints.

Dr. TRUEMAN: We received not several—one or two.

Mr. MCGEE: I raised a question with the acting chairman and previously with the late chairman concerning the view that the council takes of the opinions expressed by this committee. They were said by Mr. Claxton to be comparable to the impact of an editorial in a newspaper. I am wondering if the present chairman concurred in that view, or if he has a view of his own.

The CHAIRMAN: I think I would put it on a higher level. I think I would say they would be more important.

Dr. TRUEMAN: Could we copy this out from the report of the committee:

> Mr. MCGEE: In other words then, the opinions expressed by the electred representatives of this committee would carry less weight than those expressed by a newspaper?
>
> Mr. CLAXTON: No, the opposite.

So it is not fair to say that it was equal. We can see that it was more important.

Mr. FISHER: There is one last thing that was prefigured a year ago. You indicated a year ago, Dr. Trueman, that it was felt that as the council moved towards its fifth anniversary it would be well for you to do a complete review of your program. Perhaps you have got some analysis and perhaps you have something to indicate where you have gone wrong, what the weak spots are, and so on. At least this is what I understood you to indicate. I would like to ask Dr. Bissell if this is in hand.

Dr. BISSELL: We did have the program under constant review. We have groups of literary and artistic people meeting shortly in Toronto to discuss the program and the ways in which we could modify it. I do not think we have worked out the program whereby we will have at the end of five years a sort of cumulative or impressive review, but that certainly is an idea and I will gladly pass it on to the council.

The CHAIRMAN: Before we adjourn, I would like to thank Dr. Bissell, the chairman, and other members of his council for coming here. This is the third day of their examination. Every year the committee's interest certainly increases, and I think this is very healthy for us and also for the council. Thank you very much.

Is there anything else on Canada Council or shall we proceed tomorrow to the Auditor General's report?

Agreed.

The CHAIRMAN: Tomorrow paragraph 48 of the Auditor General's report, construction by the R.C.A.F. of a house at St. Hubert, Que., Mr. Armstrong, Deputy Minister, will be the witness.

APPENDIX B

THE CANADA COUNCIL

SPECIAL REPORT ON SCHOLARSHIPS, FELLOWSHIPS AND OTHER GRANTS TO INDIVIDUALS TENABLE IN 1960-61

Categories 1, 2 and 5 based on university at which individual's last Canadian degree was taken

University	Pre-Master's Category 1		Pre-Doctor's Category 2		Secondary School Teachers Category 5		Total	Total
	Awards	Amount $	Awards	Amount $	Awards	Amount $	Awards	Amount $
Acadia	2	3,000	—	—	1	2,500	3	5,500
Alberta	2	3,000	3	5,500	—	—	5	8,500
Assumption	1	1,500	—	—	—	—	1	1,500
British Columbia	6	7,050	8	18,500	5	7,200	19	32,750
Carleton	2	3,000	1	2,000	—	—	3	5,000
Dalhousie	2	3,000	1	2,500	—	—	3	5,500
Laval	12	17,100	15	24,600	5	8,000	32	49,700
Loyola	1	1,500	—	—	—	—	1	1,500
Manitoba	3	4,800	5	6,000	1	2,500	9	13,300
McGill	6	8,700	12	21,000	1	700	19	30,400
McMaster	2	3,000	2	4,000	1	2,500	5	9,500
Memorial	4	5,700	—	—	—	—	4	5,700
Montreal	7	9,300	13	23,200	1	1,800	21	34,300
New Brunswick	3	4,500	1	700	—	—	4	5,200
Ottawa	2	1,900	2	2,700	2	4,500	6	9,100
Queen's	2	3,000	12	23,900	—	—	14	26,900
St. Francis Xavier	1	1,500	2	1,600	1	2,500	4	5,600
Saskatchewan	1	1,500	3	5,700	1	2,000	5	9,200
Sir George Williams	—	—	1	2,000	—	—	1	2,000
Toronto	17	24,400	37	61,600	9	15,200	63	101,200
Western Ontario	7	10,500	4	8,300	1	2,500	12	21,300
*Cambridge	—	—	1	700	—	—	1	700
*Edinburgh	—	—	1	900	—	—	1	900
*Johns Hopkins	—	—	1	2,000	—	—	1	2,000
*London	—	—	—	—	1	1,000	1	1,000
*Northwestern	—	—	1	2,500	—	—	1	2,500
*Oregon	—	—	—	—	1	2,000	1	2,000
*Rochester	—	—	1	2,500	—	—	1	2,500
	83	117,950	127	222,400	31	54,900	241	395,250

* No Canadian degree held. Individual's last degree obtained from foreign university.

THE CANADA COUNCIL

SPECIAL REPORT ON SCHOLARSHIPS, FELLOWSHIPS AND OTHER GRANTS TO INDIVIDUALS TENABLE IN 1960-61

Categories 3A, 7 and 10 based on university at which individual is employed

University	Senior Research Fellowships Category 3A		Short term Grants Category 7		Category 10		Total Awards	Total Amount
	Awards	Amount	Awards	Amount	Awards	Amount		
		$		$		$		$
Acadia	—	—	2	1,700	—	—	2	1,700
Alberta	—	—	10	7,300	—	—	10	7,300
Assumption	—	—	1	800	—	—	1	800
British Columbia	—	—	10	9,050	2	6,800	12	15,850
Carleton	3	13,500	3	2,400	—	—	6	15,900
Dalhousie	—	—	7	5,100	—	—	7	5,100
Laval	3	13,500	8	6,200	—	—	11	19,700
Manitoba	2	8,500	6	5,000	—	—	8	13,500
McGill	—	—	10	8,200	1	2,000	11	10,200
McMaster	—	—	2	1,600	—	—	2	1,600
Memorial	1	4,500	5	3,500	—	—	6	8,000
Montreal	—	—	14	10,600	1	4,000	15	14,600
Mount Allison	1	4,500	1	800	—	—	2	5,300
New Brunswick	2	9,000	1	1,200	1	2,500	4	12,700
Ottawa	—	—	3	2,600	—	—	3	2,600
Queen's	1	4,500	4	2,700	—	—	5	7,200
Royal Military College	1	4,500	7	4,800	—	—	8	9,300
Royal Roads	—	—	1	500	—	—	1	500
St. Francis Xavier	—	—	1	1,000	—	—	1	1,000
St. Mary's University	—	—	1	350	—	—	1	350
Saskatchewan	1	4,500	3	2,100	—	—	4	6,600
Toronto	6	26,000	14	11,600	1	1,000	21	38,600
Western Ontario	—	—	8	5,900	—	—	8	5,900
*Other	3	13,000	19	11,300	20	35,900	42	60,200
	24	106,000	141	106,300	26	52,200	191	264,500

* Awards granted to persons not employed by universities.

LIST OF AWARDS GRANTED IN CATEGORIES 1 AND 2 FOR USE IN 1960-61

SHOWING UNIVERSITIES AT WHICH AWARD WINNERS WILL STUDY

	Category 1	Category 2	Total
CANADIAN UNIVERSITIES			
Alberta	3	—	3
British Columbia	8	—	8
Carleton	1	—	1
Dalhousie	1	—	1
Laval	13	5	18
Manitoba	1	—	1
McGill	5	3	8
Memorial	3	—	3
Montreal	7	2	9
New Brunswick	1	1	2
Ottawa	1	2	3
Queen's	2	—	2
Toronto	30	20	50
Western Ontario	4	—	4
FOREIGN UNIVERSITIES			
Berkeley	—	2	2
Bonn	—	1	1
Brown	—	2	2
Cambridge	—	1	1
Chicago	—	3	3
Colorado	—	1	1
Columbia	1	4	5
Cornell	—	3	3
Duke	—	1	1
Edinburgh	—	2	2
Fribourg	—	1	1
Harvard	—	10	10
Indiana	—	1	1
Johns Hopkins	—	4	4
Kyoto (Japan)	1	—	1
London	—	13	13
Madrid	—	1	1
Michigan	—	2	2
Minnesota	—	1	1
Northwestern	—	1	1
Notre Dame	—	1	1
Oxford	—	6	6
Paris	—	21	21
Pennsylvania	1	1	2
Princeton	—	2	2
U.C.L.A.	—	1	1
Utrecht	—	1	1
Washington	—	1	1
Wisconsin	—	3	3
Yale	—	3	3
TOTALS	83	127	210

April 24, 1961.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

Public Accounts of Canada—Vols. I-II

Report of the Auditor General to the House of Commons—1960

WEDNESDAY, APRIL 26, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Mr. E. B. Armstrong, Deputy Minister, Department of National Defence.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24947-4—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,
Vice-Chairman: Mr. A. D. Hales
and Messrs.

Allmark
Beech
Bell (*Carleton*)
Benidickson
Bissonnette
Bourbonnais
Bourget
Brassard (*Chicoutimi*)
Broome
Bruchési
Campeau
Chown
Danforth
Denis
Deschatelets
Drysdale
Dupuis
Fisher
Grenier
Hanbidge
Hellyer
Keays
Lahaye
Macdonnell
McGee
McGrath
McGregor
McMillan
Martel
Morissette
Morton
Noble
Nugent
Pigeon
Pratt
Regier
Robichaud
Rouleau
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Woolliams
Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 26, 1961.
(11)

The Standing Committee on Public Accounts met at 9.35 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Brassard (*Chicoutimi*), Chown, Deschatelets, Fisher, Hales, Hellyer, Keays, Macdonnell (*Greenwood*), Macnaughton, McGregor, Martel, Morton, Pigeon, Smith (*Simcoe North*), Spencer, Stefanson and Tucker—18.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Mr. E. B. Armstrong, Deputy Minister of National Defence.

The Chairman expressed the sympathy of the Committee at the death of Mrs. R. A. Bell, the wife of a prominent Member of the Committee.

Two letters from the Comptroller of the Treasury relating to paragraphs 41 and 45 of the Auditor General's Report were taken as read, and ordered printed in the record of the proceedings of this day's meeting.

Mr. Armstrong was called, and supplied answers to questions asked at a meeting of the Committee held March 22nd and, together with Mr. Henderson, was questioned concerning paragraph 48 of the Auditor General's Report, which relates to the construction of a house at the R.C.A.F. Station St. Hubert, Quebec.

Mr. Armstrong tabled for inclusion as appendices to the record of this day's proceedings, the following documents:

1. Statement of Original Estimate on Which Decision was Made House could be built for $25,000.00 Showing Costs as Recorded by CMU. (*See Appendix "A"*)
2. House of Air Officer Commanding—St. Hubert, Quebec. (*See Appendix "B"*)
3. Grounds and Services. (*See Appendix "C"*)

Mr. Armstrong filed as exhibits the following documents:

1. List of Contracts.
2. Detailed List of Materials, indicating quantity, description and cost.

Mr. Henderson was instructed to discuss with the Glassco Royal Commission the use of separate construction units by Government departments and agencies in new construction projects.

Messrs. Henderson and Armstrong were questioned concerning paragraph 49 of the Auditor General's Report relating to the recovery of expenses in connection with the loan of landing barges to the Canadian National Exhibition Association.

On paragraph 50 of the Auditor General's Report, Messrs. Henderson and Armstrong were questioned concerning expenses incurred in connection with the treatment and discharge of a Navy deserter.

24947-4—1½

The Committee was informed that, as a result of this case, all three Armed Services will follow a uniform practice of the discharge from service after a six month period, of deserters.

At 10.55 a.m. the Committee adjourned to meet again at 9.30 a.m., Tuesday, May 2, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, April 26, 1961.

The CHAIRMAN: Gentlemen, we have a quorum.

I am sure we were all upset at the sad news we heard this morning with regard to the recent death of Mrs. Richard Bell. Dick Bell is a member of our committee and, as you know, for two years was vice-chairman. I am sure this committee would like to record its sympathy.

In front of me I have two letters just received from the Comptroller of the Treasury which, in effect, are comments in answer to paragraphs 41 and 45 and the evidence as given by the Auditor General. Rather than read them at this stage may I suggest they be printed and form a part of the record.

Agreed.

[*Editor's note: The letters referred to are as follows:*]

DEPARTMENT OF FINANCE
CANADA

OFFICE OF THE COMPTROLLER OF THE TREASURY

OTTAWA, April 25, 1961.

Alan Macnaughton, Esq., M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa, Ontario.

Dear Mr. Macnaughton,

I have read the statement by the Auditor General to the Standing Committee on Public Accounts, printed as Appendix "B" to the Minutes of Proceedings and Evidence of April 18, 1961, with reference to paragraph 45 of his report to the House of Commons for the year ended March 31, 1960.

For the record I should like to state again that the accounting action that has been taken during recent years to adjust the balances in the Civil Service Insurance Fund, the Returned Soldiers Insurance Fund and the Veterans Insurance Fund to the estimated liabilities as calculated by the actuaries of the Government was based on a recommendation made seven or eight years ago by the Chief Actuary of the Department of Insurance. In examining the account of the Civil Service Insurance Fund it was noted that annual additions in respect of interest were more than sufficient to cover the actuarial liability of the account, and that if the then current practice of managing the account was continued, the disparity would increase rapidly. Accordingly, the Chief Actuary recommended that instead of crediting the account each year with interest, the Government should credit the account only with the amount necessary to make the balance in the account equal to the estimated liability.

On receipt of this recommendation, and before taking action to implement it, the Solicitor to the Treasury was asked whether an amend-

ment to the Act was necessary or if a regulation under section 18 of the Act or an item in the estimates would be required in order to make the entries. The Solicitor to the Treasury replied:

> The purpose of the account would be, as I understand it, to show the estimated liability of the Crown. As a result the Governor in Council could authorize a book-keeping entry to be made from time to time crediting the account with an amount necessary to make the balance in the account equal to the estimated liability. The Governor in Council could do this under authority of paragraph (*f*) of Section 18 of the C.S.I. Act.

On receipt of this opinion a recommendation was submitted to the Governor in Council to amend section 17 of the Civil Service Insurance Regulations. This amendment, which was approved by the Governor in Council by P.C. 1954-1693 of November 9, 1954, reads as follows:

> (1) There shall be an account in the Consolidated Revenue Fund to be called the Civil Service Insurance Account to which shall be credited all moneys received and to which shall be charged all moneys paid under the Act.
>
> (2) The liability at the end of each fiscal year arising out of contracts entered into under the Act shall be calculated by the Superintendent of Insurance.
>
> (3) If, at the end of such fiscal year, the liability calculated under sub-section (2) is greater than the balance of the Civil Service Insurance account at the end of such fiscal year, there shall be credited to the account and charged as an expenditure an amount equal to the excess of the liability over the balance of the account.

The action then taken was noted by the Auditor General in paragraph 92 of his Annual Report for 1955-56.

> Audit opinion is that to the extent unpaid accounts may not be reflected, the total is more than offset by some liabilities being overstated. An illustration is the listed liability of $30,305,000 in connection with the Civil Service Insurance Account established for the purposes of the Civil Service Insurance Act, c.49, R.S. Regulations made under the authority of the Act direct that the Superintendent of Insurance at each year-end calculate the liability arising out of insurance contracts, and if at any year-end this liability is greater than the balance of the Civil Service Insurance Account at the end of such fiscal year, there shall be credited to the account, and charged as an expenditure, an amount equal to the excess of the liability over the balance of the account.
>
> The actuarial liability as at 31st March last is estimated as less than the amount recorded. A similar situation exists in the Returned Soldiers' Insurance Fund and the Veterans Insurance Account. It would seem desirable that regulations such as the above should also direct the action to be taken when such a special account ends the year with a surplus.

In accordance with these views of the Auditor General, the Civil Service Insurance Regulations were amended by Order in Council P.C. 1957-1022 of July 31, 1957, as follows:

> 17. (1) There shall be an account in the Consolidated Revenue Fund to be called the Civil Service Insurance Account (in this section referred to as "the Account") to which shall be credited all moneys received and to which shall be charged all moneys paid under the Act.

(2) At the end of each fiscal year the liability outstanding arising out of contracts entered into under the Act shall be calculated by the Superintendent.

(3) If the liability calculated under sub-section (2) is greater than the balance of the Account at the date of such calculation, there shall be credited to the Account an amount equal to the excess of the liability over the balance of the Account.

(4) If the liability calculated under sub-section (2) is less than the balance of the Account at the date of such calculation, there shall be charged to the Account an amount equal to the amount by which the balance of the Account exceeds the liability.

In 1956-57 accounts were adjusted in accordance with the views expressed by the Auditor General, who again referred to the subject in paragraph 119 of the Auditor General's Report for 1956-57. It reads as follows:

In paragraph 92 of last year's Audit Report to the House of Commons, attention was drawn to the fact that the liabilities position reflected in the special accounts maintained for the purposes of the Civil Service Insurance, Returned Soldiers' Insurance and Veterans Insurance Acts was overstated in relation to the estimated acturial liabilities. Adjustments of the account balances were made in the year by the Department of Finance (by means of credits to the Net Debt Account) but doubt is entertained regarding the action taken without Executive approval. This approval now may be considered as having been provided, in the case of Civil Service Insurance by an order in council of 31st July, 1957, amending the pertinent regulations to permit adjustments for actuarial surpluses in the account.

Again the views of the Auditor General were met by corresponding amendments to the Veterans Insurance Regulations (Order in Council P.C. 1958-843 of June 12, 1958) and to the Returned Soldiers Insurance Regulations (Order in Council P.C. 1958-842 of June 12, 1958).

No suggestion is contained in any of the comments by the Auditor General that there was not legislative authority for the action taken. Indeed, the paragraphs quoted would appear to give implicit if not explicit recognition to the fact that there was clear statutory authority for the action taken.

Yours sincerely,

H. R. Balls
Comptroller of the Treasury

DEPARTMENT OF FINANCE
CANADA

Ottawa, April 25, 1961.

OFFICE OF THE COMPTROLLER OF THE TREASURY

Alan Macnaughton, Esq., M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa, Ontario.

Dear Mr. Macnaughton,

I have read the statement by the Auditor General to the Standing Committee on Public Accounts, printed as Appendix "A" to the minutes of Proceedings and Evidence of April 18, 1961, with reference to paragraph 41 of his report to the House of Commons for the year ended March 31, 1960, which dealt with the treatment of advances to the Prairie Farm Emergency Fund.

Again the Auditor General makes the statement that there was no clear parliamentary authority to charge to expenditure the advances made by the Minister of Finance to cover the deficit in the Prairie Farm Emergency Fund.

For the record, I must state again that a legal opinion was sought from the Solicitor to the Treasury as to the authority for making this charge to expenditure.

This request for an opinion was addressed to the Solicitor to the Treasury on February 11, 1959:

> The Prairie Farm Assistance Act, Section 11, Sub-section 8 reads:
>
> > If at any time the fund is insufficient to pay awards made under this Act the Minister of Finance may, out of unappropriated moneys in the Consolidated Revenue Fund, with the approval of the Governor in Council, make an advance to the fund of the amount required to meet the deficit.
> >
> > May I have your opinion as to whether it is necessary to obtain an appropriation of parliament before such advances may be charged as budgetary expenditures in the year in which the advance is made.

On February 12, 1959, the Solicitor to the Treasury replied as follows:

> "I understand you wish to have my opinion as to whether before an advance made to the Prairie Farm Emergency Fund may be charged as a budgetary expenditure in the year in which the advance is made, an appropriation of parliament is required. Having in mind the provisions of the Prairie Farm Assistance Act, particularly section 11 which contains an appropriation of parliament, and the provisions of the Financial Administration Act, particularly those provisions relating to the Accounts of Canada, I am of opinion, with respect to the above question, that nothing further is required from parliament in order to charge the advance as a budgetary expenditure in the year in which the advance is made."

This opinion indicates that in the view of the law officers of the Crown the accounting action of charging to expenditure the advances made by the Minister of Finance to cover the deficit in the Prairie Farm Emergency Fund was made under proper authority.

Yours sincerely,

H. R. Balls
Comptroller of the Treasury.

The CHAIRMAN: Later on there will be an opportunity to refer back to this when the Comptroller of the Treasury appears before this committee again on his suggestions as to streamlining the estimates.

This morning we take up consideration of the Auditor General's report. We had been working on paragraph 48. At the last meeting when Mr. Armstrong, the Deputy Minister, was present, three basic questions were asked. I believe Mr. Armstrong has the answers now.

Mr. E. B. ARMSTRONG (*Deputy Minister of National Defence*): Mr. Chairman, Mr. Pratt asked for the original detailed estimate of the cost of the house. I have that here. To be of assistance to the committee, beside the original estimate I have set down the distribution of the materials which were bought and the labour which was hired as well as the materials used from stock. I can table this or read it, whichever you prefer.

The CHAIRMAN: What is the desire of the committee?

Mr. HALES: Is it very lengthy?

Mr. ARMSTRONG: One page.

Mr. CHOWN: Would you give us the total figure and then we might file it as an appendix.

Mr. ARMSTONG: The original estimate of the cost totalled $24,304. That was made up of various materials and labour of $6,947. The actual cost of the material which was purchased and the material used from stock, plus the civilian labour hired for the job—that is the labour that was not part of the R.C.A.F. establishment—and the labour on the contracts, amounted to a total of $27,706.77.

Mr. HELLYER: Was that for both material and labour?

Mr. ARMSTRONG: Both material and labour. To reconcile that with the figure of $56,716 which is shown in the Auditor General's report, the balance was made up of the pay of the R.C.A.F. servicemen which amounted to $21,520, transportation of the R.C.A.F. servicemen which was $4,800. and the cost that was included as attributable to the equipment which belonged to the R.C.A.F. and was used on the job in the amount of $689.50. That makes a total of $29,009.50. That, together with the other figures I gave you, makes up the total of $56,716.

Mr. CHOWN: I move that this be filed as an appendix to the minutes of proceedings and evidence.

Agreed.

(*See appendix A*)

Mr. HELLYER: Has the deputy minister any extra copies?

Mr. ARMSTRONG: I have a few here.

The CHAIRMAN: There was a further question which appears on page 144.

Mr. ARMSTRONG: Mr. Hales asked for the distribution of the transportation costs as between commercial air, rail, and so on. That distribution is as follows: commercial airlines, $360; privately owned motor car—one person used his privately owned motor car—$384.25; rail transportation, $4,637.70. This makes a total of $5,381.95.

Mr. HELLYER: That figure does not correspond with the one you gave us a moment ago.

Mr. ARMSTRONG: This refers to the house and to services. The figure you are looking at applies to the house.

The CHAIRMAN: Is it agreed that this be included as an appendix?

Agreed.

(*See appendix B*)

Mr. ARMSTRONG: Mr. Hellyer asked for a list of the services installed. Mr. Danforth asked for the distribution of the cost of the services between that which was attributable to the house and that which was necessary for the additional married quarters. I have put the answers to these questions down on one sheet of paper. Again it is about a page in length. I can table it or read it, as you wish.

Mr. CHOWN: I think that should be filed as an appendix to the minutes of proceedings and evidence.

Agreed.

(*See appendix C*)

Mr. ARMSTRONG: Mr. Robichaud asked for the details of the material purchased and the prices. I have that information. It is very lengthy. On this I have also included the list of contracts so that all of the information is available here. As you can see it is very lengthy with all this material on it.

Mr. WINCH: Is it necessary that all this go in as an appendix? It looks like a terrific job.

Mr. ARMSTRONG: That was a very detailed list of every piece of hardware put into the house.

Mr. HELLYER: I think we might just table that.

Mr. WINCH: It could be referred to the individuals concerned for study, and otherwise only tabled with the committee.

Mr. ARMSTRONG: This is summarized in the first document I mentioned. The total cost of the lumber, the plumbing and electrical work is summarized in the other sheet. This sheet gives the detail of every item bought and the price paid for it.

Mr. KEAYS: I think the suggestion made by Mr. Winch should be accepted. I do not see the necessity of having this written into the proceedings.

(Exhibits 1 and 2 not printed.)

Mr. HALES: I would like to ask a question or two on the transportation. Do you have any particulars, Mr. Armstrong, or just the total amounts? For instance, the one for T.C.A. is $360. Was that for bringing one officer down? Why was he brought down?

Mr. ARMSTRONG: They were all brought down to do a job on the house. I think I can tell you the details. You are interested, first of all, in T.C.A.

Mr. HALES: Well, that is the first one on the list there.

Mr. ARMSTRONG: The first item for commercial airlines was from Calgary to Montreal, and it was for the purpose of bringing down a technical construc-

tion engineering officer of flight-lieutenant rank. Another one, Calgary to Montreal, by commercial airlines, was for the purpose of bringing down another technical construction engineering officer of wing commander rank.

Mr. HALES: All right; that is sufficient.

Mr. KEAYS: I would like to pose a question in regard to salaries. To me, it is very difficult to understand a house being built at a cost of $21,000, roughly, for material, and an additional $6,700 worth of labour by civilians, a total cost of approximately $27,000 for material and labour, and then we have the extra cost of the R.C.A.F. servicemen in the amount of $21,500. I think, in common practice, the labour content of a house is roughly between 25 and 30 per cent of the total cost. In this case, it is far above that, namely, $21,000 worth of material and $27,000 worth of labour. This is rather difficult to understand. Is there any explanation for this high cost of labour?

Mr. ARMSTRONG: Well, I do not think I can give you an answer to that which is going to be intellectually satisfying to you. There are a few features in it that might explain the somewhat abnormal use of labour. As I mentioned earlier, C.M.U. has a certain training function, and some of these people presumably were not fully-fledged tradesmen. However, I do not think there is any question about the fact that there was an excessive employment of service labour on this job. These were people who were in the unit; they were being paid by the R.C.A.F., and they were brought down to work on this house.

Quite frankly, as far as I am concerned, the conclusion that I reached when I examined this was that C.M.U. really had too many people in it, when they could afford to employ that number of people on a house. As I mentioned at the last meeting, the construction and maintenance unit has been completely re-examined, and the establishment has been reduced by 95 people.

Mr. CHOWN: That is, from what number to what number, roughly?

Mr. ARMSTRONG: It was approximately 250 or 260.

Mr. CHOWN: In respect to this figure of the cost of labour, is there any evidence of payment being made to members of the uniformed service—to use an expression—supplementary to their pay of rank?

Mr. ARMSTRONG: Oh, no. It is strictly their normal payments which make up that total of $21,000. Of course, there is no extra pay.

Mr. MORTON: Could you tell me what length of time it took to complete this project?

Mr. ARMSTRONG: We mentioned that before.

Mr. MORTON: I am unable to recall that. However, if it is in the evidence, it will be all right.

Mr. ARMSTRONG: The first man went down in January, 1959, and the job was completed about the end of June. I think I said earlier that it was a little longer than that. It appears to be a six-month period.

The CHAIRMAN: Have you a question, Mr. Smith?

Mr. SMITH (*Simcoe North*): My question has been answered, Mr. Chairman.

The CHAIRMAN: Mr. Winch?

Mr. WINCH: I wonder if I would be unfair in asking a question in connection with what you just said about a reduction of 95 in the establishment. As far as the use of service personnel on this house is concerned, it rather looks as though that number was sent and they were kept on the job as long as they were in what might be termed an endeavour to justify the maintenance of the establishment strength it had at that time.

Mr. ARMSTRONG: Well, I do not know whether or not that is a fair question to ask. I do not know whether the answer to it is yes or no.

Mr. WINCH: You have not the 95 now?

Mr. ARMSTRONG: We reduced it by 95. In my opinion, the worst way to maintain an establishment is to employ that many people on this kind of job.

Mr. WINCH: All we hope is that this type of thing does not carry on throughout the balance of the service.

Mr. ARMSTRONG: I do not think it does. However, I do think I should also say, as it has a bearing on it, that an organization like the construction and maintenance unit has, as I pointed out, two essential functions: One is a training function for this type of tradesman, and the other is to meet emergent jobs. This was the original and main function for this unit. Their purpose was that if a building burned down, say somewhere in the north, and we had to get it up immediately, we would send these fellows in and have it built. I think it is inevitable, to some degree, that an organization of this kind will have some peak periods, and, therefore, you will have some difficulty in organizing it in such a way that you keep everyone fully employed all the time. This is an inherent difficulty in that type of organization.

Mr. WINCH: In order to be fair to the service, and although it would be only a bookkeeping entry, should it not have been included under your estimates for training of the service?

Mr. ARMSTRONG: This is a possible way of dealing with it.

Mr. WINCH: I do not mean that it should be camouflaged, but from what you said apparently that is where it belongs. Is that not correct?

Mr. ARMSTRONG: It is possible that it belongs there, yes. I myself, have been reluctant, in operations of this kind, to have a portion of the cost set aside as training costs. In fact, when we reorganized the accounting terms that applied to C.M.U. in the initial stage, it had been considered that we would leave an element in the cost figures in respect of a project to cover the training element. However, I personally came to the conclusion this was unwise and that it is really too difficult to segregate the difference between those that are training and those that are not. I thought it was better to put the whole thing in. Perhaps you could recognize, in applying your judgment to the cost involved, that it may be a little more expensive than some other way.

Mr. CHOWN: If you had done that, you may not have been appearing before this committee.

Mr. ARMSTRONG: That is possible.

Mr. KEAYS: Does Mr. Armstrong believe that it is essential that the different services keep a maintenance and construction corps?

Mr. ARMSTRONG: Yes, we think so. Again, in respect of all these things, it is a matter for decision and judgment as to how extensive this ought to be.

Mr. KEAYS: As well as the training?

Mr. ARMSTRONG: That is right.

The CHAIRMAN: It seems to me that the nub of this is set forth in the last paragraph under section 48. The notes here read:

> Realizing this, the department has issued instructions that in future estimated costs prepared with respect to all project requests must include cost of all material, whether purchased directly or supplied from stocks, and of all labour, whether employed directly for the job or supplied by departmental services or civilian staffs—together with appropriate charges for overhead.

In fact, have instructions been issued to include the cost of overhead?

Mr. ARMSTRONG: No, the instructions have been issued to include all costs, but not to distribute the overhead in the sense that the overhead of a construction and maintenance unit itself, that is, the people who are doing the head office job and so on, would not be distributed to those costs.

It seemed to us that this is an unnecessary operation in the final analysis, provided that one looks at the cost of the C.M.U. itself.

It seems to me that you have two elements that need to be considered. One of those elements is the cost of doing the job, which I would call the direct cost, and it has to be applied against the estimate which is determined in advance. It includes all costs, that is, not only those which relate to the materials you buy especially for the job, and to the labour that you hire for the job, but also to the materials which you use out of stock. It applies as well to the R.C.A.F. establishment people you apply on the job, and if any civilians on the regular establishment are supplied, those costs are shown. You have, in addition to that, a second problem, which really relates to the size and nature of the C.M.U. This has to be looked at; and the amount of manpower as well as the cost of operating it, in the sense of overhead cost, needs to be examined in relation to the job and the functions being performed.

We did not think it was necessary in respect to every individual item that was done by the C.M.U. to show that some proportion of that overhead must be distributed in relation to the direct labour, to whatever other formula you may use.

The CHAIRMAN: Is it not possible that your whole basis of cost which you would place in front of the Treasury Board for approval may be wrong if you do not include the overhead?

Mr. ARMSTRONG: They will not be wrong. I think they would be right as long as the Treasury Board understand what they represent, and I think they do. They are perfectly clear how it is done.

Mr. MORTON: Your pay and allowance estimate includes the salaries and trades pay for all these men; and I supose there would be a certain amount of materials which you had in stock, and probably general supplies.

When you make up your estimate for a certain project, you would bring before the Treasury Board for that project, for approval, those things which you are going to have to pay for over and above the pay allowances and overhead on your machinery, which you are already charging to general expenses.

Mr. ARMSTRONG: Essentially, that is true. However, in individual construction projects, the estimates which would be put before the treasury board as the cost of the project would be developed in the manner described. There would unquestionably be costs, but we would not attempt to distribute all the overhead of the service. If you go into all that, you get not only the overhead of C.M.U. itself, but part of the overhead of the manning establishment, the basic training establishment, national defence headquarters, and so on; so that it becomes a very complicated accounting operation. I do not think for our purposes it would pay off.

Mr. SMITH (*Simcoe North*): I do not think we should leave the impression that we are criticizing the C.M.U. as a unit. I think it is an absolutely necessary unit for the air force. I think our criticism should be directed against the way the C.M.U. was used, and not against the unit itself.

The CHAIRMAN: It seems to me that the question is: what is cost? There seems to be a difference of opinion among these three people.

Mr. CHOWN: That is why I would like to have a comment from the Auditor General.

Mr. HENDERSON: If I may, Mr. Chairman, I think the determination of cost has been the problem here. I discussed this particular case with officials of

the Treasury Board and asked them this question: if they thought when they got the cost figure, whether or not it included the full cost of the house? And by full cost I meant direct costs and indirect costs; and if the overhead applicable to it was not included, was there a statement to that effect?

They told me that they understood that the $25,000 for the house, plus the $10,000 for the roads, which I think were the figures they were given, would include, they assumed, the full cost of everything. And also, in reply to inquiries made by me of other departments to determine what their conception of cost was, I found a similar understanding.

There is a large crown corporation which I might quote where they are most particular in placing their costs before the Treasury Board to include all direct and indirect costs, with overhead right up to include a stated percentage of the president's salary.

All this, to me, adds up to the fact that there appears to be a certain amount of confusions between what is cost, and what is not. That is what I would regard as quite serious, because, in fact, it can be misleading.

I followed very closely what Mr. Armstrong said regarding the application of overhead. Actually, I think that most accountants would agree that where a division like C.M.U. builds a house, the house costs should, in fact, include not only the direct and indirect costs, but the overhead of C.M.U. at least. However, on the question of overhead, so long as it is made crystal clear as to whether it is included or not, so long as there is a general pattern prevailing within the organization, it would be understood.

Mr. HELLYER: In these figures the general overhead of the unit is not included, but just their specific costs which are related in the testimony of this particular committee.

Mr. HENDERSON: That is my understanding.

Mr. CHOWN: Surely a recommendation should come out of this, that when these projects are submitted to the treasury board, it should be made crystal clear that overhead is, or is not, included in their figuring.

It would seem that we should have a sort of general, consistent policy for all departments and crown corporations of the government.

Mr. HENDERSON: I would like to suggest that one way to set the matter straight would be for the department making its requests to the Treasury Board, to state precisely the nature of the cost in its request, and to state if they are direct and indirect costs, and whether they include overhead. Such figures go to Treasury Board regularly in the normal routine, and I do not think any blame is to be laid anywhere for this.

When the figures go to them, they should include the clearest statement as to what the cost basis is they are using. Otherwise you can have two dozen kinds of costs.

Mr. SMITH (*Simcoe North*): Does the Auditor General think it possible accurately to extract the overhead from the real cost in the cost of a military unit in which training is involved, when it is used on a project like this?

Mr. HENDERSON: No, sir, I think it would be too costly to attempt to achieve the great degree of accuracy which you are suggesting; but it would be quite possible to achieve a feasible figure.

Mr. SMITH (*Simcoe North*): My own feeling is that a military unit ought not to be used on such a project.

The CHAIRMAN: There are two gentlemen here from the Treasury; did they want to say anything on this point?

Mr. D. R. MCLELLAN (*Treasury Board Staff*): I have no comment, I am here as an observer.

The CHAIRMAN: It may be held against you in the future!

Mr. HELLYER: I would like to say that I agree with Mr. Smith, in that ordinarily this is definitely the type of project which should not be undertaken for experimental or, if you prefer to call it, training purposes by units of the armed forces. I think that really here we are talking about what is a disturbing area in the judgment both on the part of treasury board and of the unit concerned. I feel that treasury board should have recognized from the beginning that it would have been impossible for the armed forces to undertake the construction of a house for anything like the cost for which it could be done in the open market. Similarly, I think that the instant the suggestion was made to the unit they should have reported back that that was their judgment also. However, what we really want to do is to try and impress upon both treasury board and the armed services that they should not make the same or a similar mistake in the future.

There are two or three minor specific questions I would like to ask, Mr. Chairman. I wonder if Mr. Armstrong can say what was involved in this expense for an individual automobile. Did that involve a trip from west to east and back?

Mr. ARMSTRONG: The individual concerned in this case had permission to use his privately-owned motor car, and he was reimbursed in that instance in accordance with the regulations that provide for the use of privately-owned motor cars.

Mr. HELLYER: Do you have with you the rate of reimbursement?

Mr. ARMSTRONG: I do not have it here and I would not like to quote it from memory, unless some of the Auditor General's people have it with them.

Mr. CHOWN: In any case it is a very stringent and carefully fixed rate, and I do not think we need to worry about an excessive payment, I would suggest, Mr. Chairman.

Mr. HELLYER: I would accept that. Under the list of ground-air services it is very difficult to determine whether the charges are realistic or not, due to the way they are set out here. I do not wish to labour the point. For example, under item (*j*), equipment rental charges; does this include equipment used for the installation of the sewer, water and landscaping, or just what does it include?

Mr. ARMSTRONG: That is the R.C.A.F. equipment that was employed. It might have been employed on all the things you mentioned, and the way of showing cost for this was to say that if a bulldozer cost $7.50 an hour to rent, then we will place a charge against this house for R.C.A.F. equipment that was employed for $7.50 an hour. That is what it means.

Mr. HELLYER: You can see, Mr. Chairman, why under the circumstances it is impossible to evaluate individual unit charges for different services which were put in the ground. Again, it is a matter of accounting. The items here which seemed to be most questionable, assuming that the extra services put in will be used at some time in the future or were intended to be used at the time they were installed are those on landscaping and grading which involve a considerable amount of money and would give the impression that a whole city block was graded, shaped and covered with topsoil and so on. Is that the case?

Mr. ARMSTRONG: I gave you my only copy of this, the only one I had left. Could I get it back for a moment?

The CHAIRMAN: The landscaping figure was $3,000.

Mr. ARMSTRONG: And seeding, as I recall, was $3,000. One answer to this which I recall and which explains it in part is that the area which was to be

used for additional married quarters required a considerable amount of grading and levelling, but the $3,000 item, that I think is shown there, was the amount that was used for seeding, grading and landscaping the area surrounding the house. Is that how that is shown?

Mr. HELLYER: It is shown as 7,500 square yards; that is quite an area.

Mr. ARMSTRONG: That is a couple of acres.

Mr. HALES: I have a supplementary question; was this landscaping and grading given a tender?

Mr. ARMSTRONG: Yes.

Mr. BEECH: I have a point that concerns me, Mr. Chairman, this dual thing of calling for public contracts and then having service personnel going in and working with them. Is that economic? It leaves itself wide open for abuses. I could see where a contractor would be paid for work which would in fact be done by service personnel. There are all kinds of ways in which it might be uneconomical. I question the wisdom of it.

Mr. ARMSTRONG: If you look at the contracts, they were contracts, for example, to purchase gravel and contracts for pre-mixed concrete. There was also a landscaping contract of course.

Mr. BEECH: I was looking at the total amount, the actual cost of material, civilian labour, and the contract for $27,706. The service contribution was $29,009, so it is split evenly.

Mr. ARMSTRONG: You should appreciate that the $26,000 was not all for contracts. That list covers all the materials that were bought and direct labour hired. The actual amount for contracts I think is given there on the bottom summary, there is an analysis there.

Mr. BRASSARD (*Chicoutimi*): $3,928.20.

The CHAIRMAN: Are there any other questions?

Mr. MACDONNELL (*Greenwood*): Would it be relevant and is this the right time—I will ask my question subject to your considering that—to ask how far departments should have their own organization for construction purposes. Someone indicated to me that it was recognized in this case that there is a construction organization. We know that in the C.B.C. there is a considerable amount of work done by the C.B.C. itself. What I am raising is whether it is worth while considering if we have gone too far. I remember, when I was in business, we made a new appointment and my general manager was a very wise man. He warned me and said: remember Jim, you created a new kingdom and the king will want to have as many subjects as possible. Now, is there anything in that, and is this a relevant time to consider it? I want to be perfectly specific: should there be one department, Public Works for instance, which does construction for many smaller departments? Is it possible that there are some community departments that are doing more themselves than is necessary, and does that give rise to the danger of duplication and so on? I will accept your ruling, if you rule it is not the time to ask this question.

The CHAIRMAN: I think it is very pertinent.

Mr. HENDERSON: Would this not be something on which the Glassco Royal Commission might be expected to have a view?

The CHAIRMAN: Do you have any comment, Mr. Armstrong?

Mr. ARMSTRONG: I would not like to comment on Mr. Macdonnell's question. It would be an extensive study. What I wanted to say was in relation to the remarks in respect to our relationships with the treasury board. I wanted the committee to know that we do have and have worked out with the Treasury Board an arrangement whereby construction projects are reviewed by a committee. It is called the accommodation review committee, I think.

The Treasury Board staff members come down and sit with the members from the Department of National Defence. They examine the various projects that are put forward for approval. Therefore there should be no misunderstanding between ourselves and the Treasury Board in respect to what is represented in the costs that are submitted, and in the details of the projects that are provided.

Mr. SMITH (*Simcoe North*): I would like to comment on Mr. Macdonnell's statement in relation to this particular type of personnel building right beside a fairly large army camp. We have been hearing a great deal about matters like this, both of complaint and condemnation. It is most essential that the armed forces have these units so that they have a body of trained men which they can send where necessary to do emergency construction, repairs and that type of work. I think they are an integral part of the service, but I think the danger is in the misuse of the units, once they are formed. That is my comment on what Mr. Macdonnell has said.

Mr. MACDONNELL: I suppose the army could do it, to the extent you use army personnel; that is, they could do work to the extent that it is for purely military duties, and not to get a bonus for the public outside. Is that the argument?

Mr. SMITH (*Simcoe North*): That is the argument.

The CHAIRMAN: I was trying to line up your argument, Mr. Macdonnell. It seems to me that in principle you should have one central control of general construction work on behalf of the government. We do have that, I suppose, in the Department of Public Works.

Mr. SMITH (*Simcoe North*): Defence construction.

The CHAIRMAN: If, on the other hand, there are various units such as C.B.C. who are going to set up construction units, and if various other departments are going to have construction uits, there will be no limit to this and it could keep on spreading and spreading out, so the argument seems to be to have a central control of the various construction units.

Mr. SMITH (*Simcoe North*): As has been stated earlier, we had pioneer platoons. Trained carpenters are completely necessary as a part of the armed service. We have to train them somewhere.

Mr. DESCHATELETS: I think there could be a line drawn between repair and construction.

Mr. ARMSTRONG: I may say that the construction program in the Department of National Defence at the moment involves something close to $100 million a year. It was, as you know, very much larger than that a few years ago, when a great deal of construction was necessary with the expansion of the forces. The majority of this construction is done by contract. It is the policy of the Department of National Defence to do their construction by contract and it is only in exceptional cases, the cases where there is some valid reason to do it with our own forces, that we would so do it.

As I mentioned the first time I appeared here on the St. Hubert house question, it is not a good example of this because obviously there is no particularly valid reason to build a house by our own forces. However, this is the general policy—the construction forces in the Department of National Defence are largely concerned with maintenance, as you mentioned, and not with major construction. Of course, they are concerned with the planning for major construction, but the actual construction jobs themselves are almost wholly undertaken by contract.

Mr. SMITH (*Simcoe North*): When you mention a majority, you mean a very substantial majority, that 95 per cent of the construction work would be let out by contract?

Mr. ARMSTRONG: Yes, I would say somewhere between 90 to 95 per cent. That would be my off-hand guess.

Mr. HALES: In this St. Hubert house case, who gave the final o.k. to go ahead and build this house with this particular method of construction, that is by your own men? Who was the one in the department who signed the o.k. to it to do it this way?

Mr. ARMSTRONG: That is always a difficult question to answer.

Mr. HALES: It has to come to a final spot somewhere along the line, and I want to know where it is.

Mr. CHOWN: Was there not a directive read into the last minutes, or referred to at the last meeting, which included the signature of some officer in your department?

Mr. ARMSTRONG: That I do not think answers Mr. Hales' question. As I said earlier, this project eventually was approved by the Treasury Board. In order to have a project approved by the Treasury Board of course you have to put it through all the different stages of the department, including the Deputy Minister's office. Eventually there is a recommendation by the Minister and approval by the Treasury Board. The question arises, I think, in doing this did everyone understand how the house was going to be built. In my opinion it was understood how this house was to be built—that it was to be built by the service. If one has to pin it down and say there is a mistaken judgment here at some level, I suppose in the final analysis in any of these projects the fellow who is responsible in making a mistaken judgment of this kind is myself, the deputy minister. I do not think there is any way of getting around this. If one puts his approval on something, he accepts responsibility for it.

Mr. SPENCER: Someone has made that recommendation to the Deputy Minister.

Mr. ARMSTRONG: Certainly; but after all, the man who signs it finally is responsible.

Mr. HELLYER: To be fair, it is very honourable of the Deputy Minister to take this attitude, but the recommendation comes from the service. It is then approved by his side of the department as he has said, and that puts him on the hook. It is signed by the Deputy Minister who probably did not have a whole morning to read all this and to read all the fine print. It then comes to the Treasury Board who are the audit people under our system of responsible government. The Minister, himself, has the final responsibility. But I do not think that is what we really want to labour. What we want to try to do is to see that there is no repetition of this type of questionable judgment, and to discourage anybody along this chain of command from attempting either by inadvertence or otherwise—

Mr. SMITH (*Simcoe North*): Or subterfuge.

Mr. HELLYER: —from slipping through a recommendation by not putting enough fine print in to apprise everyone along the chain of command as to just what exactly is involved.

Mr. MORTON: There is too much fine print in it. There should have been larger print.

Mr. CHOWN: Mr. Macdonnell has now whetted my appetite for information on just how much within the department construction is going on across the board. I do not know whether it would be easy or difficult to get this information, but I presume it could be obtained, and I think the committee will be interested in having it before them at some future date. If the Auditor General

asked for information by a memorandum through the department, I think he probably could set the question up in a way that would elicit the information that would be of proper interest to the committee.

The CHAIRMAN: It would be of very great interest because it seems to me that the question Mr. Macdonnell raised is of vital importance.

Mr. HELLYER: Is he talking about current construction?

The CHAIRMAN: Construction in principle, is that not it?

Mr. CHOWN: Taking the fiscal year. There is a question that comes to mind, which will come to the Auditor General's mind, as to what personnel or units are involved within the department on construction that is going on, who they are and how much is it costing per year, within the last fiscal year. Is that asking too much, or can Mr. Armstrong tell us?

Mr. ARMSTRONG: As far as the department is concerned, I think we could produce this information without too much difficulty.

Mr. SMITH (*Simcoe North*): Should not the question be confined to new construction rather than maintenance?

Mr. ARMSTRONG: It might be preferable to do so, but we could do it in either case, whether it was maintenance or otherwise.

Mr. CHOWN: Would it be convenient to do it over five years?

Mr. ARMSTRONG: It gets more difficult because we would have to go back through the records.

Mr. SMITH (*Simcoe North*): I wonder what would be the amount of work required to produce it for five years, the maintenance cost of the armed services?

Mr. CHOWN: I was not thinking of maintenance; I was thinking of new construction.

Mr. KEAYS: I am wondering how far we are getting with this interrogation.

Mr. HELLYER: Just about back where we started.

Mr. KEAYS: The Glassco Commission will be in touch with the Department of National Defence and possibly will go into phases of this problem. In so far as our committee is concerned we take a very close look at this problem, to satisfy the duties which we have to perform here.

Mr. MACDONNELL: This figure of 95 per cent put out to construction seems to go a long way to answer my question. However, it still seems to me that it might be useful to our purpose, without involving too much investigation, to have that figure somewhat elucidated to see what exactly that 95 per cent means, and what is contained in the other 5 per cent. On the face of it 95 per cent seems to go very close to being a complete answer to my question, I admit.

Mr. ARMSTRONG: I would like to emphasize here that I was giving an approximate percentage somewhere about 90 to 95 per cent in so far as major construction is concerned. If you confine your question to that, I do not think we would have significant difficulty in taking this out, say, for a year's time, if it is useful to you.

Mr. SMITH (*Simcoe North*): If I may make a comment once more on Mr. Macdonnell's question, again referring to Camp Borden, which is a large army camp, the main complaint I get about Camp Borden, from conversation with employees, is that the establishment board has been there again and has reduced five subforemen to ordinary carpenters, and has reduced the establishment by three carpenters or five plumbers or something like that. Whether it is efficiency or not, there seems to be a continuous review going on of the establishment of the maintenance services in that camp. Generally, it seems as if someone is reducing their establishment, or laying off another bunch of tradesmen.

Mr. FISHER: Has anyone brought up another aspect of this, Mr. Chairman? As I understand it, the committee's questioning has been concentrated upon this as a very bad example of what can develop, and what checks the committee would like made to balance it. I am talking about it now as if it may reflect the psychology of living very high on the hog on the part of senior officers in the services, and whether this represents too high an expectation of standards on the part of senior officers in our forces. Mr. Chown wants practical figures to indicate a division, but I should like some kind of check made to find out whether or not the senior officers in our services, particularly in the air force, are being looked after far too well.

The CHAIRMAN: You mean they should live like members of parliament?

Mr. FISHER: I can remember the Prime Minister speaking in Kingston, when he was a member of the opposition, and expressing tremendous concern over the lavishness of two of the officers' messes there. I also remember a rebuttal was made by a couple of military officers, though informally, that after all the officers paid for these messes out of their own pockets. However, the point is that the income of the officers came from the government and whether the messes were paid for by way of levy or tribute, or whatever the case may be, I wonder can the Canadian government, in our particular situation at the moment, put up with such high standards. I do not know how we can get this done, but I should like to see it looked at.

The CHAIRMAN: You will see that it is looked at in the second paragraph. There is an undercurrent there which ties in with your remarks.

Mr. SMITH (*Simcoe North*): I do not want to monopolize too much of the time of the committee this morning with my comments, but I do not think the facts bear out the imputation contained in Mr. Fisher's suggestion. I have seen the living quarters in Camp Borden which probably, in terms of personnel, is the largest military camp in Canada, and there is not very much difference between the quarters in which the privates live and the quarters in which the officers live. None of them, by any stretch of the imagination, could be considered luxurious. For that matter, none of the messes I have seen would come into that category. There may be exceptions in certain camps but, as a general rule, I do not think the army is overhoused.

Mr. FISHER: You are saying that there are not many comparable to this house in Camp Borden?

Mr. SMITH (*Simcoe North*): Not even half comparable.

Mr. FISHER: It seems to me that Mr. Smith's argument is identical with what he raised at the previous point. What he is suggesting is that the army is different.

Mr. SMITH (*Simcoe North*): No, we have both the army and the air force in Camp Borden.

The CHAIRMAN: Has Mr. Henderson anything to add?

Mr. HENDERSON: I have listened to this discussion with great interest. I am the servant of the House of Commons. I am here to do your bidding and, if you decide you want certain facts and figures, then I consider it is my duty to obtain those for you and bring them forward. However, I do not know how far you have progressed in deciding on what you would like.

Mr. HELLYER: I think it is difficult to get a meaningful report, because where do you draw the line? For example, if in the course of training at Petawawa a golf course is constructed, would this show up in the figures? Is it legitimate training? Would the units which would be constructing it be occupied otherwise? I do not think a great deal of this information would show up in the statistical figures. Therefore, I suggest that anything we do on this question be of such a character that it would not involve a lot of tables and expensive preparation.

Mr. MORTON: It appears to me the only thing that can be done in such a case is to compare figures regarding a specific project. If, for example, you go into the day-to-day maintenance of any camp or military establishment then, to my mind, it is most difficult to come to any conclusion. I think the point Mr. Macdonnell was trying to get across was that, when dealing with a particular, specific project such as the one before us, it should be examined in the light of whether it is economic and efficient for the particular unit involved to undertake it, or whether the work should have been done by tender from ordinary construction companies.

The CHAIRMAN: Has he not done that, first by his comments and secondly by the comments of the Deputy Minister?

Mr. MORTON: We have done that in this particular case, but I think what Mr. Macdonnell was getting at was to take one year and see what other projects, over and above maintenance, were carried out, and make a comparison then as to costs.

Mr. HENDERSON: I could make one suggestion, Mr. Chairman. Rather than attempting to pull together any figures which, as Mr. Hellyer says, might not provide any solution in depth, and perhaps would only complicate the problem, I might mention that we are working with the officers of the Glassco Royal Commission on several matters. With your permission, I would be pleased to discuss this matter briefly with them, with a view to inquiring to what extent they are going into it, and I then shall report back to your next meeting. That would be a relatively simple thing to do, if the committee is agreeable.

The CHAIRMAN: Is that agreed?

Mr. CHOWN: I may just add one little thought to this general discussion. There is a feeling that, in the various departments of government, we are accumulating a large lot of expense for professional help. This is getting into the matter more deeply, but I am speaking about it in terms of architects, engineers and lawyers, and I am afraid I shall have to admit lawyers.

Mr. HENDERSON: You have not mentioned accountants.

Mr. CHOWN: Never accountants. This is a point I think should be looked into in order to see what all these people are doing. Why are they all necessary on the establishments of these different departments, and does this not suggest another general picture, that there is far too much work being done within government which could be more economically done by outside, professional consultants? Could the Auditor General bring this up in his discussions with the members of the Glassco Commission?

The CHAIRMAN: That is very helpful. Is that agreed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Then we shall pass on to paragraph 49.

> 49. Non-recovery of expenses incurred in lending crown-owned property. In the summer of 1959 a number of NATO vessels were invited to participate in a naval show at the Canadian national exhibition, Toronto. In order to transport personnel between the vessels and the shore, six landing barges were borrowed by the Department of National Defence from the Department of Transport, and a general understanding was reached with the exhibition association that any costs incurred in connection with these barges would be borne by the association, although no formal agreement was concluded to this effect.
>
> The cost of transporting the craft, together with certain conditioning expenses, was billed to and recovered from the association by the Department of National Defence. However, it later developed that other expenses totalling $4,925 incurred by the department had been

inadvertently omitted from the billing. This was directed to the attention of the association, but up to the time of the completion of our examination, recovery had not been effected nor had liability for the additional charges been admitted by the association.

Mr. HENDERSON: This item, Mr. Chairman, is self-explanatory. As I understand it, the Canadian National Exhibition Association has not yet paid the amount of $4,925, and the reason for the continued delay in payment is perhaps something which Mr. Armstrong can explain.

Mr. ARMSTRONG: The Canadian Exhibition Association have some doubts as to whether the amount of $3,965 was wholly a liability of theirs. If I remember rightly, it was in last January that the president of the Canadian National Exhibition Association came to see me about the matter, and I agreed with him to have an expert from the Canadian navy and an expert from the Department of Transport re-examine all the detailed items in the bill. That has been done and the result of the re-examination shows it was necessary to restore the ships to their original condition. I have written to the Canadian National Exhibition Association, giving them the result of that investigation but, up to this point, we have not yet received a cheque. I would hope there would be no difficulty in respect to it.

The CHAIRMAN: The liability has been admitted?

Mr. ARMSTRONG: It has not been admitted. I agreed to this investigation being made and, as far as we are concerned, the result shows that all these items should be paid.

Mr. MORTON: May I ask one question that comes to my mind? When the original negotiations were taking place, was there any estimate of the cost to the exhibition made at that time?

Mr. ARMSTRONG: No, I do not think there was. It would be virtually impossible to make an estimate because the understanding was that the ships would be restored to their original condition when they were returned. The problem would have been one of estimating what was going to happen to the ships when they were in use.

Mr. MORTON: Then, the exhibition did not get any understanding as to the cost?

Mr. ARMSTRONG: No, there was no definite understanding.

Mr. MORTON: And the costs incurred in order to supply these boats to the exhibition were costs which would not ordinarily be incurred?

Mr. ARMSTRONG: No, these boats were loaned by the Department of Transport and, when they were returned, they were restored to the condition in which they were at the time they were loaned. I think perhaps one of the reasons why this became a problem is that the billing for this work came along a little later after the Canadian National Exhibition Association had paid for part of the operation. It worried them to have an extra billing and they were concerned about the details of it. That has now been examined and I trust the matter will be settled without too much difficulty.

Mr. MORTON: I presume the cost of the use of these landing craft was limited to the exhibition? They are not being used now?

Mr. ARMSTRONG: If I remember rightly, there were some NATO ships down in Toronto harbour, and the Association planned to bring people from the Canadian National Exhibition out to these ships in the landing craft. In point of fact, I think they were not able to do this. I have forgotten the reason for that, and so the landing craft were used to move the crews back and forth from the ships to the mainland.

Mr. HALES: Then, Mr. Chairman, we could sum it up that there was really no formal written agreement when you entered into a contract with the C.N.E.?

Mr. ARMSTRONG: There was an exchange of letters, but not a formal contract in the sense in which you have spoken.

Mr. HALES: Could you have got around that problem if you had a written contract with them, or a stated price?

Mr. ARMSTRONG: I do not think so. It would be impossible to make a stated price because no one would know in advance what damage was going to be done to the ships during this operation. The understanding was that they would be loaned and, when they came back, they would be restored to their original condition. The Canadian National Exhibition Association assumed whatever costs were involved, and I do not see there was any way of making an estimate in advance of what that would be.

The CHAIRMAN: Why do you not hand it over to your legal department?

Mr. ARMSTRONG: I do not think that would be necessary.

Mr. MORTON: Why were the bills forwarded at two stages? Why did you not send the two at the same time?

Mr. ARMSTRONG: Because the costs to which we are referring here did not come to the Department of National Defence until a later time after the original bills were submitted.

Mr. MORTON: Were the original bills submitted as final costs?

Mr. ARMSTRONG: No, I do not think so.

Mr. MACDONNELL: Did I understand Mr. Armstrong correctly to say that these barges, whatever they were, which had been intended to move visitors were not used for that purpose but were used for ferrying the personnel of the naval units backwards and forwards to the shore.

Mr. ARMSTRONG: That s my understanding. This really is the Canadian national exhibition's business.

Mr. MACDONNELL: I would have thought they could have got ashore under their own steam, so to speak.

Mr. ARMSTRONG: I cannot give you the answer as to why they were not able to do this.

Mr. MACDONNELL: Do you mean to tell us that these liberty men of the naval units could not have got ashore. $4,900 is a lot of money.

The CHAIRMAN: Is there anything else, gentlemen. If not, shall we go on to paragraph 50?

50. *Medical expenses incurred for accidental injuries suffered by a deserter.* During the course of our examination, we noted the case of a man who had joined the navy in May 1956 and deserted two years later. In September 1959, while still absent without leave, he was seriously injured in an automobile accident. His hospital and medical expenses up to December 1959, when he was released from the navy, cost the department $3,500. In addition, as the man is entitled to post discharge treatment for one year at public expense, and as he is a quadriplegic, it is estimated that a further outlay of at least $8,000 will be involved during that period. It was also noted that the man was released on medical grounds rather than on account of desertion and as a result was given a cash termination allowance of $419.

The navy carries deserters on strength indefinitely in order to impress on serving personnel the inviolability of their engagement in the service. In this case, if the man had been in the army or air force he

would have been struck off strength automatically a year after his desertion and the crown would have had no further financial responsibility for him.

As a result of our bringing this case to the attention of the Department of National Defence, the navy's practice is now under consideration with a view to standardizing the practices of the three services.

Mr. HENDERSON: The circumstances of this are explained in the first paragraph. I thought it rather strange that this man would have been released on medical grounds rather than on account of his desertion and as a result receive a cash termination allowance of $419. As I understand it the navy everyday is releasing young men who do not measure up. Therefore, why would they not release a deserter like this who, presumably, did not like the navy. We have discussed this matter, and I understand they now have the practice under consideration with a view to standardizing it with that of the army and the air force. According to my information this has been under study since July 11, 1960.

Mr. HALES: Would Mr. Armstrong tell us what decision has been reached?

Mr. ARMSTRONG: I might first of all say a word on this. The man was discharged on medical grounds rather than held for the court martial which would have been necessary. It would have been necessary to hold him in the service in order to give him a trial. He would have to be taken back to the place from which he deserted. The navy came to the conclusion, and I think probably they were right in this, that in all it would be cheaper to release him on medical grounds than to incur the costs which necessarily would have to be incurred in putting him through a trial and finally releasing him, presumbaly as a deserter.

In so far as the regulations are concerned, these have been reviewed. The three services will have a similar time period after which they will strike a man off strength; this period will be six months.

Mr. HELLYER: Would Mr. Armstrong say what would be the approximate cost of going through the court martial procedure? What evidence was there which led the navy to the conclusion they reached?

Mr. ARMSTRONG: I do not have a figure to put on it. The estimate was that it would take roughly a year. The man was ill. First of all there was the problem of having him medically fit before all this could be done. They estimated it would probably take a year to get him out and in this period he would have had to be paid and would have had medical expenses and so on. The pay and allowance probably would have amounted to $3,000 or $4,000.

The CHAIRMAN: There is the further item of $8,000 for medical treatment.

Mr. ARMSTRONG: That would have been additional if we had kept him on and had to get him medically fit to appear for trial.

Mr. BEECH: I understood they had no claim when the accident occurred when they were not on military duty. Is that not true?

Mr. ARMSTRONG: I believe you are thinking of the Pension Act. The payments here are under the Armed Forces Superannuation Act. If a man is a member of the armed forces, while he is a member he is entitled to his medical treatment.

Mr. SPENCER: Even though injured apart from his service?

Mr. ARMSTRONG: Yes. Bear in mind, however, that depending on the circumstances there may be a legal claim against a third party. If a man were injured in an automobile accident and the negligence was that of a third party we would have a claim against the third party.

Mr. SPENCER: If the serviceman is entitled to recover his medical expenses incurred as a result of an accident which had no relation to his service in the army, then why could he not also recover for his personnel injuries? Where do you draw the line?

Mr. ARMSTRONG: Insofar as the treatment is concerned, that is governed by the Queen's regulations. A member of the forces, while a member of the forces, is entitled to medical treatment and hospitalization. In this case he receives that medical treatment while he is a member of the forces. Of course, when he is discharged he no longer is entitled to it.

The CHAIRMAN: In this case we are dealing with a deserter. He was paid $3,500 and $419 termination allowance.

Mr. ARMSTRONG: Up until December 29, when he was released the cost was $3,500 for medical expenses. The gratuity received by him based on one month's pay and allowance for every year's service, was $419.

Mr. SMITH (*Simcoe North*): Is there no regulation to the effect that after a person has been a deserter for a year he is automatically discharged?

Mr. ARMSTRONG: The air force and the army automatically strike him off strength after a year. The practice of the navy has been to keep them on. As I mentioned earlier, this has been examined and all three services will be the same henceforth.

Mr. CHOWN: Do you happen to know whether or not there was any third party liability in this particular case?

Mr. ARMSTRONG: I believe there was not.

The CHAIRMAN: Gentlemen, this seems to be a good place to stop. Our next meeting will be on May 2nd when we will consider the Auditor General's report, starting at paragraph 51.

APPENDIX "A"

STATEMENT OF ORIGINAL ESTIMATE ON WHICH DECISION WAS MADE HOUSE COULD BE BUILT FOR $25,000.00 SHOWING COSTS AS RECORDED BY CMU

Item No.	Description	Original Estimate of Cost	Actual Cost of Material, Civilian Labour and Contracts
		$	$
1	Foundation	1,400.00	2,077.21
2	Structural and Reinf Steel	405.00	416.28
3	Plumbing	2,175.00	2,776.14
4	Rough Carpentry	5,830.00	7,055.32
5	Hardware	730.00	702.64
6	Roofing and Flashing	328.00	317.91
7	Electrical	700.00	722.38
8	Heating	1,105.00	1,144.40
9	Insulation	340.00	283.60
10	Finish Carpentry	2,654.00	3,026.74
11	Flooring	675.00	783.25
12	Painting	650.00	1,084.59
13	Masonry	365.00	549.22
14	Labour—CDL and by Contract	6,947.00	6,767.09
	TOTALS	24,304.00	27,706.77

NOTE: The costs shown in column (2) comprise:

(a) Material purchased	$16,054.62
(b) Contracts	3,948.20
(c) Civilian labour hired for the job	3,790.79
Sub-total charged to the F.E. for $25,000	23,793.61
(d) Material from RCAF stock	3,913.16
	$27,706.77

The remaining costs to make the total of $56,716.27 are the following:

(a) Pay of RCAF servicemen	$21,520.00
(b) Transportation of RCAF servicemen	4,800.00
(c) RCAF equipment (costed at estimated cost of renting similar equipment)	2,689.50
	$29,009.50

APPENDIX "B"

HOUSE OF AIR OFFICER COMMANDING—ST. HUBERT QUEBEC

Transportation Costs	
Commercial Air Lines	$ 360.00
Privately owned motor car	384.25
Rail	4,637.70
TOTAL	$ 5,381.95

APPENDIX "C"

GROUNDS AND SERVICES

Quantity	Description	Cost to house as originally planned	CMU Recorded cost	Estimated extra cost attributed to developing additional area
		$	$	$
(a) 180 ft.	Storm sewer (by contract)	257.83	617.83	360.00
(b) 400 ft.	6" sanitary sewer including one manhole (by CMU)	156.54	656.54	500.00
(c) 400 ft.	12 ft. wide access road paved with 3" asphalt and requiring 1,628 cu. yds of crushed gravel base (by contract).	1,459.14	2,859.14	1,400.00
(d) 300 ft.	Electrical service consisting of 205 ft. of pole line, 95 ft. of underground cable, and a 10 KVA transformer (by CMU)	1,524.67	2,124.67	600.00
(e) 320 ft.	1¼" water service (CMU)	314.02	594.02	280.00
(f) 250 ft by 350 ft.	Fill and grading (7200 cu. yds) of general area (by CMU)	997.36	6.497.36	5,500.00
(g) 7500 sq. yds.	Landscaping consisting of the application of 4" top-soil, lime, fertilizer and lawn seed. (by contract)	1,650.00	3,225.00	1,575.00
(h)	Transportation charges	600.00	600.00	—
(j)	Equivalent equipment rental charges.	1,240.00	5,740.00	4,500.00
	TOTALS	8,199.56	22,914.56	14,715.00

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

Public Accounts of Canada—Vols. I-II

Report of the Auditor General to the House of Commons—1960

TUESDAY, MAY 2, 1961.

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Mr. E. B. Armstrong, Deputy Minister, Department of National Defence.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24949-0—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Allmark	Dupuis	Nugent
Beech	*Fisher	Pigeon
Bell (*Carleton*)	Grenier	Pratt
Benidickson	Hanbidge	Regier
Bissonnette	Hellyer	Robichaud
Bourbonnais	Keays	Rouleau
Bourget	Lahaye	Smith (*Simcoe North*)
Brassard (*Chicoutimi*)	Macdonnell	Smith (*Winnipeg North*)
Broome	McGee	Spencer
Bruchési	McGrath	Stefanson
Campeau	McGregor	Stewart
Chown	McMillan	Tucker
Danforth	Martel	Valade
Denis	Morissette	Villeneuve
Deschatelets	Morton	Woolliams
Drysdale	Noble	Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

*Replaced on Wednesday, April 26 by Mr. Winch.

ORDER OF REFERENCE

WEDNESDAY, April 26, 1961.

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

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, May 2, 1961.
(12)

The Standing Committee on Public Accounts met at 9.40 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Bissonnette, Danforth, Hales, Hellyer, Keays, Lahaye, Macnaughton, Morton, Regier, Smith (*Simcoe North*), Tucker, and Winch—14.

In attendance: Messrs. A. M. Henderson, Auditor General of Canada; and E. B. Armstrong, Deputy Minister, Department of National Defence.

Mr. Henderson was called and, pursuant to an instruction received at the last meeting, he reported on the discussions he had with the Glassco Royal Commission and read an exchange of correspondence.

The Committee resumed its consideration of the Auditor General's Report, paragraphs 51 to 58 inclusive.

Mr. Henderson was assisted by Messrs. G. A. Morrison and J. R. Douglas.

Mr. Armstrong was also called and questioned on paragraphs 51 to 54.

The Wednesday meeting, (May 3) of the Committee was cancelled.

Messrs. Henderson and Armstrong's examination still continuing, the Committee adjourned at 10.55 to meet again on Tuesday, May the 9th, to hear, as agreed, the Polymer Corporation Limited.

Antonio Plouffe,
Acting Clerk of the Committee.

24949-0—1½

EVIDENCE

TUESDAY, May 2, 1961.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Henderson, the Auditor General, has some follow-up comments to make on various questions raised at the last meeting.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, at the last meeting a discussion took place regarding the extent to which government departments, crown corporations, and other agencies should go in for internal construction units. I suggested to the committee I might discuss this with the Glassco commission, because we are working with them in some other fields. That was agreed. Accordingly, I would like to report on those discussions which are summarized in an exchange of letters I have had with the officials of the commission covering the points on which you wished information.

I will read from the letters. First of all there was my letter which I wrote after discussing the matter with Mr. Glassco, the chairman, and Mr. Watson Sellar, the vice-chairman. I also talked with Mr. Ritchie, the executive director, and wrote him on April 26 as follows:

Ottawa, April 26, 1961.

Dear Mr. Ritchie,

At today's meeting of the Standing Committee on Public Accounts of the House of Commons, the members continued their examination into the circumstances surrounding the construction costs of a house at an R.C.A.F. Station, the subject matter of paragraph 48 in my report to the House of Commons for the fiscal year ended March 31, 1960. I am informed that the Minutes of Proceedings and Evidence should be available on Friday, April 28th.

During the course of this discussion, the question arose as to how far government departments, Crown corporations and other government agencies should go in having internal construction units within their own organizations such as, for example, the R.C.A.F.'s Construction Maintenance Unit. After referring to similar construction units or departments within the organizations of government agencies generally, the question was asked whether there should not be one department like the Department of Public Works charged with carrying out all construction, certainly for the smaller departments. It was suggested that some of the government agencies may be attempting to do more than is necessary, thus causing duplication and unnecessary expenditure.

The discussion reached a point where the suggestion was made that I obtain comparative facts and figures over the past several years from government departments and agencies as the basis for further investigation by the Committee. As it occurred to me that this whole area was possibly one which you and your associates on the Royal Commission might in fact be already investigating, I mentioned it to the Committee and was instructed to discuss the matter with you on their behalf and report back.

In addition to the aforementioned subject, a further question was brought up in the Committee which I was asked to include in this

discussion with you. It was stated that there is a belief abroad that in the various government departments, Crown corporations and agencies there is large expenditure for professional help by direct staff employment of architects, engineers, lawyers, etc. It was suggested that this should also be looked into on the basis that professional work of this type might be done more economically by outside consultants. Again it was thought that this might likewise be the subject of special study within one or more of your projects.

I should appreciate an opportunity to discuss these two questions with you and your associates so that I may be in a position to report back to the Committee when it meets next on Tuesday morning, May 2.

Yours sincerely,
Signed by
A. M. HENDERSON

R. S. Ritchie, Esq.,
Executive Director,
Royal Commission on Government Organization,
Ottawa.

I sent a copy of that letter to Mr. Steele, secretary of the treasury board, to keep him informed in this matter.

As a result of our discussion, Mr. Ritchie replied to me on April 28 as follows:

P.O. Box 466, Ottawa.
APRIL 28, 1961.

A. M. Henderson, Esq., O.B.E., C.A.,
Auditor General of Canada,
Ottawa.

Dear Mr. Henderson:

Thank you for your letter of April 26 concerning the questions raised that day by members of the Standing Committee on Public Accounts of of the House of Commons. We have read with great interest both your letter and the Minutes of Proceedings and Evidence of the Committee.

I can assure you that the points raised by the various members of the Public Accounts Committee are very much in our minds. Our project group on real property management is concerned with most of these, including the construction and maintenance practices of government departments and agencies and the manner in which government needs for architectural and engineering services are met. The project group on legal services and procedures is inquiring into the employment of lawyers throughout the public service and, generally, the manner in which the government satisfies its need for legal services.

At the moment, both projects are engaged in ascertaining the facts: what is being done in the various departments and agencies, on what scale, with what staff and at what cost. As might be expected, their lines of questioning may not follow precisely those pursued by members of the Public Accounts Committee, but their objectives are identical. However, the process of fact-finding must continue for some weeks, and, because of the close relationship of questions raised in this area with matters of concern to other project groups and with the Commission's general interest in the overall management of the public service, it may be some months before anything approaching firm conclusions can be drawn. We would not, at this time, want to upset the plans of inquiry of our projects by undertaking "crash action" studies on these specific points, or within the foreseeable future to prejudge the eventual conclusions and recommendations of the Commissioners.

With these reservations, we should be more than willing to discuss with you how our current activity might be of use to you, and through you, to the Public Accounts Committee. In addition, I might again emphasize that we share the concern of the Committee on the points raised in their hearings last Wednesday.

Yours sincerely,
Ronald S. Ritchie
Executive Director.

That is the outcome of the matter discussed last week when you instructed me to take up those points with the members of the Glassco commission.

Mr. HELLYER: Mr. Chairman, I think that should satisfy the members of this committee. The questions we have raised will be considered fully and thoroughly by the commission. Anything we would attempt to do in the meantime would be duplication and therefore redundant.

The CHAIRMAN: Are there any other comments?

I believe you had another matter, Mr. Henderson.

Mr. HENDERSON: I think not.

The CHAIRMAN: Gentlemen, at our last meeting we had reached paragraph 51. We will start this morning at paragraph 51.

51. *Subsidization of medical student officers.* Undergraduate medical students may be enrolled as officers in the forces and receive subsidized education during their final years of study. A condition is that on completion of his course each officer will serve a three-year period in the services. In exceptional and unforeseen cirmustances the release of an officer at his own request may be authorized, but if the release takes place before he has completed three years' service after being licensed to practice, he is required to repay all or part of the cost of subsidization, including pay and allowances received.

A case is now commented upon for the reason that it will take some 15 years to recover such costs from a released officer, under an instalment payment arrangement. The officer, on finishing his course early in 1959, applied for his release for financial reasons to take up civilian medical practice and tendered a certified cheque for $7,700 to cover the costs to the department of subsidizing his education. Owing to the shortage of medical officers the application was refused and the cheque returned to the officer. Nine months later when the officer again sought his release on the grounds that his financial position had worsened, the department granted the release. However, he was not then in a position to reimburse the amount owing, so the department accepted his promissory note for $7,700, with interest at 5 per cent, to be repaid at the rate of $75 a month commencing in March 1964 and ending in April 1975.

On being released, this officer was paid, in cash, $719 of deferred pay that had accumulated to his credit.

The pertinent regulations permit the minister a discretion as to the amount to be refunded but are silent as to the method of collection.

Mr. HENDERSON: Mr. Chairman, paragraph 51 deals with the subsidization of medical students officers, and in particular a case in which the department took steps to get out of a situation. Perhaps it should be said that hindsight is better than foresight in a case of this kind. The circumstances, however, are set forth. It does seem that the rate of payment right through 1975 is spread out, and, moreover, that the $719 of deferred pay instead of being credited to the debt was handed to the officer in cash.

The CHAIRMAN: Certainly the pertinent point here is in the last sentence of the paragraph:

> The pertinent regulations permit the minister a discretion as to the amount to be refunded but are silent as to the method of collection.

The question might be: should not the regulation be rewritten?

Mr. HENDERSON: I would hope that the committee might see fit to recommend what the method of collection should be. Actually the departmental regulation regarding release does appear to contemplate a cash settlement because it reads "if release action is authorized it will not be completed until the officer has reimbursed the Department of National Defence". I would have thought that would contemplate cash, but apparently it permits credit.

The CHAIRMAN: Surely the point is that the minister or his deputy has the right to demand cash or make an extension of time.

Mr. HENDERSON: That is the interpretation obviously placed on it. I have no doubt there are cases where time must be given, because it seems unreasonable to expect a young student officer like this to have to pay such a large sum all at once; but whether it should be spread out over a length of time like this is questionable.

The CHAIRMAN: This makes it rather easy for a student to obtain his education at the cost of the government and then say thank you and leave. Is that not the point?

Mr. WINCH: There is also the point that if a medical student can receive $7,700 in subsidization and then only have to spend three years in the service, there might be a matter of policy there too. If there is going to be a general policy of assisting medical students, then it should not be under the Department of National Defence. If anyone wants to take this training under the defence department, then I think there is a contractual obligation on his part. He only gives three years service during which time he also is paid as a medical officer. Basically I think there is the entire question of policy as well as the method of collecting.

Mr. BENIDICKSON: He is still learning during that time.

The CHAIRMAN: This officer was paid in cash $719 of deferred pay upon being released.

Mr. HELLYER: There are several points of principle involved. We seem to have here a federal loan system for students but without any rules and regulations under which potential applicants would know what is available to them. I think that is Mr. Henderson's objection. An ad hoc decision of this kind creates a precedent which could be followed by others in seeking a similar type of arrangement. I do not know whether or not a satisfactory solution can be spelled out in a resolution.

I do know some of the background of the reasons for the policy of subsidizing medical students. It is an impossibility to recruit them at service rates of pay without some incentive of this nature. I think the question of how to obtain the services of medical practitioners for the armed forces at the most economical rates could be the subject of a wide investigation. I do not know whether or not that should come within the purview of the Glassco commission; but I do know this is a general problem which has to be faced. The services of certain categories of professional people cannot be obtained at service rates of pay without very heavy subsidization by way of incentive. Probably the practices are ad hoc on the basis of meeting the situations as they arise.

Mr. BENIDICKSON: Mr. Hellyer referred to professional groups. Today we subsidize, in a similar way, lawyers and other professional people.

Mr. HENDERSON: I do not think so.

Mr. SMITH (*Simcoe North*): Is it not true that in the field of engineering the students are trained at the military colleges. It is only in the case of doctors and dentists, who cannot be trained in a military establishment, that there has to be a subsidization policy?

Mr. HENDERSON: Yes, coupled with the acute shortage of doctors. There is a lack of business judgement here which disturbs me. They had in their hands a certified cheque, and then the officer's business affairs suffered a complete reverse.

Mr. SMITH (*Simcoe North*): I think there are rules laid down in respect of students who accept the army subsidization. In this case I think it is more a matter of unusual judgement being exercised in the application of the rules rather than the fact that there are no rules.

Mr. WINCH: Is there not an obligation here on the individual himself who wants to be a doctor and because of his own personal situation is not able to proceed on his life's goal of being a doctor. The defence department says: well, you want to be a doctor; we need doctors; we will subsidize you and not only subsidize you but will enlist you as an officer in the armed forces, if on completion you serve for three years as a medical officer you are paid as an officer and do not have to pay back the subsidization.

Surely there is an obligation there on the individual which is very important. It is a contractual obligation; he is not obliged to take it. He takes it because that is what he wants. At the same time in a case like this I think we should consider there is a contract and that except in most exceptional circumstances the contract should be lived up to.

Mr. BENIDICKSON: I agree with Mr. Winch that three years goes by pretty quickly and I think this is substantial assistance to someone taking up a professional career. I think the terms of release should be very stringent.

Mr. REGIER: Is this a continuation of the plan that was in effect during the war years? I remember at that time when the armed forces had to have more doctors they introduced a plan along these lines. However, at that time it was because of the emergency of war. Now, it appears to me that if the rates of pay for doctors and dentists are too low they ought to be raised and that this present practice should be discontinued. We are at war at the present time.

Mr. HENDERSON: I think this is a continuation of the wartime arrangement. It is unfortunate Mr. Armstrong is not here this morning.

The CHAIRMAN: He will be here very shortly.

Mr. HENDERSON: Perhaps we might ask him for more information. I believe Mr. Morrison has something to add.

Mr. G. A. MORRISON (*Assistant Audit Supervisor, C Branch*): Up until last September the national defence scheme was a twenty-one month scheme. At that time it was increased to a forty-five month scheme. This man was under the twenty-one month plan. He was a second lieutenant, attended Laval university for his final year, and had one year internship. This is where the expenses were incurred by the department. With the new scheme coming into effect, you can see that the department could incur considerably more expense than was involved in this case.

Mr. BENIDICKSON: During his internship year did he get paid as a second lieutenant?

Mr. MORRISON: Yes.

Mr. BENIDICKSON: Unless the rates have changed, I would imagine that his rate of pay was considerably higher than those paid to an intern.

Mr. MORRISON: As soon as he was graduated he was promoted to captain. In the adjustment of salaries last August there was a substantial increase granted, particularly in the case of medical officers. I think it ran to around $100 a month more than the average officer was getting.

The CHAIRMAN: Shall we go on to the next paragraph?

52. *Unusual exercise of executive discretion in awarding of annuity under Canadian Forces Superannuation Act.* An officer, aged 38, was released in January 1960 on grounds of inefficiency following an unexplained shortage of funds at a naval station of which he was the supply officer. A service pension board minute noted that he had been involved in a similar occurrence in 1957 and stated that "his general physical and mental condition indicated a lack of stability and general suitability which in the opinion of the appropriate authorities, made him incapable of performing the duties of an officer of his rank and branch".

The release was effected under section 49 (*h*) of the Defence Services Pension Act, c. 63, R.S., which provided that a contributor who had served ten years or more and was retired for inefficiency should be paid one-half pension to age 65 and two-thirds thereafter. Pursuant to this section, the officer had been awarded an annual pension of $1,438.

The Canadian Forces Superannuation Act came into force on March 1, 1960 with retroactive application to July 8, 1959. The new act provides, with regard to releases for inefficiency, that in the discretion of treasury board on the recommendation of the minister, a contributor may be paid the whole or any part of any pension he would have been entitled to if he had been retired to promote economy and efficiency—in other words, for normal cause. Accordingly, the case was reviewed by the department and it sought and obtained treasury board approval for an annual pension based on 95 per cent of the permissible maximum, or $2,732 during the lifetime of the officer.

In cases of voluntary retirement before reaching compulsory retirement age, an officer is normally granted a pension reduced by 5 per cent for each year by which his age at retirement is less than the retirement age applicable to his rank. In this case referred to, the officer at the time of his release still had 11 years to serve in the navy, so the establishment of the pension at 95 per cent of the permissible maximum, in the circumstances mentioned, seems to constitute an unusual exercise of the discretionary authority given to the treasury board by the act.

The CHAIRMAN: The point here seems to be that by voluntary retirement a person would get forty-five per cent, but by being inefficient he gets ninety-five per cent. Is that right?

Mr. HENDERSON: Yes, that is the way I see it, Mr. Chairman.

Mr. HALES: I think we might skip over all of these items up to item 57 until Mr. Armstrong arrives. They all have to do with his department.

The CHAIRMAN: We might go on to paragraph 57, although I am expecting Mr. Armstrong to come through the door any minute.

57. *Unemployment assistance contributions to provinces.* In the 1957-58 report, comments were made regarding certain doubtful expenditures which had been shared by the federal government under the Unemployment Assistance Act, and it was observed that "audit opinion is that the statute includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration".

In the course of our initial audit of expenditure incurred under this act in the province of British Columbia, we noted that amounts claimed as shareable included allowances to provide for the maintenance of children living apart from their parents with other families, usually relatives. These children were being assisted as individuals and not as part of a family unit entitled to receive unemployment assistance. The

Department of National Health and Welfare concurred in our view that such payments were in respect of child welfare and not admissible as shareable expenditures under the act. The department estimates that resultant overpayments to the province during the period from July 1, 1955, the date the agreement was entered into with the province, up to March 31, 1959, are of the order of $360,000. Provincial authorities disagree with the stand taken by the department and with the method of calculating the amount in dispute. However, they agreed, without prejudice to their case, to overpayments totalling $40,724 from April 1 to August 31, 1959, being withheld from 1959-60 payments, and since August 31, 1959 the province has discontinued claiming for the allowances in question.

A similar situation arose in connection with claims of the province of Nova Scotia relating to children living apart from their parents. Although provincial officials have now agreed that payments by municipalities for the maintenance of children placed in homes by municipal authorities or children's aid societies are child welfare costs and therefore not shareable, they contend that assistance granted under section 7 (b) of the Provincial Social Assistance Act is shareable. This section provides that assistance may be granted to a person who has in his care or custody one or more children who are not being maintained by their parents, if he is a suitable person to have custody of children and meets the requirements of a means test. The Department of National Health and Welfare shares our doubts as to the propriety of admitting such assistance payments as shareable on the grounds that they also are in the nature of child welfare costs.

We also drew the attention of the department of inadmissible expenditure claimed for sharing by the province of Alberta for pensions granted by the province to disabled persons, the province having overlooked the fact that, as many of the pensioners were inmates of hospitals and other institutions for the treatment of chronic conditions, assistance to them was not shareable under the act. Provincial officials have agreed to reexamine all such pension payments with a view to excluding ineligible cases and establishing the amount of the overpayment (estimated at $80,000 in respect of claims for the period from January 1958 to October 1959).

Mr. HENDERSON: Paragraph 57 has to do with the unemployment assistance contributions to provinces, and it indicates a situation which was noted during the course of our auditing in the province of British Columbia and also in the provinces of Alberta and Nova Scotia. I would like to ask Mr. Douglas, my audit supervisor concerned, to bring the committee up to date as to where matters stand.

Mr. JOHN R. DOUGLAS (*Audit Supervisor, B Branch*): With regard to Nova Scotia, a statement has been agreed upon and to date approximately $55,000 has been received. There is a small additional adjustment, but it is not expected to be very much. With regard to Alberta, a settlement also has been made in the amount of approximately $54,000. With regard to British Columbia, a proposal was recently made and is presently under study by the Department of National Health and Welfare.

The CHAIRMAN: Are there any further questions?

58. *Grants to hospitals, etc., which care for Indians and Eskimos.* In revising the 1959-60 vote structure for the Department of National Health and Welfare, the vote "grants to hospitals which care for Indians and Eskimos" was combined with the vote for "Indian and northern health services—operation and maintenance", the new text being "opera-

tion and maintenance, including grants to hospitals and other institutions which care for Indians and Eskimos". The amount provided for these grants was shown as a separate item of $220,000 in the estimates' details. During the year, grants paid to hospitals, individually authorized by treasury board, totalled $255,000, the excess being provided for by a transfer from the materials and supplies allotment.

As it has been long established practice that parliament control grants to outside organizations, and as the grants in question had previously been provided for by a separate appropriation, the increase of the amount made available for this purpose by the treasury board is drawn to attention as a matter of interest.

Mr. HENDERSON: This has to do with the long established practice of parliament controlling grants to outside organizations. Mr. Douglas will speak on this.

Mr. DOUGLAS: Mr. Chairman, I think the main purpose of this paragraph is to draw attention to the fact that for many years it has been the practice of parliament to control grants to outside organizations, and during the reorganization of the vote structure in the Department of National Health and Welfare the specific vote, providing the grants to hospitals which care for Indians and Eskimos, was combined with another vote, the grant becoming an allotment within the general vote. In that way it comes under the authority of the executive, by transfer between allotments, to increase or decrease the grant.

The CHAIRMAN: Are there any other questions, gentlemen?

If not, I would suggest we revert to paragraphs No. 51 and 52. Mr. Armstrong is here.

Paragraph 51, Mr. Armstrong, had to do with the medical student and his education which was provided by the armed forces. Does the committee wish to direct any question or do you feel we have covered that paragraph fully?

Mr. WINCH: Paragraph 51, but not paragraph 52.

The CHAIRMAN: Let us deal with paragraph 52.

Mr. BENIDICKSON: In respect of paragraph 51, I wonder if Mr. Armstrong could give us some figures as to the releases which have been granted prior to the fulfillment of the three years contractual arrangement which may not have caused any attention to be drawn to them because there was not a long-drawn-out term of repayment? How many medical students have we enrolled on this contract basis, say, within the last two or three years, and during the last two or three years how many have applied for and been granted release earlier than after fulfillment of the three year period in the service.

Mr. E. B. ARMSTRONG (*Deputy Minister of National Defence*): I do not have figures as to how many have applied for release. The numbers enrolled, of course, varies year by year. In the last year I believe the figures ran around twenty-five, if I remember correctly. In answer to the question as to how many apply for release and are permitted to leave—

Mr. BENIDICKSON: My question is, how many have been granted release earlier than after fulfillment of the three year contractual arrangement, whether they pay on terms or in cash.

Mr. ARMSTRONG: I do not have the exact numbers, but I would say the numbers are relatively few. It is not a large number.

Mr. REGIER: Is Mr. Armstrong able to tell us how much a graduate medical doctor receives in uniform?

Mr. ARMSTRONG: This, of course, depends on his rank. He is paid the same pay and allowances for his rank as any other officer. In addition to that he receives a special medical allowance which, again, varies with rank and runs from

something like $60 a month to perhaps as high as about $200 at certain ranks, over and above the standard pay and allowances.

Mr. BISSONNETTE: What would be the maximum?

Mr. ARMSTRONG: My recollection is it is about $200 a month at the maximum, over and above the standard. I think that occurs at the rank of major and lieutenant colonel.

Mr. REGIER: Could Mr. Armstrong tell us what the minimum income of a medical man in the armed forces might be and how high the maximum would be?

Mr. ARMSTRONG: Are you asking in respect of a graduate medical officer?

Mr. REGIER: Yes.

Mr. ARMSTRONG: The minimum income I think would be in the order of about $6,000 a year, perhaps a little more than that; somewhere between $6,000 and $7,000. The maximum would be $18,000.

The CHAIRMAN: Is there anything else on paragraph 51?

Mr. BENIDICKSON: Is this plus living allowances?

Mr. ARMSTRONG: That is all inclusive.

The CHAIRMAN: Paragraph 52, gentlemen.

Mr. WINCH: In view of what Mr. Armstrong just said, that for a graduate the minimum is not less than $6,000, would Mr. Armstrong state whether or not he or his department consider that if an individual wants to go through as a doctor and cannot do it on his own, he can immediately enlist as a second lieutenant in the service, get his allowances as a second lieutenant and be subsidized at the amount of the cost of his training, which was previously for twenty-one months and now forty-five months, should he not be expected, except under the most exceptional circumstances, to fulfill his contractual obligation of having only to serve for three years as a graduate medical man, at a minimum of $6,000.

Mr. ARMSTRONG: Well, of course it is expected that he will. As I say there are very few who do not. In this particular case the individual concerned applied to be released. At the time he was in some difficulty in respect of his personal finances. It was the decision when he first applied not to release him. However, due to a set of unfortunate circumstances he was under the impression he was going to be released and therefore went ahead and made arrangements to take up civilian practice, thereby incurring a considerable additional amount of debt. So, a few months thereafter his debt had become much more burdensome than it had been at the time of the original application. The difficulties in keeping him in the service had become much greater. In the circumstances it was decided to release him. Also by that time he no longer was able to raise the cash payment to pay the amount of money he owed in respect of the period of his tuition. Consequently this resulted in the necessity, in the circumstances, of taking a promissory note. This is the only case of which I know where that has happened, where the amount due was not paid in cash.

This really resulted from a chain of circumstances which led to the original situation becoming much more difficult.

Mr. HELLYER: Circumstances must have changed very drastically when a man could raise $7,000 in cash and then a short period afterward could not raise anything.

Mr. ARMSTRONG: I do not know, frankly, how he originally succeeded in raising that amount of money in cash; but he had in fact raised it. Then, as I say, he proceeded to spend a very considerable amount of money to set himself up in civilian practice.

Mr. MORTON: Mr. Chairman, was there any fault laid on any officer in the department in leading him on to think he was going to be released and thus getting him into worse circumstances because of that?

Mr. ARMSTRONG: I do not think any fault can be laid to an officer. I would be frank to the committee in saying in this case the decision not to release him, in my opinion, should have been conveyed to him a little sooner than it was. He then may not have got himself involved in this additional difficulty.

Mr. MORTON: It was a matter of delay?

Mr. ARMSTRONG: It took a little too long to have the decision taken and conveyed back to him.

Mr. REGIER: Are there other departments of government which have to go on the market in order to find doctors and dentists. I have in mind particularly the Department of National Health and Welfare and the Department of Northern Affairs. Is there any reason why the Department of National Defence ought to continue this practice now?

Mr. ARMSTRONG: I think the answer to that simply is we have not been able to, and I am sure could not at the present time, obtain the necessary applications for the medical corps under any other arrangement. We have endeavoured to establish arrangements with respect to pay, so far as we can do it, on the same approximate levels as the pay for medical doctors in the civil service. Now, in the forces there is more difficulty in recruiting people at various age levels. Of course, as you all know, there has been in the last several years some recruitment from the United Kingdom. That has pretty much disappeared now. For a few years we recruited a number of doctors from that source. Other than that most of our doctors come in through this source.

Mr. REGIER: Have there been efforts made to obtain a change in the pay scale for these people?

Mr. ARMSTRONG: When you say have there been efforts made, of course there is a continuous examination of this. As you probably noted last year there were quite substantial increases given to the medical service, increases which were considerably larger than the corresponding increases for the rank which they hold. Formerly there had been an allowance of $60 a month which applied to all ranks, additional to the normal pay of rank, for a medical officer. In the last general pay increase, last fall, this $60 was altered and, as I mentioned earlier, scaled from $60 up to as I recollect it something like $200 a month for certain ranks. The object of that was to bring the pay and allowances of the doctors in the medical services in the armed forces as closely as possible into line with the salaries paid in the public service to doctors of equivalent status.

The CHAIRMAN: On being released this officer was paid $719 in cash. Why would that not have been credited against the debt?

Mr. ARMSTRONG: This perhaps might have been done. Of course, at this stage he had an agreement with the department to repay the debt in a specified way. The $719, of course, could have been applied to that, I think, undoubtedly by agreement. This was not done, but perhaps it might have been wise to do so.

The CHAIRMAN: Shall we go on to paragraph 52?

Mr. HALES: What will be the policy from now on if this situation arises? Are we going to continue this loose way of conducting business and not deducting what is owed.

Mr. ARMSTRONG: I might say that the gratuity, or return of contribution available under the Pension Act, is applied as a standard practice to any debts which are owed to the department in the way of pay debits and so on.

In this particular case, as I say, there was the standard agreement made with the man—the promissory note—that he was to repay his indebtedness in a specified way at five per cent per annum.

Mr. HALES: But he does not start to pay that until March of 1964?

Mr. ARMSTRONG: That is right; but he does, of course, pay interest on that.

Mr. HALES: We give him until March of 1964 to start his payments and on top of that give him $719 in cash.

Mr. ARMSTRONG: When you say we gave him $719 in cash, the $719 is his contribution to the pension fund which is returned to him. The arrangement for repayment of course was to repay in accordance with the terms of the promissory note. I agree that one might have included this and said to him, well, you have so much money coming out of the pension fund, we will alter the promissory note and reduce the amount. Unfortunately, this was not done. That is a possible way of doing it, there is no doubt about that.

Mr. WINCH: It says here that the $7,100 was to cover the cost to the department of subsidizing his education. Is that $7,700 strictly the additional subsidy, or does it include his pay in that twenty-one months period as a second lieutenant?

Mr. ARMSTRONG: It includes that as well.

I said that that was a return of contribution. It was deferred pay which was at six per cent. It amounts to the same thing as a return of contribution.

Mr. BENIDICKSON: For a future meeting might we have a statistical report as to the number of medical students whose education has been subsidized and who have been released earlier than the completion of their contractual agreement?

Mr. ARMSTRONG: There is no difficulty in that.

Mr. BENIDICKSON: For the last three years?

Mr. ARMSTRONG: We have all these records. I just do not happen to have them here.

The CHAIRMAN: Paragraph 52, gentlemen.

Mr. HENDERSON: I might say that paragraph 52 has to do with a pension awarded to a man who was retired through inefficiency under the heading of responsibility for loss of public funds. I might refer to paragraph 83. From time to time cases have been experienced where public funds in the custody of members of the forces have been lost. This paragraph goes on to say that according to departmental legal officers, no specific regulation existed whereby the officers concerned could be held financially responsible for such losses. I go on to indicate a particular case in which a man could not explain a loss of $2,000 yet they just charged him for $1,000. I add that the department is seeking to remedy this state of affairs.

Coming back to paragraph 52, here is a case of an officer who in 1957 and again in 1960 had an unexplained shortage of funds. The paragraph goes on to explain that he was given a compulsory pension due to his inefficiency, amounting to ninety-five per cent of his permissible maximum whereas if he had been retired normally he would only have received forty-five per cent. This does not make sense to me, and I would appreciate hearing what the committee has to say on this.

The CHAIRMAN: Your point is this was as a result of the discretionary authority.

Mr. HENDERSON: Yes.

Mr. HELLYER: Mr. Chairman, there is an inference on this paragraph which is exceedingly bothersome. There is an allegation by inference that a man who was responsible for public funds and who was involved in an unexplained shortage was then dismissed from the public service at a high rate of pension. It would have been enough, under ordinary circumstances, just to have dismissed him, but the reward in this case is of such a nature as to lead one almost to the inevitable conclusion that there might have been some collusion or something of that kind involved by which the man's lips have been sealed.

I do not wish to make any unfair statement at this time, but I think this matter should be thoroughly investigated and that we should have all the facts as to why a man who had not exercised a trust in a satisfactory manner, would then be treated in such a generous manner and in such a generous way by the treasury board at the time of his discharge. It smacks of something irregular.

Mr. HENDERSON: I would say that the money involved in this second affair was $1,700 and that it is being collected over the next five years and three months.

Mr. BELL (*Carleton*): Collected from whom?

Mr. HENDERSON: From the man; I presume he is paying it out of his pension.

Mr. HELLYER: Is it not strange that we should collect it from a pension for a man aged 38?

Mr. HENDERSON: Ten percent of his monthly annuity, $21.81 per month is what he is paying back.

Mr. WINCH: Could we also have an explanation of what would happen in the case of a man who is discharged for inefficiency, when he can collect 95 per cent, whereas another man in the same service and of the same rank, if he leaves the service voluntarily, can get only 45 per cent.

Mr. BELL (*Carleton*): I think we should get the full facts before we jump to conclusion.

Mr. BENIDICKSON: I think we should hear from the treasury board. My experience has been that if they bend at all, they bend on the tough side. I am glad to see that they exercised their discretion here in a most generous way.

Mr. ARMSTRONG: First of all I would like to say that this man is not pensioned on the basis of 95 per cent of his salary. I think what we said here in the report is that he is pensioned at 95 per cent of the permissible pension. That is not 95 per cent of his salary.

The maximum pension that anyone could get in the best of situations is 70 per cent of his salary. However, if I might say a word on this: as indicated or stated in the Auditor General's report, the Defence Services Pensions Act provides that a contributor who had served ten years or more and is retired for inefficiency would be paid one-half of his pension, that is, of his normal pension; and that means that instead of getting a pension based on two per cent of his six years average for each year of service, he would get only one per cent. That is all that half means.

Then, when he reaches the age of 65, he would get two-thirds of that. The one-half would continue until 65, and then, thereafter, he would get two-thirds of that pension.

When the Defence Services Pensions Act was amended last year with retroactive application in this particular case to July, 1959, provision was made in respect to an individual who was retired by reason of inefficiency, to enable a certain discretion in the awarding of the amount of pension. This was done because it was felt that under a variety of circumstances that might give rise to discharge for inefficiency, the application of this single rule of one-half pension to age 65, and two-thirds thereafter was not wholly fair to the individual concerned.

Under the amended section, the treasury board have a discretionary power to award pension in excess of the minimum, but not exceeding the maximum, that, of course, could be awarded if a man were retired compulsorily; and the maximum, as I said was two per cent of his six year average, pay and allowances for each year of service.

Now, in considering how to apply this, obviously in cases of this kind, the department makes a recommendation to the treasury board; but in considering a policy for application to this new section, it was decided after consultation and discussion as well with the treasury board people, that as general policy, one should consider in making a decision as to how much the pension should be, the number of years of satisfactory service that the man had put in before he became inefficient leading to his discharge, a scale was worked out on that basis.

If this scale is applied in terms of the proportion of his service that was satisfactory in what is called in service terminology "good and faithful service" to the proportion which was not, and as a result of that the man will receive that percentage of the maximum pension that he would ordinarily get.

If he had 15 years of service, his maximum pension could be 30 per cent; if his "good and faithful service" represented 80 per cent of his service, then it would be 80 per cent of the maximum.

In this case, this 95 per cent represents 95 per cent of the maximum, not 95 per cent of his pay and allowances.

This is devised simply as a system which is believed to be fairer to the individual concerned than the old system which was completely rigid, and which applied the same rules to everybody concerned.

Mr. HELLYER: A man can put in 20 years of good and faithful service, and he could then have the same period of time of service when public funds within his trust are lost or mislaid in such a way that there is no explanation, and he is then subsequently retired on a pension based on his previous good and faithful service before this loss had occurred?

Mr. ARMSTRONG: He will never get a bigger pension on that account. I think the Auditor General points out that the pension may be larger than if he had retired voluntarily, and that is so. There are circumstances under which the application of this formula results in a larger pension than the man would have received had he retired voluntarily. In fact, with 15 years of service if he retired voluntarily, he would get no pension at all.

Mr. WINCH: It almost would pay you to get fired.

Mr. HELLYER: That is precisely the point. He may be fired for unsatisfactory service and yet receive a higher pension.

Mr. ARMSTRONG: What you are saying is, that there is a possibility that the system will permit a man to be inefficient or to commit some offence so that he is discharged and permit him to receive a pension, because he wants to get out of the service instead of retiring voluntarily, because it is to his benefit. It is true that the act as it is drawn now could result in a man receiving a somewhat higher pension under those circumstances. In fact, he could have no pension at all if he retired voluntarily, and in fact, that was the case before the act was amended. It has now been changed in that respect.

Mr. HELLYER: That was not the point that was going through my mind, but it is one you have just put into it, and it appeals to me.

Mr. ARMSTRONG: It is a fact, there is no question about it. And I would also add that in my opinion—this is only a judgment—it does not in fact have this result: that people who want to get out commit offences so that they can get out.

Mr. HELLYER: I should hope not, but whether they commit offences for the purpose of getting out, or just commit offences and are fired, the net effect is the same.

Mr. ARMSTRONG: What was that again?

Mr. HELLYER: The fact that they are retired involuntarily and receive a higher pension.

Mr. ARMSTRONG: Yes, that is the effect, and it always has been the effect. But the amendment to the act in 1960 would alter that effect.

Mr. MORTON: That pension is a matter of discretion, not necessarily of right.

Mr. ARMSTRONG: It is a matter of discretion in terms of the amount as between the minimum and the maximum. It is a matter of right in terms of at least the minimum. The only case where it is not a matter of right—and I think I am correct in saying this—is where misconduct is the reason for discharge and then it is not a matter of right. It is strictly a matter of discretion.

Mr. MORTON: Is there sufficient discretion to prevent abuse of this rule, or a situation where someone might commit an offence in order to retire early with a greater pension? Have you sufficient discretion to make it unprofitable?

Mr. ARMSTRONG: Well, I think if one were able to determine that someone did this, you would have sufficient discretion, because in those circumstances I would think we would be in a position to have the man discharged for misconduct where he had no right.

The CHAIRMAN: What puzzles me is who and how. You say it should fool the treasury board. How was it fooled?

Mr. ARMSTRONG: The treasury board was not fooled. Perhaps I do not understand your question.

The CHAIRMAN: On page 22, the last sentence just before paragraph 53, it says:

> ...in the circumstances mentioned, seems to constitute an unusual exercise of the dircretionary authority given to the treasury board by the act.

I presume the treasury board had to approve. Did they approve of the system?

Mr. ARMSTRONG: In this case the treasury board would be fully aware of all the facts. Perhaps I do not understand what is meant by "unusual exercise of the discretionary authority".

Mr. WINCH: Is it not possible to put it this way: in this particular case why was the recommendation made to the treasury board that, after two offences, this man should receive 95 per cent of the permissible maximum?

Mr. ARMSTRONG: I explained to you earlier the formula that was arrived at under the act. So the pension was related to the amount of good and faithful service the man had. But mind you, this man was not convicted of theft. Had he been so convicted of theft, he would have been discharged for misconduct.

Mr. HELLYER: Were any charges laid?

Mr. ARMSTRONG: I am not sure whether there were any charges laid or not. If I remember rightly, there was an investigation of the case by a court of inquiry, when it was found that there was no evidence on which charges could be based.

Mr. HELLYER: It was a case of insufficient evidence?

Mr. ARMSTRONG: I believe so. There was no evidence of theft in the case. The conclusion that was reached, I believe was that this was strictly incompetence.

Mr. HELLYER: Can you explain to me why a person who in 1957 had been guilty of incompetence would be continued in a position of public trust until 1960?

Mr. ARMSTRONG: I do not know that I could explain this to you. I cannot explain it at the moment. I would have to look it up and see if I could get an explanation.

Mr. HELLYER: I think we should get some further explanation in this case, because it would seem appropriate to the ultimate solution of the case. I know Mr. Armstrong will be good enough to get us full details as to the nature of the allegations and of the court of inquiry, or whatever inquiry was established, and as to its findings, and why no charges were laid, why the man had been continued in a position of public trust during these several years following the first alleged irregularity, and then why on the basis of this background had been treated so generously, both by recommendation of the department and by treasury board.

Mr. ARMSTRONG: We would be very glad to do that. Unfortunately, I was late coming this morning. I had a note on my pad that I was meeting with you tomorrow. I put my material in my briefcase in a hurry and as a consequence I do not have all of it.

Mr. BELL (*Carleton*): I understand that the particular individual here had some retirement under the Public Service Superannuation Act as well as retirement under the Canadian Forces Superannuation Act.

Mr. ARMSTRONG: Not that I am aware of.

Mr. BELL (*Carleton*): I understand he had had earlier civilian service with the government of Canada which gave him some retirement.

Mr. ARMSTRONG: He may have had earlier service in the civil service which was counted under the Canadian Forces Superannuation Act. Service in the public service under certain circumstances may be counted as service under the Canadian Forces Superannuation Act. He may have had that. I am not sure whether or not that is so.

Mr. BELL (*Carleton*): Perhaps you would ascertain that.

Mr. ARMSTRONG: Yes.

Mr. REGIER: I would like one thing clearly understood. Is it right that if I am in the army for a period of eighteen years and go out I am unable to claim a pension. However, so long as I, because of misconduct, become suddenly inefficient, the army lets me out and I am entitled to receive an allowance.

Mr. ARMSTRONG: Yes. The minimum number of years a man must have to be voluntarily retired is twenty years. If he is retired compulsatively for inefficiency with ten or more years service he may get a pension.

The CHAIRMAN: Paragraph 53.

53. *Partial payment of mess officer's salary from public funds.* Early in 1957 a mess manager was appointed at an air force station at a monthly salary of $400 payable from mess funds. While serving in this capacity the man was also nominally appointed on December 1, 1957 as a kitchen helper in the mess and paid $175 per month from public funds as a locally engaged employee, the payment from mess funds being correspondingly reduced. He continued as mess manager on a full-time basis with his salary thus paid in part from public funds. This situation continued until December 31, 1959 and involved payments out of public funds to a total of $4,375 during a period of 25 months in which no services were in fact performed in the position for which the payments were ostensibly made.

In October 1959 instructions were issued that the amounts paid from public funds since August 1958 were to be refunded. The nominal

appointment as kitchen helper was terminated on December 31, 1959, and we have recently been informed that recovery is expected to be effected by means of monthly payments over a period of two years, commencing December 1960.

Mr. HENDERSON: Paragraph 53 is a matter which first came to the attention of the estimates committee when it was brought up by Mr. Carter in July of 1958, following which the assistant deputy minister of finance asked the air force for an explanation. We have been following this up ever since, and this is the ultimate outcome of the case. We understand the money is being recovered now by means of monthly payments over a period of two years beginning last December.

The CHAIRMAN: Surely the point here is that you take a kitchen helper and put him in as bar steward or mess manager, whereas the boys in the mess should pay for that themselves.

Mr. HENDERSON: That is the point.

Mr. HELLYER: Is this money being recovered?

Mr. HENDERSON: I have been informed that recovery is expected to be effected by means of monthly payments.

Mr. MORRISON: I understand the money is being repaid on that basis.

The CHAIRMAN: Are these any questions, gentlemen?

Mr. HELLYER: Was any disciplinary action taken in respect of any serving officer for having allowed this?

Mr. ARMSTRONG: Are you asking about the situation at Uplands?

Mr. HELLYER: Yes.

Mr. ARMSTRONG: No. There was no disciplinary action taken in respect of any officer.

The CHAIRMAN: Paragraph 54.

54. *Travel and removal expenses.* The Department of National Defence spent $40 million during the year under review on travel and removal expenses of servicemen and their dependents. In the course of our test examinations of these payments, a number of cases involving unnecessary or excessive costs came to our attention, of which the following are examples:

1. Regulations provide that a serviceman whose period of service is about to expire shall not be transferred to another unit unless he is re-engaged for a further term. In November 1959 an airman was transferred, with his dependents, from Gimli, Manitoba, to Vancouver, although his term was to expire two months later and he was not being re-engaged. In January 1960 he took his release, and his transportation, along with his dependents, was paid to Halifax, his selected place of residence. Extra costs incurred by the transfer to Vancouver are estimated at $1,000.
2. A serviceman with less than 10 years' service is entitled, on release, to transportation and travelling expenses for himself and his dependents to the place in Canada where he enrolled or to any place in Canada, provided the cost is not greater. An officer serving at Halifax selected Ottawa as his intended place of residence and shipped his furniture and effects there at public expense. He was paid, however, for amounts claimed as travelling expenses of himself and his wife to Victoria where he had enrolled. Regulations have since been clarified to prohibit the payment of transportation to other than the intended place of residence.
3. When furniture and effects of Service personnel are moved by road van at public expense it sometimes happens that delivery cannot

be completed immediately on arrival of the shipment at its destination, ordinarily because the serviceman has been unable to find suitable accommodation at the new location. In such cases the shipments may be placed in storage in transit for which the minimum charge is $2.50 per hundredweight for periods of 30 days or less. Instances were observed where movers placed shipments in storage in transit for a day or so, for their own convenience, without first contacting the consignees who were frequently in a position to accept delivery. A number of refunds were obtained—in one case $208—and the department has taken steps to curtail the unnecessary use of storage in transit facilities in future.

4. Two naval officers serving at Ottawa were posted to R.C.A.F. Station Centralia, where quarters and rations were provided, for a period of six weeks. They returned to Ottawa frequently and during the period in question spent more time there than they did at Centralia. As a result, one officer received $273 and the other $266 in per diem allowances for days spent at their home city.

5. An officer who had been serving in Vancouver was posted to Victoria to attend a two months' course preparatory to serving on a ship then in the final stages of construction in Vancouver, where he had left his dependents. On completion of the course he returned to Vancouver and was continued in travel status to "stand by" the ship pending its commissioning. This did not take place for four months and the officer thus received $974 in per diem travelling allowances during the period, although his home was in the city. We have recently been informed that recovery is being effected.

In accordance with our usual practice, all such cases were drawn to departmental attention promptly with the object of achieving recovery where possible as well as bringing about improvement in the regulations.

Mr. HENDERSON: In this case I listed examples of what seemed to us to be unnecessary or excessive travel and removal costs. In all these cases we of course bring them to the attention of the departments. We are doing this constantly throughout the year. As a matter of fact I noticed, during the year in question, that some 200 cases were referred back by my officers to the chief treasury officer of the Department of National Defence for attention. For the most part, they were straightforward breeches of regulations in preparing claims and in practically all these cases refunds were obtained. The cases listed here involve examples where it would seem some clarification is indicated in the regulation of the department.

Mr. HALES: Mr. Chairman, we have had other cases of travel and removal expenses under the Department of National Defence. We had them last year and they are coming up again. The Auditor General said he has had to refer some 200 cases back to the department. Perhaps we might have an outline from Mr. Armstrong as to the mechanics of this and how it is watched in the Department of National Defence. Who is responsible and what system do they have in the department?

Mr. ARMSTRONG: Briefly the conditions under which reimbursement, or payment, is made in respect of travel expenses are prescribed in the Queen's regulations. These, of course, are regulations which are approved by the treasury board on behalf of the governor in council. The regulations, having been established, are then of course administered by the department. While all regulations of this sort flow through many areas of the department, principally the responsibility falls on the accounting branches of the department such as the pay corps and the accounting branches of the air force and the navy. The individual makes out his claim. It is passed in through his accounting officer,

is checked there, and then passed to the treasury officer for checking. Of course, they, in fact, audit or check the claims and the payment against the regulations. The Auditor General's office makes a test on it. They do not audit every case, as I understand it. I think I am right in that. If they find a difficulty they normally pass it back to the treasury office which may straighten out the particular problem or, if it is a problem relating to regulations and the regulation is not clear or if there is some difficulty in the application of it, it is passed back to the department and we would have to take the necessary action to correct it. You must remember there are a very large number of movements of one sort and another in the three services. Almost inevitably there will be a number of claims that will give rise to some difficulty. In this particular one we are looking at—the first one, the air force—and this is an air force case, have a standing administrative order to the effect that no person will be posted if he is within six months of his re-engagement unless he has re-engaged. In this case it was a straight administrative error. The man was posted notwithstanding that. This is unfortunate. He should not have been posted. However, I think in an administration as large as the Department of National Defence these things sometimes do occur.

Mr. HALES: In this particular case you mentioned a test audit by the Auditor General's department. Out of a test audit we find some 200 cases. If we had a real audit and not just a test audit, I wonder how many cases we would find, when we come up with 200 in this. I am beginning to think some new system should be evolved whereby these are funnelled through a particular committee where they will be carefully scrutinized. This is big business—$40 million.

Mr. ARMSTRONG: Remember, I did say they are audited by the treasury office. This is really a second audit by the Auditor General. I believe I am right in saying this.

Mr. HENDERSON: Yes.

Mr. HALES: That makes it worse. A second audit comes up with 200.

Mr. ARMSTRONG: There is a first treasury office check, a departmental check, the chief auditor has an audit, and the Auditor General has an audit. Our own chief auditing branch makes a check from the point of view of administration by auditing accounts to a limited degree; they do not do it extensively.

Mr. HALES: Would you not agree this is getting to be a very serious problem in your department?

Mr. ARMSTRONG: No, I would not agree.

Mr. WINCH: May I ask Mr. Henderson if in 1960 in a test audit you came up with 200 cases which you said you had to refer back, could you give us an approximation as to how many you examined out of which you found 200 on your test audit.

Mr. HENDERSON: Mr. Morrison will answer that question.

Mr. MORRISON: We estimated there were approximately 300,000 travel and removal claims last year in the Department of National Defence. Our target is approximately ten per cent. I doubt if we reached that last year. I would say we probably examined about 20,000 accounts during the course of the year.

Mr. REGIER: How many men and women do we have in uniform?

Mr. ARMSTRONG: 120,000, roughly.

The CHAIRMAN: Perhaps the Auditor General could run through these subparagraphs in paragraph 54.

Mr. HENDERSON: Mr. Armstrong has, of course, dealt with No. 1 which, as he pointed out, was an administrative oversight for which the commanding

officer accepts full responsibility. No recovery in this case was effected. In a case No. 2, at the top of page 23, the serviceman—

Mr. BENIDICKSON: Just a minute. You say the commanding officer assumed full responsibility. Is not the transfer of personnel done by the administrative staff at headquarters rather than through a decision of a local commander.

Mr. ARMSTRONG: This transfer was the responsibility of air defence command, not national defence headquarters. They had the authority to make the transfer. The message originating the transfer was from air defence command.

Mr. BENIDICKSON: You mean an order would go to the commanding officer wherever it was to supply a certain type of serviceman to station B. The commanding officer I suppose has the selection at the station and he probably picked a man who was soon to retire.

Mr. ARMSTRONG: There is a personnel office at air defence command. They would make the selection and decide to make a transfer. It would not be made from national defence headquarters.

Mr. BENIDICKSON: Nor would it be made by a commander at a station.

Mr. ARMSTRONG: No.

Mr. HENDERSON: In No. 2, the serviceman with less than ten years service: in this case the judge advocate general ruled that this move was in order, but after lengthy consideration by the inter-service pay committee the regulation was changed to provide that furniture and effects may be moved only to the place to which the serviceman and his dependants are moved. No recovery was effected in this case.

In No. 3, in reply to our observation the assistant deputy minister (finance) indicated that a careful study had been made by the tri-service movements committee and considerable efforts were being made to curtail unnecessary use of storage in transit. In addition, when the period of storage in transit is less than seven days, the transportation officer must indicate on the invoice, prior to passing for payment, the circumstances which necessitated placing the shipment in storage. Here approximately $830 was recovered as a result of our observations.

Mr. HALES: I would like to ask a question in respect of case No. 3. Would it be possible to find out how much money was spent on storage in transit services? In your opinion how much money is paid out for storage in transit.

Mr. ARMSTRONG: We do not have that information offhand.

The CHAIRMAN: In respect of dealing with the Department of National Defence some storage companies insist on a thirty day contract.

Mr. ARMSTRONG: On the storage.

The CHAIRMAN: That seems to be extraordinary. There is such a thing as a seven-day contract. Why must there be a thirty-day minimum? If you need it for a week you have to pay for thirty days.

Mr. BENIDICKSON: What about the competitive part of it? Is there not a competitor to whom we could give the business?

Mr. MORRISON: There is a regulation established by the Canadian warehousemen's association that you must pay for thirty days storage regardless of the actual time it is in storage.

Mr. HELLYER: Has any consideration been given to referring this to the commissioner of combines?

Mr. ARMSTRONG: We have not considered it.

Mr. HELLYER: On the face of it, it seems a little arbitrary.

The CHAIRMAN: It is just a monopoly situation.

Mr. HELLYER: It may be an economic situation.

Mr. BENIDICKSON: It is not a monopoly situation because there is no monopoly; but there certainly is a combine. There are lots of people in business competing with each other, so it is not a monopoly. Some people have combined to make this regulation. Do the minimum charges vary from one company to another?

Mr. ARMSTRONG: In this connection the charge is $2.50 a hundredweight for furniture and effects. $1.25 of the $2.50 is in respect of the cartage charges in order to get the furniture into the warehouse and back to the house where it is eventually going to be put. Seventy-five cents of the $2.50 is for handling charges for taking it off the truck and putting it back on again. Fifty cents of the $2.50 is for storage charges. The element which might be in any way regarded as variable is a very small element.

Mr. WINCH: Fifty cents a day.

Mr. ARMSTRONG: Fifty cents per hundred weight for a month.

The CHAIRMAN: We will have to adjourn now.

The meeting for tomorrow will have to be cancelled because of caucus meetings at 9:30. The next meeting will be on Tuesday, May 9, at which time we will have the Polymer Corporation. In the interim the subcommittee will meet to see how we can rearrange the schedule.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

POLYMER CORPORATION LIMITED

TUESDAY, MAY 9, 1961.

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and *from Polymer Corporation Limited:* Mr E. R. Rowzee, President and Managing Director; Mr. R. W. Todgham, Director; and Mr. S. Wilk, Vice-President—Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25061-3—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

†Allmark
Beech
Bell (*Carleton*)
Benidickson
Bissonnette
Bourbonnais
Bourget
Brassard (*Chicoutimi*)
Broome
Bruchési
Campeau
Chown
Danforth
Denis
Deschatelets
Drysdale
Dupuis
Grenier
Hanbidge
Hellyer
Keays
Lahaye
Macdonnell
McGee
McGrath
McGregor
McMillan
*Martel
Morissette
Morton
Noble
Nugent
Pigeon
Pratt
Regier
Robichaud
Rouleau
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Woolliams
Wratten—50.

(Quorum—10)

J. E. O'Connor,
Clerk of the Committee.

*Replaced on Thursday, May 4 by Mr. Smith (*Lincoln*).
†Replaced on Thursday, May 4 by Mr. Murphy.

ORDER OF REFERENCE

THURSDAY, May 4, 1961.

Ordered,—That the names of Messrs. Smith (*Lincoln*), and Murphy be substituted for those of Messrs. Martel and Allmark respectively, on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, May 9, 1961.
(13)

The Standing Committee on Public Accounts met at 9.34 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Broome, Bruchési, Danforth, Deschatelets, Drysdale, Hales, Hellyer, Macdonnell (*Greenwood*), Macnaughton, McGee, Morton, Murphy, Noble, Nugent, Pratt, Smith (*Simcoe North*), Spencer, Stefanson, Tucker, Villeneuve and Winch—25.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Mr. I. Stevenson, Assistant Auditor General. *From Polymer Corporation Limited:* Mr. E. R. Rowzee, President and Managing Director; Mr. R. W. Todgham, Director; Mr. Stanley Wilk, Vice-President—Finance; and Mr. J. R. Millar, Assistant to the President.

Agreed,—That the document tabled on Wednesday, April 19th by Mr. G. G. E. Steele, Secretary to Treasury Board, entitled "Possible Changes in the Form of Annual Estimates", which was referred by the Committee to the Auditor General for study, be considered by the Committee on Tuesday, May 16th.

The Auditor General was called and gave his views concerning the financial operations of Polymer Corporation Limited.

Mr. Rowzee was introduced and outlined the history, activities, operations and research program of the Corporation.

A colored sound film, lasting approximately twenty minutes, was shown to Members and provided background knowledge concerning the production, testing, packaging and shipping of synthetic rubber.

Mr. Rowzee continued his talk regarding future operations of the Corporation and demonstrated to Members the comparable resilience of certain types of synthetic rubber.

Mr. Todgham commented upon the management of the Corporation and expressed the Board of Directors' confidence in company policies and its application by management.

Mr. Rowzee, assisted by Messrs. Todgham and Wilk, was questioned.

At 11.45 a.m. the Committee adjourned to meet again at 9.15 a.m. Wednesday, May 10, 1961.

J. E. O'Connor,
Clerk of the Committee.

25061-3—1½

EVIDENCE

TUESDAY, May 9, 1961,
9:30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

You may recall that a few meetings ago the Treasury Board submitted proposals for the consideration of this committee with regard to the form and contents of the estimates. Already we have made a recommendation to the House with regard to the form and contents of the public accounts. In discussing this matter with the subcommittee the suggestion is that we again appoint a subcommittee to consider immediately, during the next two or three weeks, the form and contents of the estimates as submitted by Treasury Board. Would that meet with your approval?

Mr. BELL (*Carleton*): I think that is one of the reports which ought to have at least, in a preliminary way, some general consideration by the whole committee. The form of the estimates is a matter which is of vital significance to the House of Commons, and I know the Treasury Board would like to have an opportunity of appearing before the whole committee and have a general discussion which might then, if necessary, be followed by the appointment of a subcommittee. Personally I would urge that this not be sent to a subcommittee until there has been an opportunity for a general discussion.

The CHAIRMAN: The reason for the suggestion to the subcommittee was that we seemed to be racing to a conclusion of activities here in Ottawa. This suggestion was for the purpose of giving more time and attention to this matter and not to rush anything. I know you are so closely connected with Treasury that you must have special reasons.

Mr. SMITH (*Simcoe North*): Could we consider it next Wednesday?

The CHAIRMAN: Perhaps we might bring down these suggestions to the committee a week hence, have a short discussion, and then if you so decide appoint a subcommittee at that time. Would that be suitable?

Mr. A. M. HENDERSON (*Auditor General of Canada*): The members will recall that at the last meeting when these possible changes were tabled I was asked to comment on them. I am in the process of preparing these comments which I expect to have ready on May 16, which would be next Tuesday.

Mr. BELL (*Carleton*): The Secretary of the Treasury Board would like the opportunity in the first instance of making a presentation to the committee which will put some flesh upon the bare bones of the documents which was tabled. I think it would be most unfortunate not to have that opportunity.

The CHAIRMAN: Shall we decide that on May 16, which is next week?

Mr. SMITH (*Simcoe North*): Will we have Mr. Steele and Mr. Henderson here then to comment?

The CHAIRMAN: Is it agreed?

Agreed.

The CHAIRMAN: Gentlemen, for the first time this session we are taking up the examination of a crown corporation, Polymer Corporation Limited. We have distributed to you a memorandum prepared by the company dealing with the history, administration, organization, scope of business and general outlook for the future. I presume you all have your copies. At the same time we distributed the annual report for the year ending December 31, 1960, which I think was tabled in February of this year. Therefore, in effect, we are right up to date.

I am advised, and in fact you can see this for yourself, that at the back of the room there is an exhibit showing the various products, some literature and some applications of the Polymer Corporation products. Perhaps you would like to examine that exhibit later.

This morning it is my pleasure to welcome and also to introduce the officials of the Polymer Corporation Limited of Sarnia, Ontario. The chairman of the Board, Mr. E. J. Brunning, is not here. But representing the Board of Directors is Mr. R. W. Todgham who, as you probably know is President of Chrysler Corporation of Canada Limited. Mr. E. R. Rowzee, sitting directly to my right, is the President and Managing Director of Polymer Corporation Limited. Mr. Todgham is next. Then we have Mr. S. Wilk Vice-President, Finance, and Mr. J. R. Millar, Assistant to the President.

With this short introduction and welcome, I would like now to call on the Auditor General, Mr. Henderson, for his report on the Corporation.

Mr. HENDERSON: Mr. Chairman, this is quite short.

Since its incorporation on February 13, 1942, the Auditor General of Canada has been auditor of Polymer Corporation Limited, in accordance with the Department of Munitions and Supply Act, C-31, 1940.

The financial statements and audit report of the corporation which are included in the public accounts of Canada for 1959-60 referred to this committee during its now current session covered the financial year ended December 31, 1959. Since this reference to the committee on February 15th last, the corporation has issued its annual report including the audited financial statements for the year ended December 31, 1960. These were submitted by the corporation to the Minister of Defence Production under date of February 22 last and tabled in the House of Commons on April 11. We therefore have more up to date figures available. For this reason, it is proposed to refer to the 1960 as well as the 1959 financial results at this time.

The reports on the audits of the corporation's accounts for the years 1959 and 1960 were given in the form prescribed by section 87 of the Financial Administration Act, and neither report contained any qualification.

The financial statements and audit report of the corporation for the year ended December 31, 1959 are reproduced on pages 116-118 of volume II of the 1959-60 public accounts of Canada. However, since the corporation has furnished members of the committee with copies of its 1960 annual report, I might say that the 1959 figures can be found in the 1960 financial statements where they are given in comparison with the 1960 results. In addition, on page 22 and 23 of the 1960 report there is set forth a detailed financial review of the results from operations, year by year, from 1952 to 1960.

It will be noted on page 13 of the 1960 annual report that the corporation's income for 1960 approximated $85.9 million compared with $60.2 million for the preceding year, an increase of over $25 million. Cost of sales and operating expenses at $66 million in 1960 were up $12 million over 1959 with the provision for income tax correspondingly higher by $7 million. Consequently, net income at $9.8 million for 1960 reflected an increase of $6.2 million over the preceding year. 1960 has in fact been the best year in the corporation's history. Dividends paid to the Receiver General of Canada amounted to $3 million in 1959 and the same amount was paid in 1960.

If members of the committee would refer to the financial review on pages 22 and 23, it will be noted that net sales and other income in 1958 was to the order of $75.5 million. This fell to $60.2 million in 1959 before reaching the level of $85 million for 1960. The principal reason for this drop in 1959 was the strike at the Sarnia plant during the early months of that year.

During 1960 capital expenditures amounted to $4.1 million compared with $2.7 million in 1959. As shown by the balance sheet at December 31, 1960, the corporation's total investment in land, buildings and equipment now exceeds $100 million.

The corporation's balance sheet at December 31, 1960 also indicates for the first time an investment in a subsidiary company in the amount of $1,331,000. This represents the corporation's investment toward the close of 1960 in the equity capital of Polymer Corporation (S.A.F.), a subsidiary company formed in France, of which 95 per cent of the equity capital is held by Polymer Corporation Limited and 5 per cent by the Banque de Paris et des Pays-Bas. In this connection, no audit work was required to be undertaken during the calendar year 1960. I am informed that an international accounting firm was recently retained as auditor of this newly formed French subsidiary company.

That concludes my remarks, Mr. Chairman.

The CHAIRMAN: Are there any general questions at this time? It is hoped that we will proceed with Mr. Rowzee's statement, then the film, then more of his statement and then open up the meeting for questioning. Before we do that, however, are there any particular questions to be put?

Mr. MURPHY: Mr. Chairman, I do not have any questions for the Auditor General right now—I may have some later—but I think you expressed the view, Mr. Chairman, that you would anticipate two meetings with the officials of Polymer today and tomorrow, and I have indicated to Mr. Rowzee a few questions that I wanted to ask in regard to his statement. I think there are other questions which I have which will take me a few minutes. If he has not the answer now, could his staff have the answers ready either today or tomorrow?

The CHAIRMAN: I have a list of questions, are they your questions?

Mr. MURPHY: That is some of them. I have three other short ones.

The CHAIRMAN: Could I suggest that we proceed with the President, let him make his statement, and then after he has finished—unless you want to file these questions?

Mr. MURPHY: I am hoping that he would be able to comment on the ones to which I previously referred. One refers to a memorandum, which I hope he will submit, referring to the amount paid to the city of Sarnia in municipal taxes, a statement by the president on the importance of research, the amount spent by the company on research; the number of key research people, technicians and so on; a statement by the President regarding the plant in France, its make-up, and so on; the proposed plants in any other areas, also the proposed extensions in the Sarnia area and the effect of the extensions on the operations of the Sarnia plant. The other question is: does the ownership of synthetic rubber plants in the United States have any adverse effect on your sales to their subsidiaries in Canada?

The following is a list of the remaining questions:

What is the total of imports of synthetic rubber into Canada over each of the last five years?

What percentage is there of your sales in Canada? Is it a fact that you will continue to face strong world-wide competition?

To how many foreign countries do you export?

Are your foreign distributors concerned by reason of your being a crown company?

Do you propose producing new products in competition with Canadian producers?

Has the government ever interfered with the administration of Polymer?

Could Polymer increase its production in the event of a national emergency, and if so to what extent?

The CHAIRMAN: Shall we take those up later?

Mr. Rowzee, will you commence?

Mr. E. R. ROWZEE (*President, Polymer Corporation Limited*): I welcome this opportunity to appear on behalf of Polymer Corporation.

My associates and I are pleased that you are interested in knowing more of its activities, because I feel that it is an operation in which we can all take a great deal of pride.

I assume that you have had a copy of our submission covering the story of the Company to date and a copy of our Annual Report for the year 1960 and, consequently, are generally familiar with Polymer's background and performance. At the outset, I should like to record the fundamental precepts of Polymer Corporation:

1. To maintain a strong organization of highly trained and skilled people with efficient facilities to produce products capable of being marketed at a profit.

2. To operate in accordance with sound commercial practices, measuring performance by the high standards normal to business and industry in Canada.

3. To discharge effectively its responsibilities towards customers, employees, and shareholders, and maintain a proper balance among them.

Later, I should like to comment on the Company's expansion programme, which is now underway, and on what lies ahead. But first, I should like to summarize briefly Polymer's present position.

Polymer produces almost 10% of the world's synthetic rubber, and almost 5% of the world's total production of rubber; natural and synthetic. It is the most highly integrated of the world's synthetic rubber plants, and has been able to compete successfully with the best privately owned producers in the United States and Europe.

At the end of the war, Polymer arrived at what I shall call Crossroads #1. It had a plant capable of producing approximately 50,000 tons per year of synthetic rubber and a market in Canada for no more than 20,000 tons. It was necessary to develop an export market quickly or close the plant. The Government made a key decision that the plant should continue to operate with strong emphasis on aggressive marketing, research, diversification of production and sale of co-products. In the early post-war years, Polymer people travelled over the world establishing customer relations which have become one of our basic assets. I wish to take this opportunity to commend in particular the Canadian Trade Service for a very real contribution toward the establishment of Polymer's export market.

For the past ten years, and particularly since the Korean war, Polymer has been a profitable company, exporting some 70% of its production to more than sixty countries and thereby earning between $40 million and $50 million in foreign exchange annually.

Polymer employs more than 2600 people whose wages and salaries compare favourably with those paid by similar industries in Sarnia and elsewhere in Canada as well as in Sarnia. Last year, the total wages, salaries and associated payments were in excess of $16 million.

Without adding major new units, production has been increased from a design capacity of 41,000 long tons in 1942 and 1943 to 157,000 long tons in 1960. This has been achieved by a planned programme of step-wise expansion, process improvement, technical innovation, and bottleneck removal.

Polymer provides the Canadian rubber industry with a wide range of high quality synthetic rubbers, the bulk of which are sold at prices below those prevailing for similar products in the United States; thus, the Canadian rubber industry benefits from a favourable price structure and an extensive research programme, neither of which would be possible without large volume sales to the export market.

Polymer was built at a capital cost of $48.5 million. The completion of construction in record time and the smooth start-up of all units reflects the excellence of the technical information provided and the high degree of co-operation of industry in Canada, embracing petroleum, rubber, chemical and manufacturing companies and many construction firms.

The cost of expanding Polymer's capacity, and its requirements for working capital have been entirely self-generated—financed from profit and depreciation. Plant investment now stands at slightly over $100 million, and net working capital at approximately $30 million. The Company has returned to the Government, in the form of re-payments of advance, dividends, retirement of bonds, interest, and taxes, over $100 million.

The research and development Division established in 1945, is recognized as one of Canada's leading industrial research organizations. It has developed a number of patents and has introduced significant innovations in synthetic rubber technology in the form of new products as well as in processing techniques in the Sarnia operation. Its current annual operating budget is in excess of $2 million. The total number of technical people is in the order of 50, and the total number of research people is approximately 180.

An additional benefit derived from this work is the sale of "know-how" and experience to Petroleos Mexicanos for the general purpose plant which they are constructing in Mexico.

The range of synthetic rubbers produced by Polymer is broader than that of any other producer. This is partly a function of the original design and partly a reflection of the company's technical competence, with particular reference to the diversification of production resulting from its research effort.

Polymer's marketing activities are more widespread than those of any other producer. The company is represented in all major marketing areas of the world by outstanding distributors who are nationals of the country in which they market. It has the reputation for producing and marketing a wide range of quality materials; for providing excellent technical services, and for integrity in its dealings with its customers and distributors.

A company's success is, to a considerable extent, associated with its ability to attract and to hold loyal and skilled employees. This is particularly so in Polymer where operations are demanding because of their complex, and highly technical nature. Polymer has a large body of long service employees, many of whom elected to remain with the company in the immediate post-war period when its outlook was highly uncertain. A high degree of identity with the company exists at all levels, including the members of the board of directors.

The foregoing leads to the conclusion that Polymer is one of the most efficient producers of synthetic rubber in the world. We have a high level of confidence that it will continue to compete effectively, both in Canada and in the export market. Efficient operation, technical competence, research, diversification of production, aggressive marketing and technical service to customers have played important parts in achieving this position.

I wish to emphasize the part played by the Company's Board of Directors. Polymer is fortunate in having had strong directors to guide its affairs from its inception. Most of those who have served as directors, including those now serving, are presidents of leading Canadian companies, like Mr. Todgham on my right. The Board has been encouraged by the shareholder to act in accordance with normal business principles aimed at maintaining an efficient and profitable operation. Their freedom to do so has been of utmost importance to the success of the company.

In case you have the feeling that I am blowing Polymer's horn too loudly, I hasten to add that the above information is factual, and is submitted by way of establishing where the company stands at present. I can assure you that

there is no feeling of complacency, but rather a full realization that the road ahead is full of problems and difficulties. Polymer has dealt with many difficult problems in the past fifteen years, and we feel competent to deal successfully with those that lie ahead. Our attention is directed toward the future rather than a contemplation of the past.

Before considering the future outlook, Mr. Chairman, I should like to take a few minutes to show a film of Polymer's operations so that this committee may receive a visual impression of the extent and complexity of the company's activities. A few of the statements made in the commentary of the film are out of date but otherwise, the film gives an accurate picture of what Polymer does.

(Note: At this point a film was shown.)

Mr. MURPHY: I would like to say that we are very much indebted to Mr. Rowzee and his staff for this very educational film. All we regret is that more members did not have an opportunity of seeing it.

The CHAIRMAN: Thank you, Mr. Murphy. I am sure we all agree with that.

Mr. ROWZEE: I hope it gives you an impression of the extent of our activities. I would like to point out to you that obviously, from the commentary with the film, you will note that it was aimed primarily at the export market to aid our selling efforts and, therefore, you may have noticed relatively little reference to the Canadian domestic markets for rubber. There was no intention to exclude them, but this was aimed primarily at selling abroad.

In the remaining time available, I should like to review the Company's operations in a very broad context; the significance of Polymer in the Canadian economy, and its plans for the future.

Aside from being a profitable operation, Polymer provides Canada with a point of reference. One of the nagging questions which arises from time to time is—can Canadian owned industry compete effectively with very powerful interests in the United States and Europe? To date, Polymer, whose orientation is heavily in the chemical direction but related to the petroleum industry, has been able to do so. Using Canadian produced hydrocarbons as raw materials, Polymer has been able to establish a world-wide market for its products. During the past five years this market has been extremely competitive. The lowest-cost producers of synthetic rubber are to be found on the Gulf Coast in the United States. So far, Polymer has been able to compete effectively with these producers. It is obvious that we have had to meet strong competitive forces in the export markets. It is perhaps less evident that there is strong competition in the domestic market. This competition exists and comes from natural rubber and from synthetic rubber produced by United States companies.

Perhaps it would be helpful to summarize the world rubber situation before dealing with Polymer's future plans.

Annual rubber consumption in the western world increased from 100,000 tons in 1910 to 1.0 million tons in 1939, to almost 4.0 million tons in 1960. Natural rubber accounts for slightly more than half of all rubber consumed. In Canada, the proportion of synthetic is about 60 per cent, and in the United States 70 per cent. Usage of synthetic in the principal rubber consuming nations is expanding rapidly.

The annual consumption of rubber is growing at a rate of 5 per cent, or almost 200,000 tons per year. Most of the increase is in the form of synthetic because, for some years, production of natural rubber has been on a plateau. At present, there are only two major areas of rubber usage—truck and bus tires, and aircraft tires—where natural rubber is definitely preferred and where, thus far, synthetic has had little impact.

In 1959, the facilities you have just seen had reached the point beyond which further significant expansion seemed unlikely. Polymer had arrived at crossroads No. 2. It was management's judgement that important business and

marketing opportunities existed for the company, both in Canada and abroad. The question was—should Polymer take aggressive action, which involved certain risks, and expand to take advantage of these opportunities, or, should it be content with its present profitable operation?

One course would enhance Polymer's and Canada's reputation and position in the industry; would permit Polymer to continue to function as a major world supplier of synthetic rubber, and would provide the opportunity to expand employment, to earn more profits and more foreign exchange. The other would lead to a declining position as an important factor in the world's synthetic rubber industry, declining profits, and lower value as a capital asset.

During the latter half of 1959, a thorough evaluation of the Company's position was prepared and, early in 1960, a programme of growth was presented to, and endorsed by, the Polymer board of directors. This programme consisted of:

1. A specialty rubber plant, to be built in a Common Market country.
2. A butyl rubber plant, to be built in the European area, preferably in England.
3. A solution polymer plant (cis-polybutadiene), to be built in Sarnia.

It was estimated that the total cost of this expansion would be $40-$45 million, spread over a three year period, one-half of which would be met from Company earnings during the three year period, the remainder to be borrowed.

As you know, Polymer's Capital Budget must be laid before Parliament, approved by the Governor in Council on the recommendation of the Minister of Defence Production and the Minister of Finance. General approval of the programme was obtained from the Cabinet late last summer and, in October, Mr. O'Hurley made a statement regarding Polymer's plans for expansion.

Polymer Corporation (SAF) has now been formed, to build and operate a specialty rubber plant in France at Strasbourg. The Banque de Paris et des Pays Bas is a minority shareholder and, as our partner, has provided valuable assistance in arranging the financing, in obtaining the necessary government approvals, and in counselling us as to business practices in France. Construction is about to get under way. This plant will provide manufacturing facilities in the heart of the European Economic Community, which is one of Polymer's most important markets and represents a population of approximately the same size as the U.S. It will cost approximately $12 million and is designed for 10,000 tons of specialty types of rubber per year of which we export from Canada 90% of our production at present.

It is to be emphasized that the French plant will augment Canadian production and will enhance Polymer's coverage of the export market. Its existence is expected to stimulate Company growth in Sarnia and perhaps elsewhere in the world rather than depressing production and growth in Canada.

I returned only yesterday from France and from England. In France I attended a meeting of the Board of Directors of Polymer Corporation (SAF). Site preparation and engineering are proceeding satisfactorily. I was impressed with the generally good economic conditions in Europe, but also with the strong competitive situation in regard to rubber. My observations supported my earlier conviction that facilities in the Common Market area are essential to the maintenance and extension of our position in the export field.

During the period 1935-1940, all the rubbers now in commercial production were emerging from a period of intensive research and development. At that time, there was no large scale production of synthetic rubber and the rubbers under development were viewed with great skepticism as to whether they would ever achieve importance. Today, these synthetic rubbers are firmly established; but, the new stereospecific rubbers, which are not yet fully devel-

oped, are viewed with skepticism, just as the present types were at the same stage in their development. In my opinion, they, and other types, will be the rubbers of the future.

Polybutadiene is one of this new family of stereospecific synthetic rubbers which are at the present time reaching commercial production in North America and Europe after a period of intensive research and development covering the past six or seven years.

These new rubbers are based on the Ziegler catalyst technology developed in Germany in the early 1950's. Using these catalysts, the chemist is able to duplicate exactly the molecular structure of natural rubber and thereby produce a synthetic natural rubber, or polyisoprene. Using the same basic techniques, he can also produce cis-polybutadiene, which is superior to natural rubber in resilience and abrasion resistance.

The Company announced recently the building of a polybutadiene plant in Sarnia. Engineering is proceeding and construction will start during the summer in order that Polymer may make an early entry into this important new field. The plant is expected to cost $8-$10 million, and will be designed for an output of approximately 20,000 tons of polybutadiene per year.

Here is a simple demonstration which shows clearly the superiority of cis-polybutadiene over natural rubber from the standpoint of resilience:

The demonstration consists of rubber balls—and I am not going to juggle them, I am going to bounce them. First I would like to show you a rubber that is quite unusual; note how it bounces, that is butyl rubber—in the film it was being put into cans—but it makes very excellent inner tubes. This is the type of rubber made in Sarnia which is used extensively in passenger car tires, and I will first bounce it so that you can compare it with natural rubber as to its bounce. You will note that the yellow ball of natural rubber bounces very much higher. We say that natural rubber has superior resilience, and it is that property of resilience which makes natural rubber particularly adaptable and outstanding for truck, bus and aircraft tires. Synthetic rubber has not made very much progress in that direction. Now we have this ball of polyisoprene. This is the synthetic rubber made by this new Ziegler catalyst technique to which I referred and is, for all practical purposes, the same as natural rubber—they have approximately the same bounce. This is the polybutadiene that we believe is one of the rubbers of the future. You see that this is very much more resilient. I am not suggesting that this is going to sweep the world, right now, but some years from now I think you will find that this will be one of the very important rubbers, just as 25 years ago we thought, with confidence, that this type of rubber—krylene that we make in Sarnia—would be important. It was not then, but it is now. This red rubber ball is not important today but we think it will be in future years.

I have some more to say in regard to our plans for butyl rubber.

Butyl is a specialty rubber used in inner tubes, wire and cable, and is finding some application in tires. It is believed that expansion of butyl production is essential to the future well-being of the Company. Polymer produced butyl has world-wide acceptance. The demand for this rubber is such that, in the past two years, Polymer has been unable to meet it. Competition is expanding. If Polymer does not produce more butyl many important markets will be lost.

Polymer would prefer to build a butyl rubber plant in Europe, but has been unsuccessful in obtaining a license in any major European country. Such countries are preferred because approximately 80% of the Company's butyl production is exported and there are real advantages from the standpoint of cost and of customer relations in locating production facilities close to the principal consuming areas. Our alternatives are to build in a smaller

country where no license is required, or to build new facilities in Sarnia. From a short-term point of view, Sarnia expansion may be tenable, but from a long-term point of view, expansion in Europe is the most effective way of realizing the factors of cost and customer relations previously mentioned.

This whole project is now being developed as rapidly as possible. It is expected that a definite decision as to location will be made by mid-year.

These are the major projects with which we are concerned. Of course there are others under way in Sarnia having to do with producing more and better products from existing facilities, and providing better service to our customers. These projects include a unit to produce carbon black masterbatch; an enlargement of the butadiene extraction facilities, and an expansion of the styrene unit. A new marketing and technical service building is also under construction. These facilities will enable marketing and technical service personnel to assist customers in the effective use of Polymer materials in their products. This entire program has as its objective ensuring the health and future vigour of the Company.

Mr. Chairman, I have covered a great deal of ground. May I suggest that questions from you and your associates would enable me and my associates to clarify points which I have covered quickly, or other phases of our operations and practices which might interest you.

The CHAIRMAN: Thank you very much, Mr. Rowzee. I understand, gentlemen, that Mr. Todgham, representing the board of directors, would like to make a few remarks.

Mr. RON W. TODGHAM (*Director, Polymer Corporation Limited*): Thank you, Mr. Chairman. It is a distinct honour and privilege for me to appear before you this morning as a member of the Executive Committee of Polymer Corporation, and as a representative of my fellow Directors.

It is a special privilege for me as it affords me the opportunity to give you my impressions of persons other than management who are directly connected with Polymer Corporation, as well as my opinions on management.

I have been a Director of this Corporation for the past five years, and I have been most favourably impressed by the contributions of my fellow Polymer Directors in the establishment of policy and in dealing with the many other matters concerning Polymer.

We are mindful of the tendency towards complacency and a static operation in some highly successful modern day enterprises, but your board of Directors hastens to assure you that this shortcoming has never been in evidence at Polymer.

Without exception, gentlemen, your directors have followed an unwavering policy of close association and intense interest in the operations of Polymer Corporation.

From this, all of us have gained a deep satisfaction from dealing with the challenges provided by Polymer's world-wide operations.

I can say now, after five years of association on this Board—and I say this in the sense of constructive criticism and not flattery—that the Polymer Board of Directors has materially contributed to the operational success of this corporation. We all have an inherent personal interest and tremendous pride in Polymer.

As for the Federal Goverment's association, we certainly appreciate the operating atmosphere established by Government here in Ottawa, and we believe—without reservation—that an important contribution to Polymer's success has been the freedom from what I might call "political pressures".

Again, speaking for the Directors, our opinion of Polymer management is that it is in excellent hands.

We have a very high degree of confidence in Mr. Rowzee and his management team.

We have found through discussion and participation with these dedicated employees that they are dynamic, conscientious, imaginative and devoted to their task—the health and growth of a major Canadian enterprise.

The Board of Directors and shareholders are kept thoroughly and promptly informed of all Polymer operations through regular monthly reports as well as many special reports dealing with all the major aspects of this highly technical and complicated operation.

In our opinion, this is a healthy and efficiently operated business.

As businessmen we are concerned with the steady and aggressive growth of our own particular affiliations. As Directors of Polymer we naturally are concerned with the steady and aggressive growth of this industry.

We have no grounds for disappointment. Polymer today is an $85 million per year business giving steady employment to some 2,600 Canadians. It is contributing very significantly to Canada's balance of trade by selling over $50 million worth of Canadian rubber each year to more than 60 foreign countries.

As a successful world-wide business, it has added real stature to the image of Canada throughout the business world.

Both as a Director and as a Canadian, I am very pleased to join in this report on this committee—the representatives of all our shareholders. Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Todgham, I am sure we are all very interested in what you had to say with regard to the officers and administrators of this crown corporation. I am also sure you do not expect us to sit here and not pose a few awkward questions. We are anxious to get some information. As you very well know we represent the Canadian taxpayer.

Gentlemen, the floor is open and questions would be appreciated.

Mr. MURPHY: Mr. Chairman I notice that some of the questions which I asked Mr. Rowzee a few moments ago have been answered. Would he take up the ones that have not been answered—the first one regarding the taxes you are paying to the city of Sarnia?

Mr. ROWZEE: In regard to taxes, I have the information and I will give it in just a moment. Polymer buildings and properties in Sarnia are assessed in the same manner as are the properties and facilities of other industries in the community. I might say that we examine the assessment as critically as any of the other property owners and we are prepared to appeal the assessment if we believe it to be inequitable. Calculated on the basis of the assessment and the current mill rate, Polymer makes a grant to the city in lieu of taxes. The amounts paid for the past five years range from just under $300,000 in 1956 to $444,000 in 1960. If you need the figures for the intervening years, I have them here, but the range is from just under $300,000 to $444,000.

Year	City of Sarnia paid
1956	$298,067
1957	325,136
1958	351 566
1959	401,712
1960	443,839

Mr. MURPHY: Mr. Rowzee, you did deal with research and you also dealt with my third question regarding the plants in France and elsewhere. I wonder if you could now deal with the questions I recently submitted. The first one is: does the ownership of synthetic rubber plants in the United States have any adverse effects on your sales to their subsidiaries in Canada?

Mr. ROWZEE: Mr. Chairman, I do not have a prepared answer for this question, but I would reply as follows: that, to the best of my knowledge, the ownership of the synthetic rubber plants in the United States has not had an adverse effect on sales to subsidiaries in Canada. Our relations have been excellent; all of the tire companies in Canada, most of which are subsidiaries of companies in the United States, have been remarkably loyal to Polymer since its inception. That does not mean that they buy 100 per cent of their requirements from Polymer. There is one major type of synthetic rubber which is not produced in Canada, namely neoprene. That, of course, is imported. There are certain types that we could make in Sarnia, but where the demand in Canada is not sufficient volume-wise to warrant our making them, those types are also imported. I think it is safe to say, as a general statement, that we have consistently provided between 85 and 90 per cent of the total Canadian requirements for synthetic rubber, and we have no reason to be dissatisfied with that situation.

Mr. MURPHY: I am very glad to have that answer on the record.

My second question is: what is the total of imports of synthetic rubber into Canada over each of the last five years?

Mr. ROWZEE: I do not have the figures, but if you would like to have them read into the record, I could obtain them for you tomorrow.

Mr. MURPHY: That would be satisfactory. You mentioned the number of countries—you said 60.

Mr. ROWZEE: More than 60 countries.

Mr. MURPHY: That is the next question: are your foreign distributors concerned by reason of your being a crown company?

Mr. ROWZEE: I think I can give a straightforward answer to that—they are not. They have been concerned regarding some rumours or comments that have reached them over the past year or two that a possible change in ownership of Polymer was contemplated. Naturally they have wondered what would be the policies of the new owner; but under the present situation, based on visiting most of these people once and sometimes twice a year, they have no reason for concern.

Mr. MURPHY: Thank you, Mr. Rowzee. Do you propose producing new products in competition with Canadian producers?

Mr. ROWZEE: You are posing a very difficult question to answer in a straightforward manner. It is almost inevitable in research that discoveries cannot be fully controlled. We do not know at any time when we may discover something in a research stage that may be of vital importance. It is our belief that we as a company would wish to and would expect to follow such developments that might arise from research through to their logical conclusion, developing them from a business standpoint. However, we are very thoroughly engrossed in the rubber business. There are many facets of the rubber business which we feel not only have kept us busy but will keep us busy for quite a few years to come. So that I can say very directly we have no specific plan for moving into competition with other Canadian producers, but it could always arise through the research avenue of which I spoke. Our principal focus, however, is on rubber.

Mr. MURPHY: Mr. Chairman, the next question I asked was answered by Mr. Todgham. I think the committee will appreciate the answer he gave. The question was: has the government ever interfered with the administration of Polymer? I would suggest, Mr. Chairman, that has been completely answered, unless Mr. Rowzee would like to add to it.

Mr. ROWZEE: I would just like to emphasize very strongly that there has been none.

Mr. MURPHY: The last question I have, Mr. Chairman, is: could Polymer increase its production in the event of a national emergency, and if so to what extent?

Mr. ROWZEE: Polymer could expand its production very rapidly in the event of a national emergency. I would like to point out, however, that our current production of 157,000 tons a year which is being enhanced by 20,000 tons in the polybutadiene plant and other changes, will undoubtedly bring our production to the neighbourhood of 200,000 tons a year within the foreseeable future.

Mr. MURPHY: Is that in Sarnia?

Mr. ROWZEE: The present Canadian consumption of synthetic rubber is in the order of fifty to fifty-five thousand tons a year. Therefore, our plant already is very much oversized for Canadian demand. The principal concern in the event of an emergency would be the supply of natural rubber or its equivalent. The rubber we are now proposing to produce will supply this gap which might exist due to a lack of natural rubber. We could expand very rapidly; to what extent I would hesitate to guess at the present time, except to say that expansion could be carried out within a two-year period.

The CHAIRMAN: May I interject. In the case of the emergency of war, if your plant were knocked out, have you any other pilot plants in any location in the country.

Mr. ROWZEE: No. We are all in one location.

Mr. MURPHY: Thank you very much, Mr. Rowzee and Mr. Chairman.

Mr. MCGEE: A statement was made by the President to the effect that the return to government was over $100 million. He mentioned earlier that the initial investment of the taxpayers money into this project was $83 million. I think perhaps the impression has been left by this statement that in fact more has been repaid to the government than initially was invested. I note in that $100 million figure you include taxes and other returns which really is not a fair comparison for the purposes I have in mind. What is the actual return other than what would normally occur if you were a privately owned industry?

Mr. ROWZEE: May I correct one figure. You said $83 million. The original plant cost $48½ million. Our return, I emphasized, in all forms including taxes, was in excess of $100 million; but in the context in which you are asking the question I believe the answer would be approximately $60 million.

Mr. MCGEE: In other words you have returned to the government in toto more than the original investment, or the investment at any point.

Mr. ROWZEE: Yes.

Mr. MCGEE: I see.

Mr. SPENCER: Is that correct—invested at any point?

Mr. ROWZEE: The investment, out of earnings, has now been enhanced in the neighbourhood of $100 million. The $48½ million now has grown to $100 million.

Mr. MCGEE: I am trying to determine how much in toto was invested by the government over the full of the company's life and how much has come back directly. I am not speaking of taxes which would occur in any other business.

Mr. ROWZEE: The government has not put in any additional capital funds other than the original $48½ million. All the remaining monies which have been spent in Polymer have been self-generated. So I think the answer you are looking for is the figure of approximately $60 million.

Mr. TODGHAM: There is about $30 million of working capital for growth of plant, all of which was generated within the business. The government now

owns a facility from which it has received about $60 million approximately in addition to its original contribution.

Mr. HALES: Mr. Chairman, I have a supplementary question to Mr. Murphy's concerning the building of this plant in France. Have you hired a Canadian architect and a Canadian engineer to set up this plant in France?

Mr. ROWZEE: No, I have a statement in that regard.

In view of the growth of the plant over the years, we have had extensive contact with contractors. We are keenly aware of new synthetic rubber plants that are being built or are in the development stage, and we follow with interest the engineering firms involved.

I should like to record that it is the policy of the Company to give preference to Canadian firms. In selecting contractors we assure ourselves as to the availability or non-availability of Canadian companies for experienced engineering services for synthetic rubber and petrochemical projects. It is important to appreciate the fields in which Canadian firms are most able and those where we lack experience.

Some of the fields in which Canada has outstanding engineering capabilities are in pulp and paper, civil engineering projects, the power generating field, and building construction. Petroleum, petrochemical, and synthetic rubber are fields in which Canadian engineering and construction firms are not specialists and include those which we do find in Canada are subsidiaries of similar United States companies, generally speaking.

The potential engineering firms from which a contractor may be selected vary somewhat with the kind of project in which we are involved, and for special projects it is essential to engage those firms experienced in the field, frequently U.S. firms with world-wide experience and operations.

As was mentioned, we are just under way with a specialty plant in France. The selection of the engineering and construction firm for the project has received some attention from the press. A factor that had to be taken into consideration in this instance was the stipulation of the French authorities in approving the project that French materials, equipment and personnel be used to the maximum extent possible. This was an important consideration in the selection of the contractor.

Several contractors, not fully appreciating the scope of these projects, have visited our engineering people and learned at first hand what was involved. We believe this is a highly desirable approach. If some of them feel that it is a field in which they could specialize, it is important for them to recognize that to maintain their specialty they must pursue jobs outside of Canada because the frequency and number of jobs in Canada are not likely to be enough to give the needed experience.

I believe that most of those who have visited our engineering people have recognized that the special nature and requirements of the project in France are beyond their present capabilities and experience.

Mr. HALES: Will these Canadian contractors have an opportunity to bid if they wish?

Mr. ROWZEE: The contract is already let.

Mr. HALES: Who is it given to?

Mr. ROWZEE: The company that is doing the contract is the Badger Company of Boston.

Mr. HELLYER: I wonder if Mr. Rowzee could say why location in France was chosen rather than some other country in the common market?

The CHAIRMAN: Gentlemen, we can stay in this room until 11.45. Is that your wish?

Agreed.

Mr. BROOME: I have a supplementary question.

The CHAIRMAN: Mr. Hales, have you finished?

Mr. HALES: Could you give me the name of the architect and engineer who got that business?

Mr. ROWZEE: Polymer is the general contractor. Badger is doing the detailed engineering work for our account—Badger France—and will supervise the construction of the job in France. But Polymer is providing all of its engineering people who are acting as the prime contractor in the sense of designing and saying what the technical requirements of the job are. Those are translated into detail by the Badger Company in France.

Mr. HALES: Is the building being built on a straight contract, not a cost-plus arrangement?

Mr. ROWZEE: No cost-plus.

Mr. BROOME: Mr. Chairman, on the same subject, I was wondering whether the company had given any consideration to a joint venture arrangement whereby some leading Canadian engineering firm might have been associated with Badger, or vice versa, with the idea of building up know-how in Canada, because, as you have pointed out, sir, nearly all of our petrochemical engineering plants have been engineered outside of the country and they will continue to be done in that manner until some Canadian company happens to break into the field. The only way they can break into the field is by association with people who have had experience in this field. It would seem to me that this would have been a heaven-sent opportunity at least to introduce know-how into this field through a Canadian company being associated on this project, and also because there must be similarities between design in this particular plant and design of other plants in the chemical field, even in the refinery field. In other words, chemical processes do have similarities.

Mr. ROWZEE: I understand the point that you are raising, and I think it is an important one to consider from the standpoint of general Canadian well-being. But the question I think that might arise is: who is going to pay for putting the Canadian engineering firm in that position? Should they be doing it themselves, making the necessary expenditure of time, effort and otherwise, to put themselves in a position I admit it is not easy?

Mr. BROOME: On that particular point, granted that you have highly skilled engineers who are the leading men in design, but under them they have draftmen and technicians working, and those draftsmen and technicians are just as available here as in the United States. We are talking of perhaps half a dozen highly qualified engineers who supervise and tell other people what to do, and they could just as well tell people over here what to do as they can over in the States.

Mr. ROWZEE: We are doing that in regard to this polybutadiene plant. The Company that will handle the engineering for us in that instance is Catalytic Construction in Sarnia. Catalytic Construction is a subsidiary to the American company and 95 per cent of their employees are resident in Sarnia or in Canada. That was not possible in the case of the French plant. I tried to point out that the French government specified that wherever possible we had to make use of the services of people there.

Mr. BROOME: I quite agree—if I were sitting in the French parliament I would be doing the same thing. I am simply saying that we should do the same here.

The CHAIRMAN: How does it turn out that the Badger Company of Boston is then hired?

Mr. ROWZEE: I am sorry, I meant to say Badger of France.

The CHAIRMAN: But their head office is in Boston.

Mr. ROWZEE: That is right.

The CHAIRMAN: Badger of France is a wholly owned subsidiary of Badger of Boston.

Mr. ROWZEE: That is right.

The CHAIRMAN: And the engineers would be American engineers.

Mr. ROWZEE: A few key people would be American. But the bulk of their employees, their craftsmen and such, would be nationals of the country.

Mr. DRYSDALE: Is there any Canadian firm capable of doing the same thing as Badger of Boston?

Mr. ROWZEE: I think I would be fair in saying that any Canadian firm that could be capable of doing that kind of thing would be a subsidiary of an American firm, such as Stone and Webster, Canadian Kellogg, Canadian Bechtel—oh, there are about half a dozen. If they obtained a contract they would immediately transfer it to Stone and Webster, or to Bechtel of France; so the end result is the same.

Mr. BROOME: I do not think I got my major point over; that by picking out a good engineering company you could hire them so that they would become the lead contractor, and they in turn could hire Bechtel or whoever they wish, who would have the know-how. They are the people who have broken into that field and they have a job to do. But the lead firm could be a Canadian firm, as the prime contractor.

Mr. ROWZEE: Because Polymer is the prime contractor in this case, our own engineering people are acting as general contractors, and they are providing the service which you are suggesting that some Canadian engineering firm might provide. It is Polymer's Engineering Division at Sarnia.

Mr. DRYSDALE: Mr. Rowzee, could you give me an indication as to how many meetings of the board of directors were held in 1959 and in 1960?

Mr. ROWZEE: There were ten—either nine or ten. This has been the number per year for as many years as I can recall.

Mr. DRYSDALE: That would be approximately one a month.

Mr. ROWZEE: That is right.

Mr. DRYSDALE: Do they meet in Sarnia?

Mr. ROWZEE: Sometimes it is Sarnia, or Montreal, or Toronto. Occasionally it is in Ottawa.

Mr. DRYSDALE: What is the function of the Executive Committee, yourself and Mr. Brunning?

Mr. ROWZEE: Mr. Brunning, Mr. Todgham, and myself constitute the Executive Committee in the event that a policy matter must be dealt with between these monthly meetings of the board. The three of us are empowered to act for the board.

Mr. DRYSDALE: How much time does Mr. Brunning spend on it? I notice that he is president of Consumers' Glass Company.

Mr. ROWZEE: He was, but he is no longer.

Mr. DRYSDALE: How did you come to this decision, or what was the background to this decision to expand, for example, into your location in France? Was a survey made by the company itself, or did you have an outside survey made?

Mr. ROWZEE: Are you speaking of the basic decision to expand, or of the specific decision to build a plant in France?

Mr. DRYSDALE: In your annual report at page six, you say:

> After careful and thorough evaluation of the company's position during the latter half of 1959 it became apparent that new synthetic rubber facilities should be erected by Polymer both in Canada and Europe.

I was wondering what was the nature of the survey that was made, from which you reached this decision? Or was any survey made?

Mr. ROWZEE: Yes. A survey was made by the management of the Company working primarily through the marketing people, or the Marketing Division of the Company which said that we could not hope to expand our coverage of the export market, or even to maintain it, unless we created facilities somewhere outside of Canada; and that we could no longer look forward to the next 50 years, that is, that we could not hope to maintain our present strong position on the export market based on exporting from Canada alone.

Mr. DRYSDALE: Is that survey available to the committee? I mean the survey on which you based your decision? Was the survey made and presented to your board of directors, and then a decision agreed upon to this expansion program? Would that survey be available to the committee?

The CHAIRMAN: First of all, this is a company matter, and the details must be cleared by the minister.

Mr. DRYSDALE: You indicate that the largest undertaking in 1960 was the formation of Polymer Corporation (SAF), a subsidiary company which will build and operate a specialty rubber plant? Could you outline this specialty rubber plant? What is it producing in relation to what is being produced in Sarnia at the present time, and relate it to your statement that this plant would augment the Canadian production, and would enhance Polymer's coverage of the export market?

Is it producing similar products to those being produced at Sarnia at the present time, in Canada.

Mr. ROWZEE: Yes, it will produce the same products that are in current production in Sarnia. But I might say, that the specialty rubbers that we are producing are currently exported, to the extent of 90 per cent of our total sales of this particular production, outside Canada. There is an extremely small market for these so-called specialty rubbers in Canada. They are mostly oil-resistant rubbers, and high styrene rubbers, which have particular application in shoe solings, and for floor coverings.

These rubbers sell at a premium price. They have a higher margin of profit attached to them. Other companies, we know, are very anxious to cut down Polymer's strong position in the export market in this production. How would they go about doing that? They would go about it by building a plant in France, or in the common market, or somewhere in Europe and as a result take away a portion of polymer's business.

But first, referring to domestic production, we contend that the existence of a Polymer specialty plant in Europe will augment Canadian production. By building a plant ourselves, we hope thereby to maintain our position. Why do we say it would augment Canadian production rather than reduce it? I say that because we get two things. By building a plant in France we maintain our coverage of the market. In the common market area in particular, it gives us a chance—an excellent chance—to expand our coverage of the market by removing production of some of the specialty rubbers from our plant in Sarnia. In this way we get a gain in the production of general purpose rubbers which we would otherwise not realize.

It takes more plant to produce specialty rubbers than general purpose rubbers. Therefore, to give you a quick example, for every pound of specialty rubbers removed from production in Sarnia, we expect to realize maybe a

pound and a half or a pound and three-quarters of general purpose type rubbers, thereby raising the level of production of rubber in Canada. That is what is meant by "augment".

Mr. DRYSDALE: What is the production of specialty rubbers by this French plant?

Mr. ROWZEE: Ten thousand tons per year.

Mr. DRYSDALE: What is the present production of your specialty rubbers in Sarnia?

Mr. ROWZEE: It is in order of 20,000 to 25,000 tons a year.

Mr. MCGEE: Where will this red ball rubber be produced?

Mr. ROWZEE: In Sarnia.

Mr. MCGEE: Could you say something about the relationship between your research facilities and the National Research Council. Have you ever drawn upon the research facilities available there?

Mr. ROWZEE: Yes. There is little direct connection between the National Research Council and Polymer's research, for the reason that Polymer's research is industrial research and the National Research Council engages in relatively little research of the type which might be known as industrial research. Dr. MacKenzie, who was the head of the National Research Council when Polymer was built, was very helpful in a supervisory capacity. He encouraged the Polymer board of directors and management to proceed to set up an efficient research organization. We have had good and close contact with the National Research Council on a technical relationship basis. We have a number of good people in our research organization who came from the National Research Council. So far as direct relationship today is concerned, however, there is relatively little. I would say that our relations have always been extremely good with the National Research Council.

Mr. MCGEE: I am going to ask about this new butyl plant which you are contemplating the erection of somewhere other than Sarnia. Will the decision in respect of locating this be governed by tariff conditions in Europe, or is it primarily a geographical move closer to the ultimate markets of Europe?

Mr. ROWZEE: Tariffs do not seem to be a dominant factor at the present time, because the common market calls for no tariff against synthetic rubbers entering the common market countries. So primarily it is a case of geography, economics, and the fact that at the present time eighty per cent of the butyl we are making at Sarnia is sold outside of Canada.

Mr. MCGEE: What consideration has been given to locating this plant in the Atlantic province area with access to an all year around port?

Mr. ROWZEE: I can say we have looked at Canada from coast to coast. There are a very very limited number of locations where such a plant might be located in Canada because of the feed stock. We cannot afford to transport feed stock, the basic petroleum feed stock, over any great distance. I think I would be safe in saying there are only two possible locations from an availability of feed stock standpoint. One is Sarnia and the other is Montreal. We have been unable to put together a good economic case for building a butyl rubber plant in Canada. It suffers as compared to locating elsewhere.

Transportation cost is a factor. There are certain countries in Europe where feed stocks are available very easily. Lastly it is the same problem which prevails in relation to the decision in building a specialty plant. We cannot hope to keep our hold on the export market for butyl rubber if we attempt to feed that market from Canada.

Mr. HELLYER: On this same subject, you mentioned economics as one of the reasons for building this plant in France. Would you elaborate a bit on what you mean by economics? To what extent is transportation a factor, to what extent are the differences in wage rates a factor, and so on?

Mr. ROWZEE: Wage rates are a relatively small factor because the number of people employed is not large. The labour content of a pound of rubber is relatively small; I mean in the range of fifteen to twenty per cent of the total cost of producing rubber lies in the overall wages, salary and other payments that are made to personnel. What other factor did you ask about?

Mr. HELLYER: Transportation?

Mr. ROWZEE: Transportation is an important factor. The cost of moving a pound of rubber to Europe is in the order of two cents a pound or a little more. I would like to say again that it would be difficult to continue this flow of foreign exchange into Canada by virtue of maintaining our position, or enhancing our position, in the export market, and we would not be able to convince our distributors and our customers that Polymer and Canada intended to remain a major factor in the world's synthetic rubber industry, unless we had facilities somewhere in the European area.

This is a relatively small plant, but the value we obtain from it with our customers, with our distributors, is far out of proportion to its size and cost.

Mr. HELLYER: Could you tell us why France was chosen rather than another country in the common market?

Mr. ROWZEE: The six common market countries, of course, all were examined critically. Within a relatively short time, however, it was possible to narrow the choice down to France and Belgium as being the two preferred countries from the standpoint of availability of the necessary raw materials, from the standpoint of the general atmosphere that was available from the standpoint of incentives, encouragements or otherwise, plus one additional factor which was that France traditionally has been Polymer's best customer as a country. The French rubber industry has been our best single customer among the continental countries. Therefore, we are well and favourably known in the rubber industry in France, which is a very large and well organized industry. The rubber industry in Belgium is relatively small.

We can expect with confidence when this plant is built a large portion of its output will be absorbed in France alone and that we will have ready access to the other common market countries as well.

Mr. HELLYER: Can you say why a French bank was allowed to participate in this subsidiary when Canadian citizens are not allowed to participate in the ownership of the parent plant?

Mr. ROWZEE: I can only say that all the advice we received prior to entering upon this project was to the effect that we should have a French partner. We have been similarly advised in England that we should have an English partner.

Mr. HELLYER: Why only five per cent?

Mr. ROWZEE: It so happens that French banks are prohibited by statute from holding more than a ten per cent equity. They elected at five per cent. It could have been ten per cent if they had wished it.

Mr. HELLYER: I think that is partly the answer. Was there any requirement on the part of the French government to have a French partner, or was this just in the general order of good business?

Mr. ROWZEE: Exactly. It was very good business to have a French partner, and on examination we found that the French bank could supply that function. It seemed, from a judgment standpoint, to be better to associate ourselves with a French bank that could assist us in financing and charting our way through an entirely different way of doing business than to go into partnership with an industrial firm which perhaps would have ambitions toward playing a more important or dominant part in the operation.

Mr. HELLYER: It seems to make sense. Does the Department of Trade and Commerce assist you in any way in locating this plant or in marketing?

Mr. ROWZEE: They have assisted us very greatly. Mr. Campbell-Smith, who is currently in Ottawa, was kept fully informed and was with us all the way through these negotiations. Also the current trade commissioner, Mr. Kniewasser, has been very active. The Canadian ambassador has helped us. He appeared at Strasbourg when we made the public announcement. He was the principal speaker; the other speaker was the then prime minister of France, Mr. Pflimlin.

Mr. MURPHY: Will the administration of the French plant be Canadian?

Mr. ROWZEE: Yes. The general manager has been there for several months. He was in London for a number of years, and prior to that was in Sarnia. We also expect there will be half a dozen key persons moved from Sarnia in the early stages; but the bulk of the personnel, after the first few years, will be French.

Mr. SPENCER: My question is on a different line. I have been tremendously impressed by the great volume of export business in relation to the total production of this plant. I can think of no other industry which has invaded the export market to the extent this company has in relation to its total production. I was wondering if Mr. Rowzee could indicate how that was possible. Mention has been made of an aggressive marketing policy, and I inquired as to whether you ascribed the greatest degree of success in your invasion of foreign markets to your marketing policy, and whether that can be an example to other industries in Canada who are not in the foreign market to any extent?

Mr. ROWZEE: On aggressive market policy, perhaps I can describe it best this way. Polymer has been in the position for years where it had to export or not exist. At the end of the war, as mentioned, there was visible market for only about 20,000 tons of rubber in Canada. We consulted many people and people who might be considered expert in the rubber game, and they said: you might as well save your time and money and effort because you will never be able to sell any significant volume of synthetic rubber in Europe. We did not accept that advice, and one of the reasons obviously was that we could not accept it. We had to make the try because if we did not make the try the company was going to fold up. We made the try. I was in Europe, and I should say at this time, in 1945, I was given a temporary commission and was put into uniform to join a group of technical people who visited the German synthetic rubber industry as it was taken over by our forces. I was in the Ruhr visiting several synthetic rubber plants within two weeks of the time of the Rhine crossing in the late March of 1945. At the same time I had an opportunity to visit some of the consumer rubber factories in Germany, France and England. I learned how Germany had developed her synthetic rubber industry, how she had been successful in selling her chemicals—not specifically synthetic rubber, but her chemicals—on a world-wide basis. That visit led to others on the part of personnel of our company, particularly a Mr. Jack Nicholson who was at that time the general manager and later executive vice-president of the company, and Mr. Hatch. Mr. Hatch is today Vice-President of the company in charge of marketing. I think it is safe to say that those two men devoted the bulk of their time between the years 1945 and 1950 aggressively cultivating this export market in Europe. We had assistance from the fact that the synthetic rubber plants owned by the government in the United States did not similarly make synthetic rubber available for export. That is perhaps not quite correct—they did make it available, but the customers had to come and take it away from them. The customers certainly did not have to come and take it away from us—we were very anxious to sell it.

During that particular period I stayed in Sarnia and was responsible for running the plant. The Korean war established synthetic rubber, so that since that time there has never been any serious doubt as to its value and the necessity of its production in large quantities on a complementary basis opposite natural rubber. We have never taken the position that synthetic rubber will completely displace natural rubber. It may do so 100 years from now, but it is not a quick thing.

Mr. SPENCER: Had you competition from the United States?

Mr. ROWZEE: At that time, yes, because the only other synthetic rubber facilities were in Germany and they were closed down by the allied control commission and were not permitted to resume operations until 1951. It then was on a very, very minor basis.

Mr. SPENCER: But you still have that market today?

Mr. ROWZEE: Not only do we have the market, but I should say an important factor in the development of the market was that we chose a national of the country involved in each place, who acted as our agent and received a small commission for every pound of rubber he sold. We provided him with products—top-grade technical service—and he was responsible for selling to his fellow nationals.

Mr. SPENCER: At the present time you are meeting competition not only in the United States but also in other countries?

Mr. ROWZEE: Yes, we started out with an export market in the 1946, 1947 and 1948 period that amounted approximately to 20,000 tons a year. Last year we sold better than 100,000 tons of rubber into the export market. Year by year we have increased our volume of rubber moving into the export market.

Mr. MACDONNELL: I want to go back, if I may, for a moment to the question of the French contract and awarding to the Badger people. My question is this: first of all I understood Mr. Rowzee to say when asked whether this might have been awarded in Canada, that if it had been, it would have had to be an American subsidiary and if that had happened they would have had a parent company in any event. I understood him later to say that we should remember that Polymer Corporation itself was the top contractor.

Mr. ROWZEE: That is correct.

Mr. MACDONNELL: Those two things do not seem to be parallel. I was not quite clear as to how they fitted into each other. Could I ask this subsequent question: in what sense will the Polymer Corporation be actively at the head of the French construction? Would it be in a general supervisory capacity?

Mr. ROWZEE: In providing the basic knowledge and in providing the overriding supervision; in effect, Polymer itself is the general contractor. Now, it is quite customary in such circumstances to use subcontractors to do engineering—subcontractors to do construction. In this case, however, we are providing the basic technical knowledge and supervision of the design which is being prepared in detail by Badger. I might explain one thing further. We are selling our know-how, our technical knowledge, to Mexico at the present time. It is being used to build a synthetic rubber plant.

Mr. WINCH: So as to bring them into competition with Canada?

Mr. ROWZEE: May I deal with that separately please. We are receiving a substantial fee from Mexico for this information. We are turning that information over to an engineering company that the Mexican company has chosen to prepare the detailed engineering plans, and when the plant is built in Mexico, we will provide general supervision of the detailed engineering plan in the first instance, and we will provide supervision on the site when

the plant is being built to see that the plant is built in accordance with the plan. We are doing exactly the same thing for ourselves in regard to the French plant.

Mr. WILK: Someone suggested much earlier that chemical plants were similar. It is true that pieces of equipment and even some of the hooking up of several pieces of equipment into a chain have similar ties but, fundamentally, the key strength of Polymer—we are not alone in this world—has been a pretty basic position in the know-how of how to bet the most, whether it is in quality or quantity, out of a given plant. With that kind of background that is supported by our research people and technical people over the years, it is really the package that we have to give, and you cannot just hire someone who is only completely competent in making a physical layout. He would not know the key control points. So that we have to transfer that information, and that is the part which we are playing in any one of these projects, whether it is the one in Mexico or in the butyl field in that area.

Mr. WINCH: I can understand the situation in France because of the economics of the situation there, but Polymer is 95 per cent owner of that plant What is the differentiation now in Mexico where you are not a partner and in which you are an exporter as well? There is a big fundamental difference there, and just what is the reason for it?

Mr. ROWZEE: The difference is very fundamental, but is has become an extremely popular thing these days, and most countries that have a rubber industry of any size have reached the conclusion that they must build a synthetic rubber plant—a general purpose synthetic rubber plant. There are many companies who are prepared to provide the necessary technical information for a general purpose synthetic rubber plant—and by that I mean the kind of rubber that is used in passenger tires and footwear, a wide variety of applications. That is what is meant by general purpose rubber. So Mexico decides they are going to build a plant. They require technical information. Also, bear in mind the know-how, the technical information necessary, is a perishable commodity. It is not protected by patents today, therefore this confidential information that we have today will not be similarly good five years from now. So it represents a tangible asset only to the extent that it can be sold and used to advantage. There were at least two, and I believe three, leading companies in the United States who were bidding to play the part of providing the information to Mexico. If you ask why, it is because of the fee that they would get out of it. They did it in England, in Germany, in Australia and in Japan.

So, among other things, we have felt that there is no reason why they should be the only ones to sell this technical information. Ours is just as good as, if not better than theirs. We had better sell ours if we can, under proper conditions. You say: why do we run ourselves out of business? That is what your question is really directed at. It is because Mexico is going to build a synthetic rubber plant in any event. The company that does assist them is going to have a stronger position in supplying those grades of synthetic rubber that Mexico does not make itself. We make a wider range of synthetic rubber than any other producer in the world. That preferred position has some value to us in providing the specialty rubbers and butyl rubbers and rubbers of that kind, to Mexico. Lastly, if we did not do it, somebody else would, and we would be shut out completely with no money and no preferred position as far as the future market is concerned.

Mr. MACDONNELL: Will Mexico allow only one such plant?

Mr. ROWZEE: Yes.

Mr. WINCH: Did you have an opportunity of going into partnership?

Mr. ROWZEE: It was suggested that we may have an opportunity at a later date.

Mr. BENIDICKSON: I see it has reached the hour of adjournment and I still have a number of questions.

Mr. WINCH: I also have a number of questions.

The CHAIRMAN: Our next meeting is at 9.15 tomorrow morning, room 112N. The members listed in order of speaking are Messrs. Benidickson, Winch, Broome, Drysdale, Morton and McGee.

—The Committee adjourned.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

Polymer Corporation Limited

WEDNESDAY, MAY 10, 1961.

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. W. Hunter, Assistant Deputy Minister, Department of Defence Production; *From Polymer Corporation Limited,* Mr. E. R. Rowzee, President and Managing Director; and Mr. S. Wilk, Vice-President, Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25063-9—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech
Bell (*Carleton*)
Benidickson
Bissonnette
Bourbonnais
Bourget
Brassard (*Chicoutimi*)
Broome
Bruchési
Campeau
Chown
Danforth
Denis
Deschatelets
Drysdale
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Morton
Murphy
Noble
Nugent
Pigeon
Pratt
Regier
Robichaud
Rouleau
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Winch
Woolliams
Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 10, 1961.
(14)

The Standing Committee on Public Accounts met at 9.18 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Broome, Chown, Danforth, Deschatelets, Drysdale, Hales, Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, Morton, Murphy, Noble, Pratt, Smith (*Lincoln*), Smith (*Winnipeg North*), Spencer, Stefanson, Stewart, Tucker, Villeneuve and Winch.—26

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. W. Hunter, Assistant Deputy Minister, Department of Defence Production; and *from Polymer Corporation Limited*: Mr. E. R. Rowzee, President and Managing Director; Mr. Stanley Wilk, Vice-President—Finance; and Mr. J. R. Millar, Assistant to the President.

Mr. Rowzee was called and, together with Mr. Wilk, was further questioned concerning the operations of Polymer Corporation Limited and in particular with relation to the audit control of its subsidiary, (SAF), located at Strasbourg, France.

Agreed,—That the Company will file copies of its letters patent and a translation of the letters patent relating to its French subsidiary. Messrs. Chown and Drysdale were delegated to examine the letters patent and recommend to the Committee the desirability of including them in the printed record.

Messrs. Rowzee and Wilk were further questioned regarding the Company's competitive position in the export field, with particular reference to the United States market.

Mr. Hunter was questioned about liaison between the Company and the Department of Defence Production.

Agreed,—That the Subcommittee study Mr. Drysdale's request that copies of any offers to purchase the Company be tabled; that all recommendations by the Board of Directors in this connection from 1959 to 1961 be tabled; and that Mr. J. D. Barrington be called to appear before the Committee.

Following the further questioning of Messrs. Rowzee and Wilk concerning the location of a Butyl plant, the Committee adjourned at 11.00 a.m. to meet again at 9.30 a.m., Tuesday, May 16, 1961.

J. E. O'Connor,
Clerk of the Committee.

25063-9—1½

EVIDENCE

WEDNESDAY, May 10, 1961.
9.15 a.m.

The CHAIRMAN: Gentlemen, shall we get under way? We have again this morning Polymer Corporation, and its senior officials, Mr. Rowzee, Mr. Wilk, Mr. Millar, and Mr. Hunter, Assistant Deputy Minister, is also here. According to my list, the order of questioners was as follows: Mr. Benidickson, Mr. Winch, Mr. Broome, Mr. Drysdale, Mr. Morton and Mr. McGee.

Mr. WINCH: Yes, Mr. Chairman, I have a few questions which I would like to ask, just to clarify certain points in my mind. According to my reading of the Financial Administration Act, section 77 states that:

> 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.

As far as the Polymer corporation is concerned, the Auditor General is the auditor of this corporation. In view of the information given to us yesterday that for the subsidiary in France an international auditor has already been named, I would like to have some explanation as to why, as Polymer owns 95 per cent of the installation in France, the appointment of the Auditor General has not yet been made, particularly in view of the fact that the Auditor General already audits a number of companies in Europe.

Mr. E. R. ROWZEE (*President, Polymer Corporation Limited*): I would like Mr. Wilk to reply to this question.

Mr. S. WILK (*Vice-President—Finance, Polymer Corporation Limited*): One must remember that Polymer (S.A.F.)=the French company—is incorporated in accordance with the laws of France. Polymer (S.A.F.) is owned up to 5 per cent by the Banque de Paris et des Pays Bas, and under French law the auditor who signs the financial statement must be a Frenchman. Actually, the basic function performed is rather what I might call a short service audit. We obviously wanted a complete and thorough audit. Our partner suggested that we appoint one of his employees as one of the auditors. We took a strong position that the auditor should be an independent—unrelated to either partner—widely experienced organization that has a North American orientation as well as the ability to qualify as a French organization. Therefore we chose a strong international audit firm who are charged first with what I might call the statutory audit as well as the detailed audit which we desire.

Mr. WINCH: On that same subject; we were given yesterday what seemed to be a very good, sound and logical reason why this subsidiary plant should be established in France. I am wondering whether that can be enlarged upon a little and whether the committee can be informed as to what consideration was given to the differentiation in the tax structures and laws on corporations as between France, Switzerland and Germany. Also what are the laws regarding staff and employees and security rates, and just to bring all in one,

has any agreement been reached in regard to what I understand is the French policy and law that it is only with the utmost difficulty that you can get any permit for the export of money by a corporation in France. I asked that latter question because I presume you are contemplating a money making proposition for the 95 per cent ownership in Canada by the government.

Mr. WILK: In choosing the alternative locations there is a whole string of economic considerations.

Mr. WINCH: They were sound and logical, but I want to bring this case up because, if my information is correct there are different corporation tax structures—it is around 38 per cent in France, 11 per cent in Germany, if my memory is correct, and about 8 per cent in Switzerland.

Mr. WILK: One of the problems is that we could not very well locate in Switzerland because there would be no feed stock available. This kind of an operation would not have a feed stock nor people to run it nor the other chemical materials required. It would be importing everything into Switzerland. So this did not give us an opportunity to settle there. In Germany the feed stock would be available, but there would be other considerations which we had to take into account. In our judgment the natural location for Polymer was in France, in addition to the fact that we could find there a suitable chemical plant operating atmosphere, and potential future oil refinery located on a pipe line that is now being built that will pass through Strasbourg. The fact that we could find all that on a waterway in a central location of the common market—Strasbourg—made that place stand out higher than any other site we looked at. We considered six French sites and each of them had some advantages and some disadvantages. This is a bit like building one's own house—you finally have to compromise. You cannot have every maximum point; you reach a combination. Now, we think that Strasbourg stood out at that point. We were oriented towards France as being one of the largest single markets in Europe. It is still true that we could have had some better tax advantages in a different location; we might have been nearer a refinery or nearer a butadiene producer and have chosen a location other than the one we did. However, we thought that this was the best package, in our business judgment—the best package put together.

Mr. WINCH: How about the French control?

Mr. WILK: The return of dividend payments is guaranteed. It is true that in France there is a fairly well developed administrative control involved in setting up a new business. That is exactly why we find the Banque de Paris et des Pays Bas have more than contributed to the successful start of this operation through their good offices and their experience and position.

Mr. WINCH: Could I first ask something that interested me yesterday when we had the demonstration of the various rubber balls?

Mr. HALES: Mr. Winch, before you go to another subject on this matter you brought up, do I understand that all profits that this French branch will make can be returned to Canada?

Mr. WILK: Yes.

Mr. HALES: All profits can be returned to Canada?

Mr. WILK: Dividend payments by the company.

Mr. HALES: If your French plant makes, say, $3 million net profit, can that be returned to Canada?

Mr. WILK: After all taxes are paid. We have to meet French tax obligations, but profits can certainly be returned freely. If we ever sold the business, we could bring back any money we put in.

Mr. HALES: This is very important because it is a crown corporation and owned by the people of Canada.

Mr. WILK: It is not locked in.

Mr. WINCH: I mention this on account of my understanding of the stringent regulations which are effective in France and the States.

Mr. ROWZEE: It requires careful negotiations, but by virtue of careful negotiations which Mr. Wilk and his associates carried out we were able to achieve this clean-cut position to which reference has just been made.

Mr. HALES: Would a change of administration in France be a risky situation?

Mr. ROWZEE: We believe not.

The CHAIRMAN: That is where your French partner comes into play, I presume. May I just interrupt and follow up your Auditor General question. The Auditor General of Polymer is the Auditor General of Canada, is not that so?

Mr. ROWZEE: That is correct.

The CHAIRMAN: Whereas the Auditor General of Canada is not the auditor of Polymer France. How would you expect the Auditor General of Canada to give you a complete certification under the corporation's activities if he has not got direct access to the books of the subsidiary company?

Mr. WILK: Obviously you could work out an appropriate liaison between the Auditor General here and the auditor of the French company to do that.

The CHAIRMAN: How could he do that? Could he be appointed a co-auditor?

Mr. WILK: I am not completely confident in regard to the preciseness of my technical answer; but the auditor who signs the statement of the French company must be a Frenchman.

The CHAIRMAN: Yes, but your French auditor would be reporting to the company. How would the people of Canada get an official report from their own Auditor General, who is the auditor of the Canadian parent company?

Mr. WINCH: And who has to report to parliament.

Mr. WILK: I may not have understood the question.

The CHAIRMAN: Let me put it this way. Your internal arrangements affect yourselves primarily; but we, as representatives of the taxpayers, want to have an official report from the Canadian Auditor General. We could get that if the Canadian Auditor General were a co-auditor with your own local auditors in France. Would that be feasible?

Mr. WILK: We have not 100 per cent, but obviously we control the vote of the French company by having 95 per cent of the stock. As was pointed out earlier, we think we have a problem here, in that our other shareholders would also like to nominate an auditor. What bothers me, or where I am having some difficulty in following your question, is that it seems the Auditor General of Canada, as the auditor of Polymer Corporation Limited, certainly can have access, as auditor, to the auditor of Polymer (SAF). This is an international firm—and by the way very well known in Canada, as it is the Paris organization we are using here.

Mr. WINCH: Mr. Henderson, it is my understanding that as Auditor General you now audit some companies in Europe. Are any of those companies of which you are official auditor—are they in France?

Mr. HENDERSON: I would like just to correct that statement, Mr. Chairman. I do not audit complete companies, as such, in France. I only audit organizations which have branches in France. Because the work does not, in my opinion, justify the expense of a trip to France, I employ established people there. In point of fact, I am indebted to the comptroller of the treasury for assistance on some of the work I do in France, and I pay him out-of-pocket expenses. I think the point at issue here, if I may say so, is that it is usual

practice for the auditor of a parent corporation to be appointed an auditor of the subsidiary company in order that he may have access to all the details down the line. In the case in point, if another firm is appointed, as is apparently the case here, as the auditor of the subsidiary company, there does arise a point of ethics in that the auditor of the parent corporation naturally wishes to accept the certified accounts without qualification rather than delve into the working papers. It is a much cleaner operation if the auditor of the parent company is either appointed the auditor of the wholly owned subsidiary or the controlled subsidiary, or appointed the joint auditor—and that is, I think, what is contemplated, if I may say so, Mr. Chairman, by the paragraph in section 77 of the Financial Administration Act which provides that the Auditor General does not need necessarily to be appointed the auditor in such cases, but can be appointed a joint auditor.

Mr. McGEE: This problem of the Auditor General was not considered when the negotiations were being undertaken in France?

Mr. WILK: The fundamental point was that there was a need to appoint a Frenchman as the auditor who would sign the papers. Finally, it turns out to be the individual who signs as auditor of the company; he must be a Frenchman.

Mr. McGRATH: You mean, a citizen of France?

Mr. WILK: I stand corrected. Yes.

Mr. McGRATH: I wanted to make that point clear.

The CHAIRMAN: A citizen or a member of the French company?

Mr. WILK: He himself must be a French citizen. He must have French citizenship. He acts as an individual. Even if he is a member of the firm, he acts as an individual, as the auditor. We have unquestionably a completely selfish interest in Polymer Corporation Limited to see that the operation of the subsidiary is under full control, and we intend to use our own internal audit functions to maintain that day to day and month to month tie-in with Polymer Corporation Limited. I am certain that appropriate arrangements could be made and I find it impossible to visualize that we should not be able to satisfy our auditor of the limited company here in Canada.

Mr. SMITH (*Simcoe North*): It seems to me that the point we are discussing is a matter more or less of technique, and I am sure that the mechanics of it could be worked out to the satisfaction of the owner of the crown company and the company itself and the Auditor General.

Mr. BROOME: I do not think it is a matter of technique. I think there is something very basic in it. I am quite concerned about it. I would like to know the name of the company which is appointed.

Mr. WILK: Peat, Marwick, Mitchell & Co.

Mr. MURPHY: Is that a provision in the act?

Mr. HENDERSON: I think it says that the Auditor General may be appointed the auditor, or the joint auditor, of crown corporations.

Mr. DRYSDALE: Supplementary to that, I wonder if it would be possible to have a translation of the incorporating documents of the French company, Polymer Corporation (SAF), and I think it would be helpful if we had the letters patent of the parent company Polymer. I do not think that is publicly available at the present time, and I wonder if we could have it printed as an appendix to the report.

The CHAIRMAN: I suppose if you want it you could have it, but what is the utility of it?

Mr. DRYSDALE: I think the utility, Mr. Chairman, is this. I would like to base it this way. First of all, you have got the Polymer Company itself

incorporated by letters patent in 1942. I have not seen a copy of the letters patent. I do not know what the powers of the company are. They are under the Dominion Companies Act which, under section 14, gives them tremendous incidental and ancillary powers, almost unlimited. When the subsidiary company Polymer Corporation (SAF) was incorporated, no one knew, from the description which we have had, the extent of the power given to them under the French incorporation. It is spreading like an octopus, and I would like to know exactly the legal extent of those powers. We are having some rather loose discussions, but I think these documents are basic to any reasonable discussion of these companies, and I would like to see them filed.

Mr. HALES: How bulky are they?

The CHAIRMAN: I am not trying to prevent the production of any document, but in partial anwer, the Deputy Minister must have, during the course of his examination of the affairs of the Corporation, reviewed these powers, the letters of incorporation, both Canadian and French.

Mr. DRYSDALE: This is a company with an investment of $100 million. I tried to check as to what I could find as to what the powers of this company were. In this book—

Mr. HALES: Do you want to file that?

Mr. DRYSDALE: The only thing I could find was this. The following appears in the *Canada Gazette* for March 14, 1942, at page 3579:

> Name: letters patent; Polymer Corporation
>
> Limited (as a private company) Date of Incorporation: February 13, 1942. Incorporators: William Andrew Gresham
>
> Kelley and Edward
>
> Franklin Burbridge, solicitors; Helen Lothian, Anne Arthur and Hazel Carrick, secretaries, all of Toronto, Ontario.
>
> Head Office: Toronto, Ontario
>
> Authorized Capital: One thousand shares without nominal or par value. Allotment price, $50,000.

Personally, I would like to know a little bit more about the company.

The CHAIRMAN: That is only an index.

Mr. DRYSDALE: I know that, but I ask for the letters patent, and you asked me the reason why.

Mr. SMITH (*Simcoe North*): Would the printing of the object clauses of the two corporations in the records be a satisfactory answer? The documents and letters patent, of the company, are routine documents, one incorporating into the other. As a matter of fact, it is exactly so except for the two clauses dealing with the powers of the company and the share capital.

Mr. DRYSDALE: Mr. Chairman, to resolve the situation I would be prepared to examine this personally, or with a small committee, and decide what would be the relevant sections setting out the powers; but I would like to see also the letters patent of both companies and a translation, of course, in the case of the French company.

The CHAIRMAN: It is your desire that these two documents be produced and printed as an appendix?

Mr. DRYSDALE: I would be prepared to peruse the documents, either personally or with some other members of the committee, to ascertain whether the complete documents should be filed.

An hon. MEMBER: That is more reasonable.

Mr. CHOWN: We could make an extract of these portions of the letters patent which should be highlighted for the records of this committee.

The CHAIRMAN: Mr. Rowzee tells me he would be very happy to produce this document, so it can be produced to a subcommittee consisting of yourself and Mr. Drysdale.

May I interrupt to say that there were a few corrections which Mr. Rowzee wanted to make in his testimony yesterday. This might be a good opportunity to do it.

Mr. ROWZEE: In the typewritten transcript, Mr. Chairman, at page 8-B, referring to the original design capacity of Polymer as 41,000 long tons in 1942 and 1943; that should be corrected to read 41,000 long tons in 1944, our first full year of production.

On page D-15, in reply to Mr. Murphy's question, I said that Polymer had between 85 to 90 per cent of the total Canadian requirement. Those figures should read 80 to 85 per cent. I have checked them. ,

At page F-4, there was a statement regarding the labour content of a pound of rubber. I stated the labour content was 15 to 20 per cent of total cost. That should read of sales value.

Mr. WINCH: There was one point of information yesterday which rather interested me, and perhaps I did not get it quite clear. In the demonstration as given to us yesterday with the various types of rubber, the statement was made that Polymer had now evolved this new rubber which is superior to the natural rubber. The statement was made that "in the years hence" this is undoubtedly going to be a major factor in the rubber industry. The point that I did not get quite clear was this. If you have that development now, you know the process and you have got the goods, why will it be a number of years hence before this is going to amount to anything? Why is it not just in a matter of a relatively short time, that you would take the lead in the production and use of this new rubber?

Mr. ROWZEE: It is very easy in developing a new material, for those who develop it—in their enthusiasm, to overstate the case. I was trying to avoid anything of that kind. I tried to point out that 25 years ago I was working in the laboratory in developing synthetic rubbers. Those others who were working with those rubbers felt that they had a great future, but there were very few other people who thought that they had a future. And I dare say that the synthetic rubbers that we have today would not be as far advanced as they are if it had not been for the very rapid development which took place during the war period.

Even so, the synthetic rubbers as first produced were not as good as those that we produce today, even though the processes and the raw materials are the same. We have learned over the years to put these materials together in a better fashion, so that we now have a better product.

Also, the rubber companies have been, up until the war period, accustomed to using natural rubbers and natural rubber only. So they were faced with the problem of adapting their equipment and processes to use an entirely new type of material. They, too, had a lot to learn. It was not a case of direct substitution of one material for another to achieve an excellent result.

It was a matter of some years before the rubber companies, and the tire companies and such were convinced that these materials we are now producing in such volume were an acceptable substitute for natural rubber. Now they freely acknowledge that these materials have some uses which are superior to natural rubber.

In order to try to put the picture in proper perspective, it would be very easy to say that all the material represented by this red ball is going to just sweep all before it. But I do not think it is going to happen quite that rapidly. There are some people, some companies in the United States, who are creating the impression that it will, but it is going to take close to two years to build

a commercial plant to make this material. Meanwhile we are producing in Sarnia today materials of this kind at the rate of approximately a ton a day. They are being used experimentally by rubber companies in Canada as well as abroad.

I have every confidence that this material is going to be one of the important rubbers of the future, but I do not wish to create the impression that this is going to take the place of all the rubbers that we have now.

This is an important new rubber which will do things that only natural rubber has yet been able to do, namely, to take the place of natural rubber in certain specific applications such as truck, bus and aircraft tires. Does that answer your question?

Mr. WINCH: Yes, in part. But in view of your own confidence, now that you are leading the field in this particular type of rubber, do you have a specialized department whose responsibility it is to try as rapidly as possible to get foreign companies to take your rubber throughout the world, and to move into the realm of utilization of this product?

Mr. ROWZEE: Absolutely. But I would like to suggest this: you said that we were, I believe, in the leading position here.

Mr. WINCH: Yes, in that respect.

Mr. ROWZEE: I would like to be able to say that. But there are those in the world who are equally far advanced in this regard; in fact there is at least one factory in production in the United States at the present time.

Mr. WINCH: Now you are coming to what I was actually leading up to. I gathered from what you told us yesterday that one of your successes, or one of the reasons for your great success, was that you were in the field first, or almost first. Does the same situation apply on this, especially in reference to your statement that there is a factory in production somewhere, which is producing a product which is very similar to yours?

Mr. ROWZEE: If the impression was created yesterday that our success is hinged primarily on being the first in all these things, that is not true.

Mr. MURPHY: What you were speaking about yesterday was sales, your position with respect to being first in foreign sales.

Mr. ROWZEE: We were in a lead position in respect to foreign sales.

Mr. MURPHY: Yes, that is what you said yesterday.

The CHAIRMAN: I have Mr. Broome, Mr. Drysdale, Mr. Morton, Mr. McGee, Mr. Benidickson, and Mr. Macdonnell noted as wishing to ask questions.

Mr. MURPHY: May I ask Mr. Rowzee, in reference to the fact that natural rubbers come into the picture, if he uses natural rubber in his processing?

Mr. ROWZEE: No.

Mr. BROOME: In regard to table No. three, rubber sales in long tons, I notice that the sales increased to all other countries excluding the United States, and that this has been very encouraging and something you are very proud of.

The CHAIRMAN: That is in the company's memorandum? You are referring to it?

Mr. BROOME: It is in the book, here. You say that sales to the United States have been diminishing. In view of the size of that market, in view of the fact that, from the location point of view, you must have about a 1,000 miles advantage over other producing companies along the gulf, in Texas, and because the major rubber consumption takes place in the north, why would you have found it very difficult to increase your sales to the United States, the same as you have to other countries? What are the limiting factors? To be

quite blunt about it, are there any deals whereby an American subsidiary here will produce rubber for you if you do not try to invade their markets in the United States?

Mr. ROWZEE: No. I give you a categorical no, in answer to that. However, the question is an interesting one. You will notice in the table that 1946-47—particularly 1947—was a very low year. In 1946 suspension of the wartime regulations and duties had a bearing on the situation. The United States invoked or restored two active steps when, in 1947, the duty against synthetic rubber diminished to 20 per cent, and in 1948 it was reduced to 10 per cent.

For several years our sales to the United States were high, but they have diminished, now, to the same much lower level. That was by choice, because of the very rapid development of our overseas market in Europe and elsewhere in the world. It is a straight case of dollars and cents, primarily, because the duty against our product entering the United States now stands at 8½ per cent. It was changed from 10 to 8½ per cent over the last ten years. Consequently, in order to sell in the United States we must absorb that 8½ per cent duty and still meet United States competition.

Elsewhere in the world there is no duty against the importation of our products. In Europe that is true. In England our products enter duty free, whereas the synthetic rubber production of the United States enters England against a 10 per cent preference duty.

But the basic answer to your question is that this has diminished largely through choice, and is dictated by economic circumstances which say that we can realize more from the sale of a pound in England, France, Germany, and elsewhere in the world, than we can from working against an 8½ per cent duty in the United States.

Another factor which I think should be taken into account is that we believe that any serious effort—I shall not say effort, but any sale of a very large volume of rubber into the United States would probably be met by some reversal of the duty structure. This is purely speculation on my part.

Mr. BROOME: What is the duty on American rubber entering Canada.

Mr. ROWZEE: It is five per cent.

Mr. MURPHY: Would not the Canadian exchange be a factor as well?

Mr. ROWZEE: It has been, particularly when the exchange was five per cent. This tended to do away completely with the five per cent duty.

Mr. BROOME: On that same point, since you can increase your production rather rapidly with your existing process, as I understand it, and without too great difficulty, and since you are set up to produce about 200 thousand long tons, have you any plans to put on more intensive sales in the United States, or will you maintain intensive sales to the rest of the world, and only nominal sales to the United States?

Mr. ROWZEE: At times we have been tempted to discontinue sales to the United States because of the poor return. But we have elected to continue nominal sales in the United States, knowing it to be a tremendous market. So that if our efforts elsewhere in the world were less successful than we hope, we would have a foot in the door, and we felt the situation could be enlarged within a relatively short period of time.

I would like to reply, though, that if I created the impression that we can rapidly increase the productivity of our existing unit in Sarnia, I did not mean to do so.

Actually, in 1959 we had reached the point where it seemed that further major expansion of our existing facilities in Sarnia would be very difficult.

When you consider the fact that we have moved along with many new developments to the plant, and that we have already increased its productivity about four times its original capacity, I know you can appreciate that there is bound to be an end to the road where we may go in that regard.

I hope that the chemical process we have will never reach the end of the road, but the returns are less attractive in that regard than they have been in years past.

Mr. BROOME: Do you sell to China, or is rubber on the restricted list?

Mr. ROWZEE: No, we must have a permit in order to export to China. We exported a fairly attractive quantity to China last year and we hope to do so again this year.

Mr. BROOME: On another point: you use a rather large amount of coal. According to the picture it looks to be a lot to me. Where do you get that coal?

Mr. ROWZEE: We get it primarily from United States producers.

Mr. BROOME: Have you made any effort to see whether maritime coal could be used?

Mr. ROWZEE: We have been approached several times—I would say on the average of once a year—by those selling maritime coal, with the suggestion that they should have a portion of our business. We have indicated that we would be glad to enter into discussion with them, but we felt that the maritime coal should come to us at an equivalent price. This arrangement has never materialized.

Mr. BROOME: How much coal do you use, and what would be the difference in cost to you of maritime coal as compared to United States coal?

Mr. ROWZEE: We use one-half million tons a year. The difference in cost would be almost certain to double the cost of coal in Sarnia, and it would be something in the order of $12 to $14 a ton.

Mr. WILK: It all depends on how much subvention is given to the movement. There is maritime coal being bought this year by Ontario Hydro and laid down at the Hydro station, according to a press release.

Last year we were the closest we ever came to a sale here. We had agreed to a firm purchase, but the offer was withdrawn because apparently a home was found for the coal somewhere which did not mean moving it that far west in Ontario.

Mr. BROOME: Do you mean, so far as company policy is concerned, that you are in a little different position from a publicly owned free enterprise company—my lawyer friends—you get the point anyway—and that perhaps national considerations should enter into your purchase policy as well as straight economic ones. In other words, you should be prepared to pay a premium for Canadian goods in your operations, a reasonable premium.

Mr. ROWZEE: How does one establish a reasonable premium?

Mr. BROOME: I have a bill which says it is ten per cent. It has not yet been approved by the government.

Mr. ROWZEE: We have conscientiously tried to operate on straight economic principles. The reason for it goes far beyond this question of whether or not some reasonable premium might be paid, the reason being that every other company in the world producing synthetic rubber—that is the yardstick against which we have to operate—are all privately owned. There are roughly a dozen odd in the United States, there is one in England, one in Germany, one in France, one in Italy, one in Japan, one being built in Australia, one being built in Brazil, and there is one in Holland. All of these companies are privately owned.

I can only suggest that if considerations of the kind you are mentioning come into play it cannot help but cause a deterioration in our competitive position.

Mr. BROOME: I am afraid anything causes deterioration. If you increase your own salary by $1,000 it causes deterioration—maybe one-millionth of one per cent; but any change does this.

I am always prefacing my remarks with "reasonable". I think it is my own opinion that a reasonable preference should be given by Polymer to Canadian suppliers.

I will come back to the point raised yesterday with which I was not quite satisfied; that was in regard to your subsidiary company. I think you did tell us that Polymer through its own engineering department is supplying the technical know-how, the process, design, and so on to your engineering associate, Badger Manufacturing Company. If this is so and you also are doing this for the plant in Mexico, I still cannot see why you could not have used Canadian engineering companies—and by Canadian engineering companies I do not mean the Catalytic Corporation, but rather engineering companies in the sense of ownership in this country. Again it seems to me that Polymer, since what you are getting from the engineering people simply are extra hands to do the design work to design your pressure vessels and so on, could well have used Canadian engineering companies.

It goes a little further than this, Mr. Chairman. The engineering companies who do the design then did on the supply of material to the plant such as the valves, pressure vessels and all the rest of it. Will Canadian engineering companies such as Vickers, John Inglis and all the other engineering companies be in a position to did on the supply of this equipment to either the Mexican or the French plant, or will this, because of your American associations here, pretty well all go out to American companies?

Mr. ROWZEE: Well now, I think we should separate Mexico from France. We have no control whatsoever in respect of Mexico. We are purveyors of technical information. We are selling them the necessary technical information with which to build a plant. What they do with it and where they get the equipment and place their engineering business is completely beyond our control.

Mr. BROOME: This is quite true on the surface, but in the actual operation the people who do the engineering and do the design undoubtedly will then be asked to secure bids or at least indicate where they can secure them. Someone in Mexico will not have this knowledge. Will that be going to places in Indiana or to firms in Ontario? You do not just hand a bundle of prints to the Mexicans and say: this is yours. It is a continuing function and discussion.

Mr. WILK: Pemex has maintained its choice, not ours. We had what you might call a right of veto, because if they selected an engineering firm which we thought was not competitive we have a selfish interest and want the plant to operate the way we are confident it can operate. Pemex used a company which has been used for fifteen years as its engineering firm. With them we are transferring some of this know-how from us to them, and they are doing the detailed engineering. Pemex is a Mexican company; it has its own problems in respect of where it wishes to buy in the world. My present understanding is they are focusing their attention on European suppliers. There is nothing to prevent a Canadian supplier bidding on it. I do not know at what point they stand in respect of commitments, but it is my general feeling that United States equipment and material sales will be on the small end and not the large end.

Mr. BROOME: Any interested bodies can contact Polymer.

Mr. WILK: Yes.

Mr. ROWZEE: In respect of France, I am wondering how I can perhaps convince you there is more to this engineering work than just hiring a certain number of sets of bodies and hands.

Mr. BROOME: I was senior engineer for the Bechtel Company once, so I know what it is all about.

Mr. ROWZEE: Then I am surprised that you would ask the question, because certainly the experience and knowledge of a company that does work in the petrochemical field is of value as opposed to a company that has no experience in the field.

Mr. BROOME: Quite true; but you can have a Canadian company give technical know-how. The same arrangement is made in other fields. We are in the wonderful position of having a crown corporation which has developed really secret information. That is the nub of the whole problem. The rest of it simply is design details and it is not too difficult to hire people to do that. I think any one of a dozen firms across Canada would have people who could do this job.

Mr. WILK: Perhaps we have not clearly conveyed the number of North American people we are using. The point on which I want to assure you is in respect of the number of North Americans who are involved in this project. I particularly say they to include Canadians. The United States people Badger may bring to bear in this is relatively small. The Badger organization has a European organization. Just as you are making the point in relation to Canada, there was a long hard point made by the French that their work should be done in Europe.

Mr. BROOME: I agree entirely on that. You say, however, that there is about half a dozen key people; that is what I have been saying all along. Then you have other people do the bull work.

Mr. WILK: But those people are Europeans and not North Americans. The difficulty we have here is, what part does the Canadian organization play. Does it mean that we add some more people between Polymer and the working organization in Europe?

The CHAIRMAN: I think the point is pretty clear. It seems to me the feeling of the committee is that we should use as many Canadian companies and as many Canadian experts as possible in preference to other nationalities. This seems to be a world-wide trend at this time, and there is no reason why we should not do the same.

Mr. MURPHY: I think one point should be cleared up in respect of coal. This came up several years ago when we had the Dominion Coal Board before a committee. It was explained by the chairman of the coal board that the supply of coal from Nova Scotia in that part of Canada was not economic.

I would like to ask Mr. Rowzee a question which I think he did clarify yesterday. You are in competition with foreign producers and you must meet that competition in order to export. You say your exports are about seventy per cent of your production.

Mr. ROWZEE: Yes.

Mr. MURPHY: In dollars and cents what would that be?

Mr. ROWZEE: Roughly $50 million.

The CHAIRMAN: Along that line, how have you been able to meet world-wide competition?

Mr. ROWZEE: We have been able to meet world wide competition by a continual process of improving the efficiency of our plant; by very careful control of quality; by cost, in a very general sense; by what you might call a

plant program for the reduction of production costs which, to a very large extent, were responsible for our excellent showing in 1960 as opposed to the two or three years previous; by intensified marketing efforts from year to year; and by a very extensive program of customer service. Those are a number of the key points.

I might say that our principal product today—the general purpose rubber—is being sold at a price which has not increased since the time of the Korean war. In fact the price at the time of the Korean war was considerably higher than it is now, and the price of our general purpose product to Canadian customers was reduced approximately two years ago. I believe there are relatively few commodities in the world whose price has not increased or, conversely, decreased over almost a ten year period. Our prices have been remarkably stable despite the fact that labour and the materials that we buy, and all services that we must procure, generally speaking, cost us more money today than they did ten years ago. By this program that I outlined in these several points, we have been able to control our costs, and by selling in increasing volume, which, in itself, spreads the overhead, we have been able to achieve the results that have been outlined.

Mr. MURPHY: Have you not one of the most capable research teams in this field?

Mr. ROWZEE: I think it is safe to say, Mr. Murphy, that Polymer's research organization is one of the very best industrial research organizations in Canada.

Mr. MURPHY: But, I mean so far as other countries are concerned, as well.

Mr. ROWZEE: Yes.

Mr. MURPHY: And, that would include the United States and any other foreign country?

Mr. ROWZEE: Yes.

The CHAIRMAN: Mr. Rowzee, the point is that an export market is of great interest to this country, generally. How have you been able not only to maintain your position in Canada but to increase it worldwide.

Mr. BROOME: Except, of course, the United States.

Mr. MACDONNELL: Mr. Chairman, I have a supplementary question which I would like to ask first.

I understood Mr. Rowzee to say earlier, that it is going to be difficult to increase the production at Sarnia. I understood that this was partly because of operational reasons. We have had the reason explained to us for going to France and I take it, that is because France is one of the six. We would all like to see more production in Canada. My question is this: Is it likely that we will see more production in Canada, or where is further production in the foreign markets likely to come? Do you think that you should set up in business not only in France, but somewhere else, or can we look to larger production here at home?

Mr. ROWZEE: We certainly can look forward to increasing production in Canada; that always will be our first interest. But I believe that we must be prepared to be sufficiently flexible to recognize that with 70 per cent of our production being sold outside of Canada, there will be times when it will be desirable or necessary to create facilities in other countries.

The plant in France is a good example, as you mentioned, and I also mentioned yesterday that we had a desire to create a butyl rubber plant in a European country. Whether that will be possible remains to be seen. Although, there is no doubt in my mind that there will be a continuing growth in Canada, one of the important factors which will permit that to take place will be our willingness to create facilities in certain other areas as dictated by the developments of our export market.

If I may reply to the question asked by the chairman, basically, our success in establishing an export market has been due to an aggressive sales policy which started immediately at the end of the war. For the first five years after the war it was touch-and-go as to whether or not we were really going to be able to penetrate the export market but, for the last ten years, we have had, I would say, great success in doing so. However, an aggressive sales policy, among other things, means that you have to have people out visiting these countries all the time. I know of no way whereby we are likely to be able to sell Canadian products from Canada without having a first-hand and direct knowledge of the market that we are trying to penetrate.

Mr. NOBLE: I have a supplementary question, Mr. Chairman.

We were told the other day, in another committee, of another organization that had firms spread throughout the world. This firm found they could manufacture their material—in fact, it was tractors—cheaper overseas than they could at home, and as a result, we are now getting 90 per cent of our tractors from this foreign factory. I might say it was their own factory, but located in a foreign country. Is there any possibility that in the future we might be getting our rubber from France, Mexico, or somewhere else?

Mr. ROWZEE: Well, anything is possible. Looking ahead, as far as I would care to, I do not think that that seems to be likely in the industry in which we are located.

Mr. BROOME: The labour content.

Mr. ROWZEE: This is largely due to the fact that labour content is not a great factor in the production of synthetic rubber, whereas it is a very important factor in the manufacture of tractors.

The CHAIRMAN: Would you gentlemen permit me to ask one or two questions which I consider to be very essential ones?

Mr. MCGEE: What about the sequence of asking questions which was established?

The CHAIRMAN: This question has not been raised yet, and it seems to me to be very essential.

Mr. MCGEE: Perhaps we could raise it.

Mr. HALES: The chairman has precedence.

The CHAIRMAN: Mr. Rowzee, your corporation has never come before parliament to ask for money, outside of the original $30 million in 1951.

Mr. ROWZEE: That is correct, and that was a refinancing in 1951.

The CHAIRMAN: In other words, you have been able to finance all your own needs out of your own profits?

Mr. ROWZEE: Yes.

The CHAIRMAN: What is the relationship between your company and the government? What relationship do you enjoy? How do you keep the government fully informed?

Mr. ROWZEE: Well, the government is kept fully informed of our activities through monthly reports giving the sales and all other details of our operation on a month-by-month basis; by our annual report, of course, of which you have a copy; by frequent liaison between officials of our Department and the Department of Defence Production, such as Mr. Hunter, Mr. Golden, the Minister, Mr. O'Hurley, and I feel I am on safe grounds in saying that the liaison there is very close and very good.

The CHAIRMAN: You said yesterday that you had approximately ten meetings of the Board of Directors each year?

Mr. ROWZEE: Yes.

The CHAIRMAN: Is policy made by the Board of Directors or by the Minister?

Mr. ROWZEE: By the Board of Directors.

The CHAIRMAN: Does the Board of Directors of Polymer Corporation operate in the best commercial sense, as we understand it, in present-day corporation management?

Mr. ROWZEE: Yes.

Mr. MCGEE: Do they go to church on Sunday?

The CHAIRMAN: That is to say, it is an aggressive board of directors?

Mr. ROWZEE: It is an aggressive, active and interested board of directors who are very much dedicated to the progress of the company.

Mr. MACDONNELL: Is the board of directors obedient?

Mr. HALES: What are the fees of a director, or are they paid a fee?

Mr. ROWZEE: Yes, the directors are paid a fee. However, until such time as the company achieved a profitable status—and I cannot recall the exact date—no directors fees were paid. It was some time after 1952.

Mr. BROOME: There is one subject that I would like to bring up, and I thought it would have come up before this. Some of us believe Polymer should be sold and that the government should get out of this business.

Mr. MCGEE: We are not in it.

The CHAIRMAN: Could I continue along the lines I have established until I am finished?

Mr. MCGEE: The government is not in this business.

The CHAIRMAN: Order, please, gentlemen.

Mr. Hunter, if I may revert to you as Assistant Deputy Minister, are you always kept fully informed by the officials of the corporation?

Mr. G. W. HUNTER (*Assistant Deputy Minister, Department of Defence Production*): Mr. Chairman, I am pleased to say that we are very well informed.

The CHAIRMAN: Is the liaison between you and the corporation close and constant?

Mr. HUNTER: Yes, I think I would say it is excellent. We get any information we want, and we find that the company are more than forthright in bringing this to our attention—and I am sure I speak for Mr. O'Hurley in this regard.

Mr. MCGRATH: Could I direct a supplementary question to the assistant Deputy Minister? Are capital expenditures on the part of the company subject to the approval of the Minister and the Deputy Minister?

Mr. HUNTER: They are approved by the Minister of Defence Production and by the Minister of Finance, and recommended to the cabinet.

Mr. MCGRATH: How about other areas of policy which, as the president says, are controlled by the company? Would that be subject in any way to the scrutiny or appraisal and approval of the minister and his deputy minister?

Mr. HUNTER: I would say it was. We receive copies of the minutes of all directors meetings and, if Mr. Golden or I see anything we feel ought to be referred to the minister, or should be referred back to the company, we do so. But I think that before the company takes action, it usually sees that the minister's feelings are favourable toward it. I think this is a good thing.

Mr. DRYSDALE: Mr. Chairman, I would like to refer to the matter which Mr. Rowzee referred to yesterday, and which Mr. Broome just referred to a moment ago, and that is the necessity or justification for Polymer remaining as a crown corporation.

I think we should keep in mind that Polymer arose during wartime conditions under the Department of Munitions and Supply and, through its successors, to the Department of Defence Production.

I have examined the act very carefully and I find great difficulty seeing at the present time any justification for Polymer remaining under that particular department.

Perhaps, to clarify the situation, the information I would like to have at the present time would be a list of the offers to purchase Polymer since its incorporation on February 13th, 1942, setting out particular dates of the offers, the total amount offered, the terms of the offers, and whether or not the officers and/or directors of the company examined any of these offers and, if so, were recommendations made to the ministers concerned to sell Polymer. If not, what recommendations were made?

I would be particularly interested to find out if there was any outside appraisal made by any firm of chartered accountants as to the particular offers, and whether or not these could be made available to the committee.

If you are wondering whether or not we have a precedent for this particular mode of operation, we have been conducting the same type of investigation in the research committee connected with Eldorado Mining and its subsidiaries. Eldorado Aviation and Northern Transportation. My friend, Mr. Murphy, put a question in the house on March 1st, 1960, under orders of the day, which is to be found at page 1587, in which mention was made of Mr. J. D. Barrington, the former president of Polymer Corporation. The minister indicated at that time that there had been an offer to purchase made, not specifically by Mr. Barrington, but by some interests that he represented. However, this was not approved by the board of directors of Polymer.

I would be particularly interested to find out the terms and conditions of that particular offer, and I would suggest that the committee call Mr. Barrington—and this is not meant as a reflection on Mr. Rowzee—because, to date, we have had only the viewpoint of Polymer, a crown corporation and, I presume, it wishes to remain as a crown corporation. I think it would be important and necessary for the committee to have the evidence of Mr. Barrington in order to assess the terms of these offers, and to find out if it is in the over-all interests of Canada. I am particularly concerned because of the indications given by Mr. Rowzee that they are now embarking on a three year $40 million expansion of Polymer. There have been mentions too of a butyl plant in Mexico or somewhere, and an indication that a plant will probably be set up in the United Kingdom.

I know this is quite a substantial request, but I should also like consideration given to seeing the reports and recommendations of the Polymer board of directors and/or executive between 1959 and 1960, as to the location and expansion of these particular plants. I am particularly concerned because I think there is an opportunity, whether in eastern Canada or particularly in my own area on the Pacific coast, where we could consider the establishment of certain types of these plants. On the Pacific coast we have the advantage of water transportation and, perhaps, air transportation, and Mr. Rowzee has indicated that at the present time there are deliveries made to some 60 countries.

Personally, before we see any further expansion of the company, I want every assurance given that the Canadian situation has been considered, and that the development of secondary industries such as these is forwarded in Canada.

From the point of view of defence, I think he has indicated that the whole business is centralized in Sarnia in central Ontario, but I think there should be some diversification of these plants in the event of war.

To reiterate, Mr. Chairman, I think we should have a list of all the offers of purchase of Polymer and, secondly, the reports from the period between 1959 and 1960, so that the committee could examine and ascertain if every consideration was given to the Canadian situation. I also think that consideration should be given to calling Mr. J. D. Barrington, and any other witnesses who have made offers to purchase Polymer. I think this is the key point so far as this committee is concerned, and I believe this matter should be examined.

Mr. WINCH: Would you add a further question to that?

Mr. DRYSDALE: You add it. I am finished.

Mr. WINCH: It completely ties in with that line of questioning. In the consideration of any offers to purchase Polymer, was any policy consideration given as to whether the profits should go to the Canadian people or to free enterprise?

Mr. DRYSDALE: That is your question, Mr. Winch.

The CHAIRMAN: Mr. Drysdale, your question on the sale or non-sale of Polymer is a matter of government policy, and the only practical thing I can suggest now is that you have the Assistant Deputy Minister here, and you might ask him if he is in a position to answer. If not, the best witness would be the minister in charge.

Mr. DRYSDALE: I agree the matter of whether or not it should be sold is a question of government policy, but I think we are entitled to ask for this information, as we did in the research committee—and Mr. Murphy, the chairman of that committee is present. I should like to know the terms and conditions of the various offers which were made to purchase Polymer, and also to hear the arguments of witnesses such as Mr. Barrington as to the advisibility of the sale of Polymer. I do not suggest that the committee should make any decision on its sale, but I think we are entitled to this information.

Mr. WINCH: Would not that go to the shareholders in the corporation? I might add that the government of Canada is the 100 per cent shareholder, so any offer would have to go to it as the shareholder.

Mr. DRYSDALE: The point is that this is an organization involving some $100 million, and I think now is the time to examine and discuss the justification of some of these basic matters. I myself have no particular point of view, one way or the other. All I have suggested is that we examine at the present time the necessity and the justification for Polymer continuing as a crown corporation, or for having it sold to private enterprise. In order to make a reasonable recommendation, if the committee so wishes to make a recommendation, it is necessary to have this background information.

Up to the present time all we have heard—and certainly it is no reflection on Mr. Rowzee or the people with him—is Polymer's side of the story, but I would be interested to hear what these offers were. They may not be valid offers, they may not be worth considering, but I think it is the duty of the committee to look into them.

Mr. MORTON: I do not wish to be technical, but is that within the terms of our reference, to decide whether this company should be sold or not?

Mr. MACDONNELL: Can we not have a recommendation? Can we not have an opinion?

Mr. DRYSDALE: Since 1942 the affairs of Polymer have not been examined and the government, in its wisdom, as recorded on page six of the minutes of our first meeting, referred the matter to this committee to:

> Examine the report of the auditor general for the fiscal year ended March 31, 1960, along with public accounts volumes 1 and 2; with particular reference to
> Polymer Corporation Limited

The matter of the sale of the company was mentioned on the orders of the day in response to a question by Mr. Murphy on March 1, 1960, and I think the hon. member did agree at that particular time it would be impossible to discuss the question of the sale and the details of the offer. This is the first opportunity we have to investigate the matter, and I think our investigation should be thorough and searching if it is to be worth anything. In fact, the response by the minister would indicate we in the committee are entitled to pursue such an investigation and I would suggest that we do so.

Mr. MURPHY: I would suggest the deputy minister would not be in a position to comment on government policy.

Mr. WINCH: Only the minister could do that.

Mr. BELL (*Carleton*): I think it would be most inappropriate to put a question to the deputy minister on government policy.

Mr. DRYSDALE: Even the history of Polymer, which has been referred to, and I quote, states:

> This period has also seen the sale of the United States synthetic rubber plants to private interests

I think there is no question of the interest of the Americans in their own defence program. Polymer is, or was, also under a defence program and I think that is justification enough to say this is the time to examine the situation, because we can see the tentacles starting to spread out. It may be a good thing, or a bad thing, but at this time we should have a detailed investigation.

Mr. MURPHY: My comment, of course, is only in respect to the deputy head being in a position to answer any question in regard to government policy.

The CHAIRMAN: I am sure, Mr. Drysdale, you do not expect an immediate decision from me right on the spot. Obviously, we cannot have Mr. Barrington here this morning but, with the consent of the committee, I shall refer this matter to the steering committee to see what is the proper course.

Mr. DRYSDALE: On the understanding that it can be discussed again by the whole committee.

The CHAIRMAN: Yes. We shall bring a report back to the main committee.

Mr. ROWZEE: May I make one comment? I should just like to set straight one statement made by Mr. Drysdale regarding offers made to the Polymer board of directors and considered by the Polymer board of directors. To the best of my knowledge, any offers of the type to which you are referring, have gone to the government, to the appropriate minister, Mr. O'Hurley.

Mr. DRYSDALE: There was no reference to you, or any indication of any offer to purchase Polymer corporation? You have been president and general manager since the inception of the company in 1942?

Mr. MURPHY: He has not.

Mr. DRYSDALE: You have been associated with the corporation since February 1, 1942, and in your position would you know if there had been any offer made to Polymer corporation to acquire it? In other words, do you have any knowledge of any offer between February 1, 1942, to date?

Mr. ROWZEE: I have heard so, but I cannot say of my own knowledge specifically.

Mr. DRYSDALE: Could you amplify what you mean by "I have heard"? Do you mean from Mr. Barrington?

Mr. ROWZEE: It has been in the Press, and I have heard from time to time that discussions have been held with the department by interested parties. That is as far as my knowledge goes.

Mr. DRYSDALE: I think I shall be prepared to pursue this matter in detail after the steering committee meets.

Mr. SPENCER: May I suggest that the terms of reference of the committee deal primarily with things which have been done, and primarily with expenditures made? I do not think we should be spending our time dealing with hypothetical matters.

Mr. MCGRATH: This is not hypothetical, Mr. Chairman. This is real.

The CHAIRMAN: In any event, the matter has been referred to the steering committee. Mr. Morton was next on the list. Have you finished, Mr. Drysdale?

Mr. DRYSDALE: For the moment.

Mr. MCGEE: On a point of order, Mr. Chairman, some of us have been waiting for a long period of time for the order of names on the list you have before you.

The CHAIRMAN: There are six at the moment, Mr. Morton, Mr. McGee, Mr. Benidickson, Mr. Murphy and Mr. Broome.

Mr. MORTON: Most of my questions have been answered and I think my main point has been partly answered. The officials stated yesterday the premises on which they set up was that they would have to have an export business in order to make it profitable to develop this synthetic rubber in Canada. Now we find the corporation is going into a policy of setting up subsidiary companies in France, and there is another company in consideration, whether it be in Canada or not. The question is: in extending these subsidiaries outside Canada, would that cut enough into the export business of the company in Canada to endanger the home operations?

Mr. ROWZEE: Mr. Chairman, I believe this was dealt with yesterday. We must remember, first of all, that the company was set up strictly as a wartime company to supply synthetic rubber to Canada and its allies. There was no thought at that time of export business. The export position only came into the picture after the close of the war when a decision had to be made as to whether the company would continue to operate, which it could not do profitably on the basis of Canadian business alone. The decision was made to continue to operate, and that meant the only way in which it could operate successfully and profitably was to establish an export market. The whole situation has developed from there. So far as growth outside Canada is concerned, I can only say it is our very sincere conviction that, looking forward a good many years, ten or more years, we do not feel we can continue to maintain, or have any chance of expanding our coverage of the export market, based on Canadian production alone. However, that is not at any time to be taken that Canadian production will decrease. I believe that the converse will occur; that is my very best judgment, that there will be a continued growth of Canadian production.

Mr. MORTON: Mr. Chairman, I think Mr. Rowzee has said "growth of Canadian production". I think he means growth of the market for production.

Mr. ROWZEE: No, I mean growth of Canadian production of synthetic rubber. Canadian demand or useage of synthetic rubber is growing, but it is growing slowly, at the rate of approximately five per cent a year. To-day Canada is using between 50,000 and 60,000 tons of synthetic rubber a year. Our plant is producing, as of last year, 157,000 tons and, therefore, if Canadian consumption of synthetic rubber was to be the basis of our support you can see it would take many years for Canadian consumption to reach our current level of production.

Mr. MORTON: That was my concern. I know yesterday you pointed out that Canadian production would increase, but what was worrying me was

that in these areas of sales where you are now setting up subsidiaries you might not have sales for all your production.

Mr. McGEE: My question deals primarily with the proposed location of this butyl plant. I understand the main ingredient for the production of butyl is isobutylene, which is a by product of the oil refining process. In passing, I should like to make the comment that if you were in the electronics business today you would probably move your production to Japan; if you were in the clothing business you would move to Hong Kong, and if you were in certain other businesses you would move to western Germany. But I would submit it is an article of policy of the government that we are more than somewhat interested in the development of Canadian secondary industry and the processing of Canadian resources in Canada. Now, it seems to me, if an addition to the by-product of these so-called petrochemicals is available and if coal cannot be brought from the maritimes to Sarnia because of transportation difficulties, there is a strong case for consideration of either Saint John, New Brunswick, where there are such refineries either erected or in process, or St. John's, Newfoundland, where they are under construction at the present time.

Mr. WINCH: Or Vancouver, where we have everything.

Mr. McGEE: It is miles away from the European market. I would like to refer to Mr. McGrath who can give the committee compelling reasons why the area which he represents should be considered in this matter.

Mr. McGRATH: Just to supplement that, Mr. Chairman, without advancing any arguments at the present time in favour of it, I would like to ask the president—and I preface my question by saying that I was sorry I was unable to attend the committee yesterday because of my presence in another committee—what examination or consideration was given to the possibility of locating this butyl plant which you are proposing to construct in France, in the eastern seaboard of Canada. We have access to coal and petroleum products, and if I may add, plus the fact that you would be considerably closer to the European markets on the great circle of shipping.

Mr. ROWZEE: I think you refer to the possibility of constructing in this area the plant that we are building in France?

Mr. McGRATH: The butyl plant.

Mr. ROWZEE: We have not considered building a butyl plant in France. We have considered building it in the United Kingdom, and I mentioned yesterday that we encountered certain difficulties which we were currently attempting to resolve. It is not enough to select a location that is convenient from a shipping standpoint; it is not enough to select a point where petroleum is available. The basic feed material that is used for butyl manufacture is isobutylene, and isobutylene is an ingredient in the light hydrocarbon streams which emerge from refineries primarily as a result of the use of the catalytic cracking processes. We have surveyed Canada from coast to coast, believe me, and to the best of my knowledge and belief there are only two areas in Canada that currently provide, or in the foreseeable future will provide, enough isobutylene to support an economically sized butyl rubber plant. Those two locations are Sarnia, where we are currently located, and Montreal. If I had to name a possibility of a third, I would have to say somewhere in the Alberta area. There is no possibility at the present time that the refineries which are in existence in the Vancouver area or the refinery which is, I believe, under construction or just in operation at Saint John, New Brunswick, could provide the quantities needed to support an economic unit. I place stress on that because, surely, a unit of some size could be supported,

but it must be a large enough unit of approximately the same size as we have in Sarnia at the present time, and that unit produces about 30,000 tons of rubber a year.

Mr. McGRATH: Let me ask you this question, this is purely a technical question in order to enable you to enlarge upon your answer: would you consider a refinery that is capable of producing 100,000 barrels a day? Could that sustain your plant? Before you answer that, I should say that I believe that is the size of the Saint John refinery.

Mr. WILK: My comment is that it depends on how much cracking is done when you refer to the capacity of the refinery.

Mr. McGRATH: I am referring to the total capacity of production.

Mr. WILK: You can have a refinery running that many barrels of crude oil and producing a high proportion of non-cracking material on fuel oils, being so oriented that it does not produce enough hydrocarbon. They come from severe cracking of gas oils to make more cracked gasoline.

Mr. BROOME: Are they found as condensates in the gas fields?

Mr. WILK: The natural products are what chemists call saturated materials. Isobutane and normal butane are found naturally—the ones we use are not.

Mr. DRYSDALE: This whole question is limited to butyl rubber.

Mr. WILK: It has to do with isobutylene.

Mr. DRYSDALE: You are just on one particular rubber production.

Mr. WILK: I may add that in the cracking operation it happens that you make twice as much, on a broad average, normal butylene as you do isobutylene, and our discussion is centred towards the one of which you make less per barrel of cracking operation.

Mr. McGRATH: Is it a fair statement to say, sir, that, were Polymer Corporation to decide to locate in the maritime provinces in close proximity to one of the refineries there, this refinery would then gear its operations to accommodate the synthetic rubber plant?

Mr. WILK: It depends whom you talk to. If you are the seller, you might try to persuade us that you could reach out further and produce what we want, but finally we would have to pay for it and our economy is based on buying, if I may use the expression, the butylenes that come naturally in the operation. The pattern in the world has been that the prices are then set in such a way that they become attractive as a base for chemical operations. During the war, as an emergency, the refinery in Sarnia cracked severely on gasoline, and Polymer Corporation paid the out-of-pocket costs for degrading gasoline to butylene. This matter of costs was secondary because producing pounds of rubber was important for the forces and for many other operations in the war.

Mr. McGRATH: I would like to end up, Mr. Chairman, by submitting to the witnesses that this is a subject that has been widely discussed at the present time. One of the things the coal industry is going to have to depend on in the future, I think, is by-products of coal. Certainly that enters into this business, and in addition to that, of course, you have your refineries located in the eastern seaboard. Then you have free ports, open shipping all the year round in Saint John, New Brunswick, St. John's, Newfoundland and Halifax, Nova Scotia. I would think that all these factors considered should certainly—plus the fact that this is in Canada—give this place much more precedence and priority over locations in France or Mexico.

Mr. PRATT: If I may say so, I would like to hear objections to setting up a plant in Montreal.

The CHAIRMAN: There are two other members who want to ask questions —Mr. Macdonnell and Mr. Murphy.

Mr. MURPHY: Mr. Chairman, Mr. Rowzee yesterday touched on research and he referred to it again this morning—being able to meet competition. I think it would interest every member of the committee if he could enlarge on his research organization and what it has meant to Canada's economy through your own operation.

Mr. CHOWN: Perhaps a good compromise would be for the president to invite members of this committee down to see the plant. I would be fascinated personally.

The CHAIRMAN: That is after July 1.

Mr. MORTON: That would be economical.

Mr. ROWZEE: In regard to research, gentlemen, there is no question in my mind that research has played a very important part in the development, growth and success of the company to date, and I believe it will continue to do so. Research has been responsible to a very large measure for the diversification of our production to the point where, as I mentioned yerterday, we produce more different types of products in a single establishment than any of our competitors. We have been able to adapt certain types of synthetic rubber to the facilities we have through the work of our technical people and our research people, whereas other companies have, in order to achieve the same results, created separate facilities. Obviously, there have been certain economies involved in being able to do these things in a single set-up such as we have in Sarnia. Research has played a vital part in developing each year certain new products or improved products that we had to align and which serve as a focal point for our selling effort throughout the world. Our research organization was responsible for bringing us to the point where we are in a good position, not a leading position but a good position, in regard to the production of these new types of rubbers. Our research division has been responsible for the generation of quite a number of patents which are of value. I am convinced that research will continue to play an increasingly important part, but it is one part of a team effort, if you wish to call it that, which has produced the kind of results of which we have been speaking.

Mr. MURPHY: If I am in order, I would like to ask this question. Mr. Rowzee, you mentioned selling the know-how in regard to Pemex of Mexico. Would it be fair to ask what part that revenue was of your company? Do not answer it if it is going to put you in an embarrassing position.

Mr. ROWZEE: I would prefer not to answer, because we have certain other negotiations under way at the present time whereby we hope to sell know-how, and I would like to avoid prejudicing our negotiating position.

Mr. MURPHY: Thank you. That is all I wanted to know.

Mr. CHOWN: Can you tell us quickly how much you spend a year on research, or what percentage that is of your overall operation?

Mr. ROWZEE: Good industrial practice in the United States, Britain and certain European countries appears to suggest that, to do a first class research effort, a company should be spending in the order of 2 to 3 per cent of its gross sales volume. Last year we had a gross sales volume of $86 million. Our research budget this year will be something slightly over $2 million. It falls in that range.

Mr. CHOWN: Thank you.

Mr. WINCH: Before we adjourn, Mr. Chairman, may I take the opportunity of saying, that as this is the first time that the Polymer Corporation has been before this committee, I personally—and I think all of us—would like to thank Mr. Rowzee and his officials for two days of an exceedingly interesting hearing.

Mr. ROWZEE: Thank you.

The CHAIRMAN: Thank you, Mr. Rowzee. Gentlemen, the next meeting will be on Tuesday, May 16.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

Report of the Auditor General to the House of Commons—1960

TUESDAY, MAY 16, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Mr. G. G. E. Steele, Secretary, Treasury Board.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25147-0—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

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Bissonnette
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Bruchési
Campeau
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Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Winch
Woolliams
Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 16, 1961.
(15)

The Standing Committee on Public Accounts met at 9.38 a.m. this day. The Vice-Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Bell (*Carleton*), Broome, Deschatelets, Drysdale, Hales, Hellyer, McGee, Morton, Noble, Regier, Smith (*Simcoe North*), Spencer, Stefanson, Tucker and Winch.—15

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; and Messrs. D. A. Smith and G. R. Long; Mr. G. G. E. Steele, Secretary, Treasury Board; and Mr. J. A. MacDonald, Assistant Secretary, Treasury Board.

Messrs. Steele and MacDonald were introduced to the Committee and elaborated on suggestions contained in a document entitled "Possible Changes in the Form of Annual Estimates", which had been tabled and printed as an appendix to the Committee's record on Wednesday, April 19th.

Mr. Henderson tabled a statement, which was taken as read, dealing in detail with the Treasury Board submission on the form of estimates.

Messrs. Steele, MacDonald and Henderson were questioned.

Agreed,—That the following Members comprise a Subcommittee on Estimates; Messrs. Chown, Deschatelets, Hellyer, Morton, Smith (*Simcoe North*), Spencer and Winch, Mr. Smith to serve as Chairman.

The Committee proceeded with consideration of paragraphs 59 to 61 inclusive, of the Auditor General's Report.

At 10.55 a.m. the Committee adjourned to meet again at 9.30 a.m., Tuesday, May 23, 1961.

J. E. O'Connor,
Clerk of the Committee.

25147-0—1½

EVIDENCE

TUESDAY, May 16, 1961.

The VICE-CHAIRMAN (*Mr. Hales*): Good morning gentlemen, we have a quorum. Our efficient and genial chairman is absent this morning, and with your permission your vice-chairman will carry on.

This morning the agenda is to study the form and contents of the estimates. As you will recall, the committee felt that after ten years of experience in the existing form of the estimates that this subject should be reviewed, and it is now before us. With that in mind Mr. Steele, Secretary to the Treasury Board, will make a statement.

Mr. G. G. E. STEELE (*Secretary, Treasury Board, Department of Finance*): Thank you, Mr. Chairman. I do not need to say, I think, for the benefit of the committee, that we are very happy to be here and to assist in the consideration of the paper which we placed before your committee. I think it is certainly time there was a full review of the form of the estimates and the manner in which they are presented to the house for consideration. If you have had a chance to go back over the short introductory statement we included with the paper, you will have noticed that although we did not elaborate, there have been only two occasions within the last twenty-two years on which there have been any significant changes in the estimates—one in 1938 when the first attempt was made to divide up the votes, as presented to the House by departments in order to give the members some indication of the various functional costs of the departments. In 1951 this was built upon and there was introduced a standard object breakdown of the costs so that you would get, across the whole government service, an indication of the magnitude of certain standard types of cost.

There was also introduced into the estimates at that time some information on expenditures by way of a little summary at the end of each one of the votes. Obviously during the last ten years of growth of the government business and thinking about how to handle the estimates, a lot of concepts and ideas have come forward about improving the meaningfulness of the information included in the house document.

One of the difficulties, of which serving members of a treasury board staff are always conscious, is the multiple purposes which an estimates document serves. It is the main document put before the house to give the members some indication of the government expenditure program in any fiscal year. It is also a control instrument in the departments. It is the instrument upon which accounting is built. Any consideration of possible changes in the way in which you present information in the house is obviously going to carry very far-reaching and fundamental implications about the way in which government accounts are kept. This is not to say that you should not consider these changes. In fact we all know that there are a number of improvements which can be made. Treasury Board staff are putting certain ideas in front of you, and the Auditor General in his own report has come forward with a number of important observations.

Out of the deliberations of this committee, as it looks at these various ideas from the point of view of people who work within the government service, and as your Auditor General sees these, there should flow a number

of very important and quite significant developments by way of a report on the estimates back to the house. We, as I say, welcome this opportunity to come before you and discuss in more detail the papers we have placed before the committee.

I do not think I need say any more by way of commentary on the introductory paper. It may have occurred to some members, in looking at the topics we chose to write up, that perhaps we did not choose the most important things, from the point of view of the committee. We felt, however, that in looking at the things that could be done by way of improvement these had occurred to us as being the ones most easily attained. These are the things which suggest themselves quite obviously by way of improvements. For instance, in connection with staff—there are 300 pages or more of the estimates devoted to great masses of staff detail, which is difficult to cope with and to understand. An obvious suggestion for improvement would be to think about how to present this so that the members, in looking at it, might gain a better impression of how staff is actually employed in the public service, rather than merely to present a long list of positions.

Similarly, on this difficult question of reflecting what we call common user costs in the estimates of the departments receiving such services, there are obviously changes here which you can put into effect fairly readily, and we have looked at this pretty carefully. In our own thinking about this, it seemed sensible to us not to suggest to the committee that we try to pursue his particular goal to the last dollar. This is obviously something which will have to be discussed and thought about by the committee. What we have tried to do here is select things like space, the services of the Comptroller of the Treasury, postage items and several others which while provided to all departments without charge, are true elements of the cost of the receiving departments, and then to suggest ways in which we can accumulate this material, department by department to give a better impression of over-all cost in any particular functional area.

Mr. Chairman, I do not think it is necessary for me to go over each one of these papers. I think we have tried, in writing these up, to give to the committee a summary of the main points they should consider. Perhaps, in the interest of having a general discussion on this, I would not propose read over the points as they are presented in the papers themselves. I do not think I have any other general comment.

The VICE-CHAIRMAN (*Mr. Hales*): For those who have not a copy, you will find this booklet in the back of No. 8 public accounts review, page 214, if you have not the other large stencilled sheet.

Mr. SMITH (*Simcoe North*): I was wondering if we could discuss the suggestion appendix by appendix. We might have some questions to put to Mr. Steele and Mr. Henderson as we go along, rather than try to cover the whole thing at one time.

The VICE-CHAIRMAN (*Mr. Hales*): All right.

Mr. SMITH (*Simcoe North*): May I put a question to you, Mr. Steele? The second paragraph of appendix A-1 suggests using a system of estimated costs. Do you think, Mr. Steele, that you can devise a system whereby your estimated costs will be sufficiently accurate to serve our purpose? I ask that question having in mind that sometimes estimates are more misleading than they are useful unless they are prepared in a certain way. Do you think it is possible to do that?

Mr. STEELE: Yes, we think so, sir, with respect to the things we have suggested here for inclusion in this category. It is quite possible to do this very readily,—for instance, for the central accounting services of the comptroller

of the treasury. It is quite possible to do it readily for such things as superannuation costs, fringe benefit costs for public servants and workmen's compensation payments. I might comment on the question of space because this is a very difficult one and it obviously requires an approach different from that followed where you are dealing with an accurate estimate of the costs as they appear in the estimates, this is a new concept;—it is a significant notion and a step in the direction of accrual accounting for this area of cost. The government service is housed in a great mass of rented quarters and buildings, which the government owns, with a considerable variation of standards. What we have suggested here is that we work this out with the Department of Public Works, who are imminently completing an analysis of this and that we include in the Blue Book details for each department a factor representing the cost of the space they occupy. It will take into account the rent or leasehold cost on an average basis, and a factor which will represent the amortization of the building costs for government-owned buildings. We will gradually, as we become familiar with this type of distribution, get to a point where it would be possible to think entirely of a rental arrangement which will tie together the capital cost of our buildings and the rented space. With the exception of this one question of space, we think there is no problem whatsoever in getting accurate cost figures.

Mr. SMITH (*Simcoe North*): In relation to space, then, do you contemplate that the method of determining the cost of accommodation is going to entail much or any additional staff?

Mr. STEELE: It should entail very little additional staff, once it is going, although it may involve some extra work at the outset. Once these records are set up this way, I would see no need for significant increases in staff for continuing operations. We have had this in mind as one of the considerations in pursuing this object. We have been conscious of the fact that we must weigh, against the desirability of doing something, the cost of doing it.

Mr. SMITH (*Simcoe North*): The Auditor General has advanced the proposition that we ought to go on an actual accounting basis as between services supplied for the various departments of government, and the same suggestion is made by our sub-committee. In relation to the amount of work, have you any comments as to whether the estimated basis or the actual accounting basis would involve more or less additional personnel?

Mr. STEELE: Undoubtedly—and I think I could state this with certainty—if you went to a more detailed type of accounting basis than you now have, you would have to reckon with some increase in the staffs of the accounting offices of the government service, because the system is set up now to deal with an accounting system that is closely related to the cash accounting system, and there would be some additions. That is not to say they would not be desirable additions if it was felt that this information would add significantly to the meaningfulness of the estimates as you receive them in the house.

Mr. SMITH (*Simcoe North*): In the proposition you have put in appendix A, you do not contemplate any additional staff except possibly on the cost of the accommodation factor in a temporary way?

Mr. STEELE: That is correct, sir.

Mr. SMITH (*Simcoe North*): I am sorry, but I do not understand paragraph one: "to distribute only the costs of those services whose total annual costs exceed $2 million."

Mr. STEELE: Each service chosen for this treatment involves a total cost of $2 million or more, and we confess readily that this is an arbitrary figure which we have chosen to provide a basis for discussion in this committee as well as a framework of reference for ourselves.

Mr. SMITH (*Simcoe North*): You mean total services supplied? For instance, in the case of mail services, if the total franked mail exceeded $2 million it is distributed among the departments; it is not the receiving department to which the $2 million applies?

Mr. STEELE: That is right. If you divided a small item of cost 25 or 30 ways you arrive at what we consider are meaningless amounts.

Mr. BROOME: I was just going to say, what would be the effect of that $2 million reduced to $1 million; it would not bring in any more departments, would it? In other words, there are a limited number of departments which supply services to all departments of government, and no matter how low you went you would not be bringing in other departments, for instance Fisheries or Mines and Technical Surveys. So that the $2 million is rather meaningless because you are going to distribute departments anyway if they are over $2 million?

Mr. SMITH (*Simcoe North*): Could you tell us offhand which are the supply departments? The obvious ones are the Post Office and Public Works.

Mr. STEELE: I prefer to leave Transport aside; but principally you have the common service departments—Public Works, our own Department of Finance where you accumulate a lot of the residual costs of government such as superannuation costs. The payments for compensation which appear in the Department of Labour. And the Post Office which you have mentioned—. The Queen's Printer may occur to some of you here as an omission, but we are very mindful of the fact that arrangements between the Queen's Printer and all other government departments should be looked at and we are pursuing this as a separate study, involving a different way of showing costs and distributing the costs of stationery and publications to the various departments. The government telephone service is another one that is omitteed in this, but one we are definitely going to look into within the Department of Finance as a cost which should be distributed.

These are the principal ones. Transport provides a common user service in the supply of the remote areas of departmental service. The marine services we have not suggested. There are other places in government service where you have common services. The meteorological service is a good case in point; it provided service to the Department of National Defence, but is shown in the Department of Transport. In the Department of Justice we provide a legal service for the whole of the government service through advisory council. The translation service is another area.

Mr. DRYSDALE: Mr. Steele, what do you envisage as the function of the minister in discussing these estimates; or would these estimates be discussed in the same detail as other instruments are discussed?

Mr. STEELE: The minister responsible for the department in the house. These are things which we think the minister should properly take into account in looking at the cost of doing business in his department, and should be asked to comment upon in the house.

Mr. DRYSDALE: You envisage purely an estimate of these figures?

Mr. STEELE: The estimated amounts shown for each department would be based on the actual estimates as they appear that year throughout the government service. They are estimates, not actual expenditures.

Mr. DRYSDALE: No, but the basis of estimation would be different from the estimates that you would have as to the normal estimates, would they not?

Mr. STEELE: With respect to space only. The rest of them will tie back fairly accurately to the estimate as they appear in the department where provision is made.

Mr. DRYSDALE: So he could give them the same detailed discussion?

Mr. STEELE: For space you would add up all the attributed costs of space because it represents historical information, including amortized cost of all the buildings.

Mr. WINCH: Could I ask one question? If this suggestion was recommended and put into force, then under the estimate of each department you would have the estimated accounts of the common service to those departments? That would be basically just for the information of the members and the public as to the actual costs of operating that department. I presume that the actual vote for that common service would still be retained under Public Works or whatever department is concerned?

Mr. STEELE: That would be so, there is no intention of distributing them and voting them in the departments concerned.

Mr. REGIER: Could I ask, how would you allocate interest on the public indebtedness?

Mr. STEELE: We would not undertake a heroic exercise such as that, but I would not suggest, to the extent that that debt bears any relationship to all of the historical investments of the government, in space and buildings, for instance, that the cost of that investment will not be taken into account in the information we will put into each department's estimates about the cost of space. In other words, there is a direct linkage there on the capital investment side.

Mr. SMITH (*Simcoe North*): Assuming that ultimately the suggestion that is put forward by Mr. Henderson were adopted, is this in the interim a step towards ultimate interdepartmental accountability?

Mr. STEELE: Yes.

Mr. HELLYER: First of all, I think it is a most interesting study. We are indebted to the treasury department for this paper. There are a number of things which are not easy to resolve but we have to look at them very carefully. First of all, this question of estimating value of services. I think it is desirable to get some control, and the question immediately arises as to whether estimates or accounting control is better from the standpoint of merely looking at the situation to see the direction in which it may be going. Probably the estimate is sufficient. There may be specific cases where an actual accounting would be more of a control within the department than merely an estimate. I am thinking particularly now of the mail. To a certain extent, it has always bothered me that departments could hide their mailing cost through the franking privilege. I think that it would be desirable, both in their own real interest, and in the public interest, to have some year-to-year check on the actual cost of mail. In this particular case, I cannot see that the cost involved in doing a real accounting—in other words, using mail meters rather than franking—is anything more than negligible. I would like to have this considered, particularly this one specific area.

Also, the cost of space raises a problem, and I see you have a method of determining the cost here. The first question, which would immediately arise, is, how does this factor which involves amortization of the building costs, the heating, lighting and so on, compare with comparable accommodation in the market? Will there be any plan for showing the relationship between that cost per square foot, or however else you wish to determine it, and market values in the area, or would that just arise when questions were asked, for example, by the opposition? These are some of the questions which come to mind.

Then, in respect to the larger question of net voting, this is a fascinating proposition, and I have no categorical opinion on it. I would like to study it and make up my own mind as we go along. It seems to me that in certain departments such as the post office, the impression conveyed to the public

by voting a gross amount there, is an erroneous one, and that by showing the gross expenditures, the income received, the services supplied—in this case, to other departments—or if there was a counter-charge, and then showing the net amount to be voted, this would be a much more accurate reflection of the amount of money which has to be raised directly through taxation for this particular service. Also, it would enable members of parliament and the public at large to compare any plan or program, or lack of plan or program, to raise directly through imposts of one kind or another, the cost of providing one class or kind of service as against another class or kind of service.

I think this is an interesting point, and perhaps Mr. Steele could give me some indication as to his view, first of all in regard to space—the factor cost —and relating these to actual values. Secondly, in respect to mail, for example, whether in his opinion it would be a better control to actually charge the departments concerned for their real usage.

Mr. STEELE: If I might deal with the points you have raised, one of the continuing difficulties—and I tried to mention this at the beginning—is the relationship between the estimates which the house considers and the way in which the controls are built up within the department. In fact, there are controls for most of the things; all of them, I suppose, in one form or another. Take, for instance, the mail question; the only way you can get an accurate indication of mail costs would be to require that the departments meter their mail. With the exception of six places, where they are going to put in mail metering machines, this is being done now. I think what you sought there is something that we are conscious of, as well, and this is something that will be done as a result of this proposal.

Mr. HELLYER: Did you say that six departments are going to do it?

Mr. STEELE: No; there are six places where postage is used, where we do not have meters, and where they are being purchased immediately for that purpose.

Mr. HELLYER: You say there are only six now, where they are not being used?

Mr. STEELE: Yes, where we do not use them. The department is conscious of the need to keep a close check on their mailing costs, both those that go out under the franking privilege, and otherwise. We feel pretty certain, as far as the mail is concerned, that the effect of adopting this suggestion will be to make general the application of the control feature.

Mr. SMITH (*Simcoe North*): In other words, your estimate will be almost an accurate figure?

Mr. STEELE: Yes.

Mr. BROOME: Take, for instance, the post office for 1959-60. It shows revenues of $167.6 million, and expenditures of $168.7 million, a deficit of approximately $1 million.

Mr. STEELE: Yes.

Mr. BROOME: Could you give us any indication of what that figure really should be, when you take into account the services which are given to the post office as a debit and then a credit for the services the post office gives free? In other words, what is the true position of the post office, after giving them credit and also assessing costs?

Mr. STEELE: This relates to Mr. Hellyer's observation in connection with the service revenue question. The two big absences are the credit of the franked mail to the post office, which is about $6 million at this point, and the cost to the post office of providing them with the space in which they do business. We hope the answer to this comes within our study.

Mr. BROOME: You have not any idea of the cost?

Mr. STEELE: No.

Mr. BROOME: Not even approximately?

Mr. STEELE: No, I cannot give it approximately.

Mr. BROOME: Would it be in the neighbourhood of $15 or $20 million?

Mr. STEELE: It would be a significant part of the total cost, because it is a big space occupier.

Mr. BROOME: So, instead of showing a $1 million loss, it would be considerably more.

Mr. STEELE: I think that undoubtedly would be the case.

Mr. BROOME: It would be a $10 or $15 million loss?

Mr. STEELE: It certainly would be a large figure, over all.

Mr. HELLYER: In speaking of post office space, another interesting and hypothetical question is raised. Some people in the post office have long considered it a liability to have the Department of Public Works providing space. Could you manage in some way or other to get the space provided to suit the needs. In some cases, I think it is their feeling that there is overbuilding.

Mr. SMITH (*Simcoe North*): This is being corrected rapidly.

Mr. HELLYER: In your opinion, do you think it saves the public any money in having the Department of Public Works supplying these for other government departments?

Mr. STEELE: I would have to say that we definitely feel that this is so, that it does save money in having a centralized construction agency. We hear these criticisms all the time, and we try to examine them. However, for a department like the post office, which is a large user of space of a fairly generalized and similar type all across the country, it makes sense to have a specialized service like that provided to them by the Department of Public Works, which is equipped with engineers and architects.

Mr. BROOME: Then, on the same basis, why would not the Department of Transport use public works? Why should we have a duplication in connection with chief architects in the Department of Transport, and chief architects in the Department of Public Works? This is the sort of thing which you say is saving time and money. How many other departments are operating as the Department of Transport does, with their own little empire, and doing the same work as the Public Works Department?

Mr. STEELE: There are two principal exceptions, defence and transport. The statement I would make on this is that wherever you have a specialized type of construction job, this theory about centralization gets difficult. In other words, the Department of Transport have been the experts in the field of runway construction, and so on, whereas the Department of Public Works are better able to do other things. That is where the division comes in. For instance, we think it makes more sense to have the Department of Transport build, for instance, airports.

Mr. BROOME: Well, I disagree with you.

The VICE-CHAIRMAN: Just a moment, gentlemen; the committee does not want to get into that type of discussion.

Mr. DRYSDALE: Have you any idea, by way of percentage or millions of dollars, as to what effect these suggestions would have on the estimates? In other words, with an expenditure last year of $5,702,861,000, could you give an estimate in round figures as to what you think would happen if you followed these procedures?

Mr. STEELE: It was not designed to provide any significant reduction over all, in the estimates. They are designed to give a better feeling in connection with the types of expenses that are involved, and it would provide, therefore, for a more informed discussion, and perhaps a better look at the cost of services.

Mr. DRYSDALE: Yes, but if you have been getting the services free, and you charge for them, there will be an increase.

Mr. STEELE: It will not increase the estimates at all. All we are doing is separating from the common user departments these costs and distributing them, by way of information, in the details of each department's estimates, and we are going to continue to provide for the cost of these in the departments where they are now.

Mr. DRYSDALE: It is just a problem of allocation, then; there are no free services which are not charged for somewhere in the estimates. You see, the wording was not too clear in the statement. You mention here: services which the departments receive free of charge.

Mr. STEELE: "Free of charge" is misleading; "which are provided for elsewhere in the government service" would be more accurate.

Mr. DRYSDALE: There is no area, then, where there is a free service?

Mr. STEELE: It cannot be free over all; it costs money.

Mr. DRYSDALE: It was just that the wording was not too clear.

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

Mr. REGIER: Mr. Chairman, I am a little bit worried about this net vote business. If that were instituted, what measure of control would there be over any department that obtains revenue?

Mr. SMITH (*Simcoe North*): Mr. Chairman, on a point of order—

The VICE-CHAIRMAN: Did you finish your question, Mr. Regier?

Mr. REGIER: Could I get an answer to that? If a department only has to obtain a vote as to the net expense to the taxpayer, what is there then to prevent empire-building and bureaucracy. As long as the head of a department is not asking for more money than he asked for last year, who is to control the level of the fees or the revenues, and who is to prevent him using a lot of needless money in the cost of the operation? In other words, he could establish himself an empire.

Mr. SMITH (*Simcoe North*): On a point of order, Mr. Chairman, I think someone suggested at the beginning of the meeting that we deal with the propositions in the order in which they had been put on the study paper. The net vote is the last one that appears.

The CHAIRMAN: We have been having a general discussion here. Possibly it would be better to proceed page by page.

Mr. SMITH (*Simcoe North*): Up until now, all the questions related only to study paper A-1.

Mr. REGIER: Mr. Hellyer raised questions on other parts of the statement.

Mr. SMITH (*Simcoe North*): But they were not answered.

Mr. HELLYER: The matter of the net vote is mentioned in the earlier part of the statement.

The VICE-CHAIRMAN: We will have Mr. Regier's question answered, and will revert to this. We do want to hear Mr. Henderson this morning, as well Time is moving on.

Mr. STEELE: If Mr. Regier would permit me, I would like to make an observation in connection with Mr. Hellyer's point.

I would say that Mr. Hellyer's point in connection with the post office is well taken. It should be studied from the point of view of the service, where revenues and the cost of doing business almost match. You may wish to consider how to handle this in the future, as a special case.

Mr. Regier has put his finger on a point which is of some concern to the people who control the expenditures, whether they originate from revenues or from the net votes. However, from the point of view of parliament, there is no question of any difference in control, because you would be asked to appropriate the revenue as well. In fact, you would be authorizing a net vote, but authorizing, as well, the use of the revenue which would flow into that service. From the point of view of treasury, in controlling this outflow, there are very significant problems. These have been raised by us, and I believe by the Comptroller of the Treasury. A conflict does exist between the commitment control system, which the government of Canada uses in controlling expenditures, and this method of doing business, because you really cannot predict what the exact level of revenue will be in some cases, and how it will flow through the year; therefore, you do run into control problems. These problems are not unsurmountable. I do not think there is any problem in loosening up the framework of control, as you mentioned, because departments will be just as closely controlled on the use of the revenue as on the net sums voted by Parliament.

The VICE-CHAIRMAN: Gentlemen, the purpose of this meeting this morning was to have a general introduction to this estimate study. We have had a general discussion with Mr. Steele, and at this time I think we should hear from the Auditor General, Mr. Henderson. After we have heard from Mr. Henderson, it was the thought of the committee to appoint a subcommittee to go into this in detail.

So, with your permission—

Mr. HELLYER: Mr. Chairman, I have just one more question, and it is in respect to the details of the estimates.

I see proposed here some changes in the information which is to be shown in the details. The question which comes to my mind, however, is a rather fundamental one. I am not convinced, in my own mind, that it makes any sense to print the details separate from the votes. It means that you have to have two fingers in the book when you are in the House of Commons, or elsewhere. You have to turn from one to the other, from time to time. Obviously, from the standpoint of preparation and use of paper, it is going to take less paper, rather than more, if you put it all together. I do not think it would make much difference in the length of time required to get the votes approved by the committee, and I think it would be more convenient, more compact and easier to follow if, rather than printing merely the vote on one page, and then all the additional information there is some place later on, that you print them all together, under the vote, or at least side by side, so you could look at them together.

I would like to hear Mr. Steele's viewpoint on that, from the efficiency standpoint, and so on, to see if there is any objection to this procedure, or whether it makes any difference from the standpoint of controls.

Mr. STEELE: I do not think there could be any possible objection in the consideration of your proposal.

I had not had this drawn to my attention before. The reason it is in the way it is now is that the vote section becomes the appendix to the appropriation bill, and it is very easy to take that whole section and regard that as the whole appropriation bill, when the supply is passed by the house. I think the question raised by Mr. Hellyer could well be considered by the subcommittee.

9. The treasury board staff suggests practices designed to arrive at the total for each department of the estimated costs of the major services provided free of charge to the department—pointing out that anything more than this could involve costly accounting practices. It is stated that this suggestion probably constitutes as much progress as is practical, and that for the majority of administrative and operational services provided for in the annual estimates, accrual accounting methods to achieve total costing would involve greater costs than might be considered justifiable in terms of the resultant additional information.

10. The treasury board staff's comments in this connection appear to imply that accrual accounting methods must be employed to achieve "total costing" and that this would involve greater administrative costs than could be justified in the circumstances. I must advise the committee that this was not contemplated in the recommendation made in my report to the House of Commons (paragraphs 11-14 on Cost of Operations) which did not call for or recommend that the government change its accounting method from its present cash basis to the accrual basis at this time.

11. An accounting system maintained on the accrual basis is the generally accepted and time-proven method of ascertaining accurate costs in commercial practice. The government accounting system, however, is operated basically on a cash basis; with only a few modifications, its income and expenditures reflect only the actual cash income received and cash expenditures made during the fiscal year. Providing this basis is clearly understood, then satisfactory costs can be determined just as readily as they can be determined on a full accrual basis.

12. The cost of accommodation being the largest "missing" cost factor involved, I would endorse the treasury board staff's suggestion in paragraph (2) that this cost be estimated in the manner proposed. It is noted that the secretary of the treasury board asked all government departments on April 5, 1961 for basic information concerning accommodation in use.

13. With respect to all other services provided, I would recommend transfer of all direct out-of-pocket costs by the servicing department to the user departments so that the user deparment may scruinize and accept the responsibility for all its costs. I am of the opinion that this should embrace all services provided and not be limited to those whose total annual costs exceed $2 million as is suggested in paragraph (1).

14. Paragraph (3) appears to suggest that the servicing department will seek to recover a percentage of its indirect costs. If so, my feeling is that this would be a refinement which might well be left to a later date.

15. The treasury board staff's memorandum states that introduction of trading or commercial type information would likely complicate the estimates because it would not be comparable with the information presented for other items. I am inclined to the view, however, that supplementary information presenting an overall cost picture of departmental trading activities such as the national film board and the department of public printing and stationery would be most informative.

16. It is true that the crown corporations operating as they do along commercial lines and therefore using the accrual basis of accounting (rather than the cash basis used by government departments) do not present their operating and capital estimated requirements to treasury board in the same pattern as government departments. Nevertheless, the staff of the treasury board has to my knowledge developed excellent operating and capital budget formats or layouts showing clearly comparisons between past performance and future estimated requirements. These are for the most part, following executive approval, tabled in parliament at varying dates called for by the different legislation.

17. In paragraph 16 of my report to the House of Commons for the fiscal year ended March 31, 1960, the following recommendation is made:

> ...consideration should be given to the form of the estimates presentation with a view to providing more meaningful information, for example, by:
>
> (c) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations);...

An example of the type of crown corporation budget which in my opinion should be included in the estimates is to be found in the operating budget for the Canadian Broadcasting Corporation for the fiscal year 1960-61:

	Estimate for 1960-61
Artists', speakers', musicians' fees, copyrights, performing rights, manuscripts and plays	$19,669,000
Film purchases and rentals	6,376,000
Network transmission	7,490,000
Building rental and maintenance	3,449,000
Salaries and wages	38,481,000
Unemployment insurance, pension contribution expense	1,996,000
Other departmental expenses	15,081,000
Gross Expenditure	92,542,000
Less:	
Expenditures recovered from capital grant and other departments	1,944,000
Commercial revenue net of agency and U.S. network commission payments to private stations	28,513,000
Net Expenditure to be voted by Parliament	$62,085,000

Presentation of a budget such as above on the appropriate estimates class page should also provide for comparison of the estimate for the year in question with the anticipated expenditure for the current year as well as with the amounts that had been estimated for the current year.

B. Presentation of staff detail in a form which would enable better year-to-year comparison as well as analysis of any one year.

18. The treasury board staff's suggestion under this heading contemplates a reduction and rearrangement of the data presently shown in the "Details of Services", where all positions have been listed by civil service classes and grades, and visualizes also dropping salary amounts for individual line entries in favour of showing only the salary total for each vote.

19. I believe these suggestions are improvements which should commend themselves to the committee with the possible modification that the numbers of employees be shown by classes (but not grades) instead of by salary gradations. At the present time staff salaries and wages are the largest single item in government costs exclusive of interest on the public debt. Thus details of the establishment and related salaries for each department enable members of parliament to see the relationship between amounts appropriated and persons employed in the services as well as changes in the organization of the departments.

20. In addition to the change proposed above, I would recommend that consideration be given to providing the following additional information:

(1) that the number of employees actually on the payroll at a specified date during the course of the estimates preparation be shown by the salary classes in an extra column;

(2) that the number of employees be shown in similar manner for each crown corporation and other agency;

(3) that wherever a change is being proposed in the size of the continuing establishment, there be appended an explanatory note briefly stating the reason. Such information would render the tabulations more intelligible to the reader and might eliminate many questions.

C. Provision of separate summaries at the end of each departmental or agency grouping, rather than at the end of each major section, in order that the sources of the amounts carried forward into the overall summary are clearly evident.

21. I think that this suggestion by the treasury board staff represents an improvement in presentation which should commend itself to the committee.

D. Establishment of a separate estimates class for "Old Age Security Payments".

22. I am in agreement with the treasury board staff's suggestion to establish a separate estimates class for old age security payments.

E. Simplification of the titles of estimates volumes.

23. The steps suggested here by the treasury board staff should facilitate easier reference to the estimates volumes as well as tending to standardize the reference procedure to the various supplementary estimates.

F. Adoption of new vote numbering system and inclusion of vote numbers in the details section of estimates.

24. It is believed that the introduction of these changes will be of assistance to members of parliament.

G. Calculation of estimates provision on a net basis (i.e., less service revenues) rather than on the gross basis as at present under which receipts are not credited to appropriations.

25. The treasury board staff summarizes its opinion here by saying that the following difficulties support a recommendation that the present simple system of appropriating gross amounts be retained:

(1) the inability to arrive at an exact overall or net costing position for most services;

(2) the small significance of the results that would be achieved in most cases; and

(3) the difficulties which would be raised in connection with the comptroller of the treasury's commitment control system.

26. I would recommend that the present system be continued until the changes discussed under section A of this memorandum have been carried out.

27. I would recommend that the estimates class page be designed to show the estimated amount of revenue directly associated with the proposed expenditure together with the amount of the excess of the estimated gross expenditure over the estimated revenue, or vice versa, as the case may be. This should be shown for each vote in a uniform and consistent manner. In my opinion this would present to parliament a clearer and more readily understandable picture than the present method of showing the income in certain cases only under details of the estimates.

H. Revision of the number and nature of votes.

28. I am in agreement with the treasury board staff that any steps to reduce the number of votes in an orderly manner would require a comprehensive review of all existing program areas of the federal government and detailed study of the organizations and establishments which carry out these programs. To make indiscriminate reductions in the number of votes would result in less effective parliamentary control.

FURTHER COMMENTS

29. I believe this occasion should be taken to set down for the consideration of the members of the committee other areas of the annual estimates where, in my view, improvements could be made.

30. In this connection, reference is made to paragraphs 15 and 16 of my report to the House of Commons for the fiscal year ended March 31, 1960 in which I stated that informed consideration of the estimates by the House of Commons before the money is voted is all-important. I recommended that consideration be given to the form of the estimates presentation with a view to providing more meaningful information, for example as follows:

(*a*) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year.

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31. The practice has been to compare the main estimates for the ensuing year with the estimates of the current year which appropriately include supplementary estimates approved by parliament during the current year. In my opinion the anticipated actual expenditure for the current year, including as it must an up to date estimate of the sum likely to be spent during the balance of the current year, provides a more meaningful yardstick against which the estimates for the ensuing year can be measured. I would therefore recommend that, in addition to the comparison with the estimates for the current year, provision be made for the above further comparison both in the summary and in the individual estimates class pages rather than in the details of the estimates.

32. Item (*b*) of paragraph 16 of my report referred to above read:

(*b*) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving parliament an opportunity to consider the sufficiency of receipts for services rendered, in relation to the costs incurred).

33. This has been dealt with under discussion paper G on pages 6 and 7 herein.

34. Item (*c*) of paragraph 16 of my report referred to above read:

(*c*) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations).

35. Reference to the operating budgets of crown corporations is made on pages 4 and 5 of this memorandum where an operating budget of the Canadian Broadcasting Corporation is shown to illustrate this point.

36. In my opinion, this type of operating budget showing the total gross requirements (by objects of expenditure or by broad areas of spending) less the income anticipated to be realized, should be inserted in the estimates on the page devoted to the crown corporation in question, so as to show clearly how the net requirements constitute the amount of the vote sought. The same comparative detail is available and in my opinion should be furnished with respect to the capital budget. At the present time only the total of the net operating requirements and the total of the capital budget appear in the estimates class page for his crown corporation.

37. In cases of crown corporations or agencies not requiring financial assistance through parliamentary appropriations, it is recommended that their operating and capital budgets nevertheless be introduced into the estimates book in like detail by means of $1 votes.

38. Item (*d*) of paragraph 16 of my report referred to above read:

(*d*) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

39. In my opinion the details of the services should show in summary form the nature and amount of all commitments extending beyond the year for which the estimates are being submitted, and this should apply to all government departments, agencies and crown corporations.

Mr. SMITH (*Simcoe North*): Perhaps Mr. Henderson would like to comment a little more fully on paragraph 13. It deals with one of the things we covered this morning. I am not referring to his report, but to his memorandum of this morning, paragraph 13, page 3.

Mr. HENDERSON: It was proposed by Mr. Steele not to transfer the costs where they aggregated less than $2 million per servicing department. I say in paragraph 13 that I would recommend that all direct out-of-pocket expenses by servicing departments be transferred to the user departments. I say that because the whole basis, in my opinion, of this spreading of costs is to pin the responsibility where it belongs, namely on the man who is incurring the expense.

Just to go back a few steps, unless an accounting system follows the lines of organization that it is servicing it is not functioning, I think you will agree, as a proper tool. It must be adapted to the organizational flow of the body.

Here in the government we operate on the departmental basis and the people who are runnning the department are the people, it seems to me, who are in the best position to judge the value of the costs they incur, and certainly in the best position to trim those costs if trimming is possible. Therefore, I would think they would want to know the nature of all the charges that are being attributed to them. For example, in the operation of my own office, I might find myself in receipt of charges or notional billings, or whatever we ultimately work this to be, of costs that I have not the faintest idea I ever incurred. Perhaps they do not relate to my office at all. Then I would rise up and say: "Look here, I did not use this service; why should I be charged with it?" That is the kind of questioning that leads to better controlled costs. For that reason I feel that there is a strong case to be made for distributing the costs of all the departments.

I understand, Mr. Chairman, that we are going to have an opportunity to discuss the various phases of this in more detail; and the impact of this in terms of how far we should go, the size of it and possibly the attendant cost will presumably come out at this discussion. I might say I have not had the favour of a discussion with officials on this point.

Mr. BELL (*Carleton*): It would be impossible in principle to quarrel with your view that there should be an allocation of all costs. But would you turn your thinking to the practicality of it and test it, say, in relation to your own office. How practical would it be for the Auditor General to say how much of his time and that of his staff's time should be allocated to the different departments? Or, would you go further and say, on the Department of Justice, providing a common service to all departments, how practicable it would be to determine the allocation of the time of the deputy minister of justice and his officials, in providing time. Would there have to be docket sheets kept, such as are kept in a well-run law office so that there can be allocated actually the amount of hours spent in each department?

Mr. HENDERSON: I might point out that I have referred to direct out-of-pocket costs. I have not gone into the technical aspect of spreading overheads. I am dealing with the principle of out-of-pocket costs. Therefore, the costs that I would expect to be charged to me would be where another department has laid out money to provide something for me, or says it has done so.

Mr. SMITH (*Simcoe North*): Could you give us an example of direct out-of-pocket costs?

Mr. HENDERSON: Yes. I noticed the spreading of the salary costs of the office of the comptroller of the treasury that services my office; they pay my bills. Perhaps when I get a note of their costs it is going to be $750 per month.

I do not know what they estimate they are spending, but possibly that proportion of their salary costs will be attributed to the Auditor General's office. I might think that a high price to pay for the modest amount of bookkeeping which is done for my office.

Mr. WINCH: They would estimate the cost of your time in your office, all the time spent in your office allocated to auditing of the departments, for which you would allocate a charge.

Mr. HENDERSON: Yes, I would think I might charge them a fee for my time and come out even in the end, but this is not a $2 million item, and I think it is not the type of service Mr. Steele has in mind. This will all come out in the discussion.

Mr. WINCH: I understand from the way you are talking now that it is your view that even if your total expenditure is less than $2 million, because you have to audit all departments and certain crown corporations, then, for the basis of information that each department or crown corporation should show your costs on servicing their departments, is that correct?

Mr. HENDERSON: I could send them a bill for my services, that is the charge they would have to pay. I could spread my costs across the departments where I work.

The VICE-CHAIRMAN: May I ask a question? Is this system worked in the British parliament, or is there something similar, or do you know any other department or government that uses it?

Mr. HENDERSON: I discussed this matter with the comptroller and auditor general of the United Kingdom last year, and I was given to understand that they have made quite a lot of progress in it. Particularly they have made progress in the question of departmental operating activities, which is something on the style of the post office and the other agencies which are engaging in commercial or semi-commercial operations.

Mr. WINCH: I would like to ask some questions here, because this may be a little bit confused. I can readily understand and agree with the principle of the allocation of common service charges like cleaning, lighting, heating and rent. I would like Mr. Henderson to enlarge a bit more as to why in his opinion —if my understanding of his opinion is correct—the general service charges like that of the Auditor General should be allocated. To me it looks as if we are building up unnecessary bookkeeping and things of that nature.

Mr. HENDERSON: I am glad you asked that, Mr. Winch, because that is something to which I have given some thought. I have not particularly dealt with it in this memorandum. However, we will be discussing it. I can conceive of quite a good case being made for not distributing the charges of what I might call statutory operations. Perhaps the comptroller of the treasury is in that category where he services the department—although Mr. Steele does propose to include him. I think probably the Department of Justice should be excluded. I think a case could be made for drawing the line somewhere, but that would have to come out in more detailed discussion. Obviously, we do not want to carry this to an impracticable level.

Mr. STEELE: If I may be permitted to interject one remark, I might suggest an example to Mr. Winch of one which might be difficult. It is that of the civil service commission which provides the personnel selection service for the government as a whole, and which obviously is used unevenly by all departments. It would be very difficult to judge where you should actually charge to the department the cost of that personnel service. I think one would have to go into it and see just how meaningful it would be.

Mr. SMITH (*Simcoe North*): It seems to me there is a limit as to how much you can make government accounting analogous to that of a private company. What we have to do in making a revision in the accounting and the estimates is see where we can cut off between the two.

Mr. BROOME: Does not your $2 million figure take care of it?

Mr. STEELE: It began to become ridiculous to select costs where the total was $2 million or less, and distribute it across a wide variety of services.

Mr. HELLYER: That is just what we are trying to prevent. This is not something which would be appropriate to a private business. It would be a case of applying the law of diminishing returns, and where the result of the control would be worse, and you would have to discard it. On the other hand, if it results in a saving of more than it costs, it is worth doing.

Mr. BROOME: As regards that $2 million mark, would it not be better to come back to the committee with a list of departments, such as the Department of Justice, the Auditor General, the civil service commission? Would it not be better to take certain areas and say these costs will not be apportioned?

Mr. HENDERSON: I would agree with that, Mr. Broome.

Mr. WINCH: Would it not be better to go the other way and apportion these in each case?

Mr. MACDONALD: Perhaps I might, at this point, add a point to our paper. There was something else besides $2 million as one of the points. It is a conceptual point which Mr. Henderson was talking about. We would be prepared to discuss that in the committee. We think there are reasons for differentiating between them, for not charging the department. There is the case, for example, that they serve Parliament rather than the departments. Therefore, the $2 million point is not the only one that we have to discuss. The civil service commission is still another point.

The VICE-CHAIRMAN: I think you have the grounds laid better with Mr. Steele's report and Mr. Henderson's report. It was the thought of this committee that we set up a subcommittee to go into this further in more detail. With your permission, and with that of the chairman, Mr. Macnaughton, the following names have been submitted to comprise a subcommittee on the form of estimates.

I will give you these names, for your approval.

The chairman of the committee will be Mr. Heber Smith, and the members will be Norman Spencer, Douglas Morton, Gordon Chown, Harold Winch, Paul Hellyer, and John Deschatelets.

Does that meet with your approval, gentlemen?

Mr. WINCH: Before that is put, Mr. Chairman, I would like to ask when this committee will meet, and how long you think it would take for this study? The reason I ask this is because I have not been home for five months, and I have decided I am going home on Wednesday, the 24th, and I will not be back again until the 1st of June. I will be gone six weeks, and I would not want to be named if I could not fulfil my functions.

The VICE-CHAIRMAN: Perhaps when the subcommittee meets, you could sugest the name of someone else to take your place while you are away, and Mr. Smith would probably agree to that.

Mr. WINCH: But, I think there should be some continuity on this.

The VICE-CHAIRMAN: Does the committee approve of the subcommittee as named?

Some Hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: At the call of Mr. Smith.

Some Hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: Now, we will proceed with the Auditor General's report. I believe we left off at paragraph 54.

Mr. A. M. HENDERSON (*Auditor General*): We were discussing paragraph 54 at the last meeting. I believe we were in the middle of it.

The VICE-CHAIRMAN: Yes, but it requires Mr. Armstrong's presence.

Mr. HENDERSON: Yes, and I believe he was to bring back some information which was requested by the committee.

The VICE-CHAIRMAN: Well, let us proceed further on.

Mr. HENDERSON: Paragraph 57 was covered. The committee discussed it. They perhaps will recall the unemployment assistance contributions to provinces—and paragraph 58, the grants to hospitals. We discussed these paragraphs while we were waiting for Mr. Armstrong.

Mr. BELL (*Carleton*): I thought we had concluded these paragraphs.

Mr. HENDERSON: That is right.

The VICE-CHAIRMAN: We are making very good progress, gentlemen.

Mr. DRYSDALE: Have we decided on a number yet, Mr. Chairman?

Mr. HENDERSON: That would bring us to paragraph 59:

> 59. *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 exemptions. In the 1945-46 report 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 regulations, to compute the sales tax on less than the actual sale price.
>
> In 1955 a Sales Tax Committee was appointed to review and advise upon certain technical questions relating to the administration of the sales tax. Included in the Committee's report, dated January 12, 1956, is the statement 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", and the Committee recommended that "the existing scheme of valuation be continued for the present with statutory sanction".
>
> Sale price is the amount charged to the buyer and there is no provision for any deviation. The method of valuation employed by the Department of National Revenue for sales tax purposes appears to rely on the general authority given in Section 38 of the Act, 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."
>
> In our opinion, specific authority by Parliament is required if the tax is to be computed on less than the actual sale price of the goods.

Mr. HENDERSON: Paragraph 59 refers to the longestablished administrative practice of basing sales tax calculations on a hypothetical wholesale price when various classes of goods are sold by the manufacturer directly to retailers or consumers, and by wholesalers directly to consumers. It is mentioned that, in our opinion, specific parliamentary authority is required if the tax is to be computed on less than the actual sale price. There is, in effect, a shortfall to the country here, by this practice.

The VICE-CHAIRMAN: Would you enlarge on that a little more, Mr. Henderson? I do not follow this.

Mr. HENDERSON: The sale price on which sales tax is exigible is, of course, the amount charged to the buyer, and there is no provision for any deviation. The method of evaluation that is employed by the Department of National Revenue is not always based on that sale price, but, rather, by relying on the general authority given in section 38 of the act, they are determining on what basis the tax should apply. Now, we believe, and my predecessor reported on at least one occasion, that the specific authority of Parliament is required if the tax is computed on less than the actual sale price of the goods.

Mr. BROOME: In that connection, if you import an article, your sales price is based upon price at the border, including duty.

Mr. HENDERSON: Duty-paid value?

Mr. BROOME: Yes, and if you produce the article in Canada, it is at your selling price to the retailer or wholesaler. This means that the Canadian producer is paying a 11 per cent sales tax on extra cost, whereas the situation is different in the case of a person who imports the same article. The application of a sales tax increases the cost of the Canadian-produced article, and decreases the cost of the imported article because, in that Canadian-produced article you have the element of profit and transportation charges within Canada, as well as distribution charges, which are not embodied in the cost of the imported article. It seems to me that there should be much more latitude. It seems to me that the sales tax levied on the Canadian-produced article should be comparative in cost elements to that levied on the imported article.

The VICE-CHAIRMAN: Do you feel that Canadian goods are being discriminated against?

Mr. BROOME: Absolutely. They are absorbing an extra tax—an extra sales tax over and above what is levied on an imported article.

I would like the Auditor General's comment on my statement, because I know it is true.

Mr. HENDERSON: Well, you are obviously speaking from a very precise knowledge of this.

Would you not say, as a general proposition, that where reliance is being placed on this general authority, that is to say, the department's rulings as distinct from parliamentary authority, that that procedure lends itself to anomalies of the types you have mentioned—of course, quite unintentionally —and places the people administering it in a quite difficult position?

Mr. BROOME: I think the method of evaluation should be changed by the Department of National Revenue to reflect costs on the Canadian-produced article which are comparable to costs on the imported article.

Mr. WINCH: Would you tie that in with the Auditor General's responsibilities?

Mr. BROOME: He is saying that any advantages which may be given by regulations are wrong, and I am saying that the advantage, as given by regulations, does not go far enough.

Mr. HENDERSON: I am saying that you throw the whole decision back on the judgment of the people. If they are going to settle this thing by regulation, then obviously they have a tremendous job on their hands. I am afraid that the only people who can answer specifically on this would be the officials from the Department of National Revenue.

Mr. BROOME: Mr. Chairman, I wonder if that particular question which I have raised might be investigated by the appropriate persons, and a report given as to what difference this makes.

Mr. HENDERSON: I might ask Mr. Long if he has any comment on this point.

Mr. G. R. LONG (*Supervisor, Auditor General's Office*): I have been experiencing difficulty in following your point.

Mr. BROOME: Well, it is this: Let us take, for instance, an electric toaster, something that is simple. An electric toaster arrives at Windsor, and the importer will pay 11 per cent on the cost to him from the manufacturer—duty-paid value—and then he puts his mark-up on it, and sells it on the home market. The Canadian manufacturer will build up his costs, in which will be included transportation costs on materials, and so on; it will include his profit factor, and he will pay 11 per cent on his profit factor. The chap who has imported it, and is in the same relationship as a national distributor, does not pay any tax on his profit factor, because his profit factor is added on after sales tax has been calculated.

Mr. BELL (*Carleton*): Mr. Chairman, I do not think this is a matter upon which the Auditor General could comment. This is a policy matter, and I will give Mr. Broome the assurance that his comments will be drawn to the attention of the minister responsible for policy in this field, namely, the Minister of Finance.

Mr. HENDERSON: Perhaps I should ask Mr. Broome if he does not feel that legislative authority should be provided for this practice, or is he content with it the way it is.

Mr. BROOME: I do not know enough about it, but I think it should be changed.

Mr. HELLYER: That was the impression we gained from your categorical statement.

Mr. HENDERSON: I want to make a point clear: It lacks legislative authority, and any expression of opinion in that regard would be helpful to us.

Mr. HELLYER: Mr. Broome has been comparing manufacturer's profits in one country to distributor's profits in another country.

M. BELL (*Carleton*): On this particular point in paragraph 59, this has been the practice of the Department of National Revenue from almost the outset of the sales tax.

Mr. HENDERSON: Yes; there was a special sales tax committee—

Mr. BELL (*Carleton*): Yes, under Kenneth Carter.

Mr. HENDERSON: Yes, Kenneth Carter, held in 1955, which supported the point that I am making here, in paragraph 59.

Mr. MORTON: Is it the contention that paragraph 38 does not give the discretion that is necessary to do what they are doing?

Mr. HENDERSON: The department maintains that it does. This is a general omnibus type of section which you find in a number of the acts, and they are relying on that. This does result in a shortfall of revenue, and it is resulting in anomalous situations. Mr. Broome has mentioned one with which he is concerned, and I am trying to find out if he did not feel that specific legislative authority on this matter by parliament would not be the thing to go after.

Mr. MORTON: I do not pretend to be an expert on these matters, but it seems to me if you keep it too rigid by legislation, you are going to work against our own manufacturers in respect to competition from abroad, unless there were certain discretions given to deal with things that are not foreseeable. If the contention is that the powers of discretion are not wide enough, then it should be examined. However, if the department does not feel it is hampered by it, I would not want to see any legislation to make their position any more rigid. It should be the other way around.

As I understand it, the situation here is that you are contending that section 38 is not broad enough to permit the department to do what they are doing.

Mr. HENDERSON: That is correct.

Mr. MORTON: If that is the case, it might be necessary to authorize them to do what you think they are doing now, without discretion.

Mr. DRYSDALE: Have you any opinion on this, or is this your departmental approach?

Mr. HENDERSON: It is a matter that my predecessor raised, and also a matter which I have discussed with the department. I was going to suggest that if it carried the judgment of this committee, I would propose to have a further discussion of this with the deputy minister and his associates, and would bring back a statement to the committee on the subject, if that would save the time of calling a witness.

Mr. HELLYER: That would be fine. I find this whole discussion most bothersome. I think in this country we believe in the imposition of taxes by legislation and not by regulation, and any talk of imposing taxes by regulations sends shivers up and down my spine.

Mr. HENDERSON: Would it be satisfactory if I filed a statement at a subsequent meeting?

Some Hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: Paragraph 60 will be next.

> 60. *Commitment to the Northwest Territories in advance of appropriate authority.* In November 1957 the Department of Northern Affairs and National Resources gave its concurrence to the Commissioner of the Northwest Territories entering into a contract with a firm of consulting engineers for the planning and construction supervision of a revised and extended water system and a sewage system at Fort Smith, N.W.T. This concurrence was given notwithstanding the fact that the project was one towards which the contribution of the Federal Government would be considerably greater than that of the Territorial Government. Fees under the contract were paid in full to the consulting engineers by the Territorial Government, and it was not until July 1959 that Executive authority was sought by the department for reimbursement of the Territorial Government for the department's share of the cost, as a charge to the appropriation for "Northwest Territories and Other Field Services—Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 279).
>
> Because of the considerable responsibility of the Federal Government in the project, it would seem that the department's concurrence in the contract being entered into with the consultants should have been given only afer the approval of the Treasury Board had been obtained.

Mr. HELLYER: Would you entertain a motion to adjourn?

The VICE-CHAIRMAN: We will complete paragraphs 60 and 61, and then adjourn.

Mr. HENDERSON: Paragraph 60 recounts the case where the Department of Northern Affairs and National Resources, instead of seeking executive approval for giving its concurrence in November, 1957, to the commissioner of the Northwest Territories to enter into a contract with a firm of consulting engineers, waited until the federal government's share was to be paid in July, 1959. I think I am correct in this, but I would like to ask Mr. Stevenson to speak on this for you. Did not the treasury board take this matter up with the department in very strong terms?

Mr. Ian STEVENSON (*Assistant Auditor General*): Yes. In this case the department did not request the approval of the executive—the treasury board—until it was time to make a payment, whereas, as suggested in the paragraph here, it would have been more appropriate, had the approval of the treasury board been sought by the department to its making contribution toward costs to be incurred under this contract before the department gave its concurrence to the commissioner of the Northwest Territories. Perhaps Mr. Smith could add something to this.

Mr. Douglas SMITH (*Audit Supervisor, Auditor General's Office*): It developed that the federal government's share of the cost under this contract was 90 per cent, and the territorial share of the cost was 10 per cent. Therefore, our thinking was that the treasury board should have been approached in the original instance, before the contract was entered into, instead of approximately two years later, after the bulk of the costs had been incurred under the contract.

The VICE-CHAIRMAN: We will now proceed to paragraph 61, and then we will adjourn.

> 61. *Extra costs resulting from seemingly insufficient consideration given before constructing boat harbour.* In June 1957, the Department of Public Works called for tenders for the construction of a boat harbour at Erieau, Ontario, intended mainly for the use of local fishermen. As a result of delays in acquiring land for the site, the contract had not been awarded by October 4, 1957, when a petition signed by a group of the fishermen was received by the department, requesting that the plans for the harbour be revised. Accordingly the department decided to defer the project.
>
> On December 3, 1957, a second petition, signed by another group of fishermen, requested the department to proceed with the original contract. The firm that had submitted the lowest tender agreed to undertake the work at the tendered price of $154,545 and the contract was awarded to it on January 30, 1958.
>
> On April 14, 1958, a third petition renewed the request that the plans be changed and, on April 29th, the contract was cancelled. The plans were then revised and new tenders called and in due course a contract was entered into with another contractor for the construction of the harbour on the basis of the revised plans, at a cost of $192,526.
>
> Meanwhile, $61,890 of expenditures had been incurred by the original contractor prior to the cancellation of the contract, and this sum was reimbursed to him in August 1959 and charged to the appropriation for "Ontario—Acquisition, Construction and Improvements of Harbour and River Works" (Vote 340). It was noted that $43,417 of this amount represented materials later used on the revised project, leaving $18,473 as the extra cost resulting from insufficient consideration having been given to alternative plans before proceeding with the project.

Mr. HENDERSON: Paragraph 61 recounts a series of steps involving construction of a boat harbour at Erieau, Ontario. When it was all through, $18,473 of extra costs resulted from insufficient consideration having been given to alternative plans before proceeding with the project.

The reporting of this item, Mr. Chairman, is under this heading, which I believe members of the committee wanted from time to time, namely, "Unproductive costs", or cost incurred which had no value. Accordingly, we come across this in the course of our work, and it is our practice to draw the major ones to the attention of the members.

As you will see, there was a series of delays, the cancelling of plans, the later decision to proceed and then the introduction of new plans. Perhaps, it is inevitable that some money was lost because of that.

Mr. DRYSDALE: There are provisions in some contracts in connection with the cancellation of them. What happened so far as expenditures are concerned, in this respect?

Mr. SMITH: In this instance, the cost incurred by the first contractor were examined by the audit services division of the comptroller of the treasury, and the contractor accepted the figure of approximately $61,000, which resulted from the examination of the costs.

Mr. DRYSDALE: I was not so much interested in the specific situation, but as to whether all contracts provide for cancellation without notice on the government's side?

Mr. SMITH: I cannot answer that question at the moment.

Mr. DRYSDALE: It seems a little unusual that you just concel a contract and lose whatever productive value there is in it. Then, you start it all over again and incurred new expenses. Is this the general procedure in these types of contracts, or would the crown be subjected to an action for breach of contract?

Mr. HENDERSON: We would have to check on that. We will give you that information later.

Mr. DRYSDALE: I am interested in a general situation, and whether it is the practice. I assume you have a standard contract form, and I was wondering how easy it was for the government to contract out through cancellation.

Mr. HENDERSON: My understanding is that there are different practices in different departments. However, I would like to check on that and report back at the next meeting, if I may.

Mr. SPENCER: I have a supplementary question: In this figure of $61,000 was there any amount for loss of profit in that contract?

Mr. HENDERSON: Not to my knowledge. Is that correct, Mr. Smith?

Mr. SMITH: Not to my knowledge.

The VICE-CHAIRMAN: If there are no further questions, we will adjourn.

The next meeting, gentlemen, will be held on May 23rd, one week from today. The steering committee well be meeting before that time, and it will report at the next meeting in connection with Mr. Drysdale's request of the last meeting.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

Report of the Auditor General to the House of Commons—1960

TUESDAY, MAY 23, 1961

WITNESSES:

Mr. E. B. Armstrong, Deputy Minister, Department of National Defence, and Mr. I. Stevenson, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25149-6—1½

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech	Grenier	Pratt
Bell (*Carleton*)	Hanbidge	*Regier
Benidickson	Hellyer	Robichaud
Bissonnette	Keays	Rouleau
Bourbonnais	Lahaye	Smith (*Lincoln*)
Bourget	Macdonnell	Smith (*Simcoe North*)
Brassard (*Chicoutimi*)	McGee	Smith (*Winnipeg North*)
Broome	McGrath	Spencer
Bruchési	McGregor	Stefanson
Campeau	McMillan	Stewart
Chown	Morissette	Tucker
Danforth	Morton	Valade
Denis	Murphy	Villeneuve
Deschatelets	Noble	Winch
Drysdale	Nugent	Woolliams
Dupuis	Pigeon	Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

* Replaced on Thursday, May 18, 1961 by Mr. Fisher.

ORDER OF REFERENCE

THURSDAY, May 18, 1961.

Ordered—That the name of Mr. Fisher be substituted for that of Mr. Regier on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

25149-6—1

MINUTES OF PROCEEDINGS

TUESDAY, May 23, 1961.
(16)

The Standing Committee on Public Accounts met at 9.40 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Bissonnette, Danforth, Drysdale, Hales, Hellyer, Macnaughton, McGee, McMillan, Morton, Noble, Pratt, Smith (*Simcoe North*), Spencer, Stefanson, Stewart, Tucker, Villeneuve and Winch—19.

In attendance: Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and Mr. I. Stevenson, Assistant Auditor General of Canada.

The Chairman read a report from the Sub-Committee on Agenda and Procedure relating to the request by Mr. Drysdale, that copies of any offers to purchase Polymer Corporation Limited and copies of any recommendations by the Board of Directors of that Company, in that connection, be tabled.

The Sub-Committee reported that, as the tabling of these documents would necessarily involve the Committee in discussing Government policy, and that such a discussion would be outside the terms of reference of the Committee, it recommended that Mr. Drysdale's request be denied.

The Chairman stated that the letters patent of Polymer Corporation Limited and its subsidiary, (SAF), have not yet been received by the Committee and that further action will be taken in this matter.

Mr. Armstrong was called and gave supplementary information with respect to paragraphs 51 and 52 of the Report of the Auditor General.

Messrs. Armstrong and Stevenson were questioned concerning paragraph 52 and Item 3 of paragraph 54.

At 11.00 a.m. the Committee adjourned to meet again at 9.30 a.m., Tuseday, May 30, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 23, 1961.

The CHAIRMAN: Gentlemen, will the meeting come to order. I would like to welcome Mr. Douglas Fisher who will join our committee, replacing Mr. Regier.

May I make an announcement of a meeting of the subcommittee on form and contents of estimates, under the chairmanship of Mr. Heber Smith, on Tuesday, May 23, at 2 p.m. in room 303 in the West Block, and on Wednesday, May 24, at 2 p.m. in the same place.

The next order of business is the report of the steering committee with regard to a request of Mr. John Drysdale for details as to whether or not requests were made for the sale of Polymer Corporation. I have that report and would like to present it. It is as follows:

At a meeting of the public accounts committee held on May 10, 1961, Mr. John Drysdale

> —asked for a list of the offers to purchase Polymer since its incorporation on February 13, 1942, setting out particularly dates of the offers, the total amount offered, the terms of the offers, and whether or not the officers and/or directors of the company examined any of these offers, and if so were recommendations made to the ministers concerned to sell Polymer.
>
> If not, what recommendations were made?

The chairman said in part:

> Mr. Drysdale, your question on the sale or non-sale of Polymer is a matter of government policy.....

Mr. Drysdale replied:

> I agree that the matter of whether or not it should be sold is a question of government policy, but I think we are entitled to ask for this information as we did in the research committee.....

It was agreed by the committee that the matter should be referred to the steering committee for consideration and report back to the main committee at its next meeting, May 16th, or as soon as possible.

In consultation with Dr. Ollivier, parliamentary counsel, the first question that arose was whether Mr. Drysdale's request was within the committee's order of reference. This order of reference reads as follows: (page 4, No. 1, Minutes of Proceedings and Evidence)

> That the public accounts, volumes 1 and 2, and the report of the Auditor General for the fiscal year ended March 31, 1960 and the financial statement of the Canada Council and the report of the Auditor General thereon for the fiscal year ended March 31, 1960 be referred to the standing committee on public accounts.

A reference to pages 116-118 of Volume 2 to the pubilc accounts for the fiscal year ended March 31, 1960 shows: —the balance sheet as at Dec. 31, 1959 of Polymer Corporation Limited, the statement of income and expense

and the statement of surplus for the year ended Dec. 31, 1959 and the report of the Acting Auditor General on these accounts given in compliance with the requirements of Section 87 of the Financial Administration Act.

An examination of the report of the Auditor General for the fiscal year ended March 31, 1960 at pages 54 and 61 indicates no reference to a proposed sale of Polymer Corporation Limited.

From the above considerations it is evident that this is a fact-finding committee and that it cannot go outside the order of reference. Now it is a well-known principle that a fact-finding committee cannot deal with matters of policy.

Beauchesne's Parliamentary Rules and Forms, Fourth Edition, 1958, Citation 293, reads in part:

> It is against all parliamentary usage to refer questions of policy to a fact-finding committee.

Along the same line, a ruling by Mr. Speaker on Wednesday, April 29, 1959 is reported at page 360 of the journals of that year.

This ruling was to the effect that a motion to appoint a fact-finding select committee could not be amended by adding to it matters which dealt with policy, in this case Indian taxation, as this was outside the proposed order of reference.

To quote the exact words of the speaker, they are as follows:

> Though I find this amendment relevant to the main motion, I cannot yet overlook the fact that questions of policy are so complex that they should not be moved as corollaries to the appointment of such a committee as the one now proposed. It is against all parliamentary usage to refer questions of policy to a fact-finding committee.

Mr. Drysdale cited the special committee on research as an example and a precedent for his line of questioning.

It might be of some use to quote what the order of reference was in that case. It reads as follows:

Orders of Reference—Thursday, February 16, 1961 (page 3, No. 1, Minutes of Proceedings and Evidence)

> Ordered—1, That a select committee be appointed to consider the policy, operations and expenditures of the national research council, Atomic Energy of Canada Limited, Eldorado Mining and Refining Limited, and to report from time to time their observations and opinions thereon—

It will be evident from the above citation that there can be no comparison between the powers of this committee and the powers of a select committee appointed essentially to consider the policy of other crown corporations.

We, therefore, conclude that this committee can only consider those matters which have been committed to it by the house. The committee is bound by, and not at liberty to depart from its order of reference.

In consequence of this opinion, the steering committee recommends to the main committee that the line of questioning entered upon by the member from Burnaby-Richmond be not allowed.

Mr. DRYSDALE: I wonder if I could put just a couple of points for clarification. Technically speaking, since you have indicated the terms of reference of the public accounts committee, the report of Polymer of December 31, 1960, was improperly before the committee? Am I correct in that understanding—because the terms of reference are only to the public accounts volumes 1 and 2, and those are the references which include the reports for the years ending December 31, 1959, and December 31, 1958.

The CHAIRMAN: It was the financial statement which was before the committee.

Mr. DRYSDALE: Yes, but there is the question of the reference. You quoted public accounts volumes 1 and 2, the report of the Auditor General for the fiscal year ending March 31, 1960. That only covers, as far as I read it, the accounts for 1959 and 1958.

The CHAIRMAN: I think you are probably right. I will just check it. Yes, page 61 of the Auditor General's report for that year, ending March 31, 1960, refers to Polymer Corporation, paragraph 135, during the financial year ending December 31, 1959.

Mr. DRYSDALE: Therefore, technically speaking that was not properly before the committee. I am not objecting to it, but as we are being technical in one aspect, I thought perhaps we should be technical in the other.

The other point to which I would like to draw the attention of the committee is that there were actually three points on which I requested information at that particular time. One was information on the sale of Polymer, because there had been references in the orders of the day to a question by Mr. Murphy to the minister. I think this was on March 1, 1960. That was the reason I had thought that perhaps the question of sales would be within the terms of reference of the committee, because it had been entered into in the orders of the day, which I think the chairman would agree, would be a very inappropriate time to discuss in detail the question of sales.

The second thing which I had suggested to the committee was the possibility of calling Mr. Barrington, the former President of Polymer. What I had in mind there was to try and get somebody who is at present outside the company to get perhaps a more objective view of the situation. All we have heard has been Mr. Rowzee, the President. As I have tried to emphasize throughout, there is no reflection on the statements of what they have said, but I have not noted any tendency for people operating a company to be overly critical of the way they are operating that particular company. That is the reason why I thought it would be of help to have some outside information. At our second meeting I had requested the incorporating documents which were to be referred to Mr. Chown and myself. I am wondering what progress has been made on that matter. I have not heard anything on it.

The CHAIRMAN: I can answer that right away. These documents have not been received yet. As soon as they are received, we will send them right over to your office.

Mr. DRYSDALE: Thank you Mr. Chairman. Mr. Rowzee had referred to a market report deciding as to where they would locate their companies, and the reason why they would do so. I asked if it would be possible to get that report. At page 334 I asked if the survey was available, and you had said that first of all this was a company matter and the details must be cleared by the minister. Then at page 357 I again asked, as one of the questions, whether or not that report would be available to the committee.

The CHAIRMAN: What was the reply, do you recall?

Mr. DRYSDALE: I did not get any reply. You answered at page 334.

The CHAIRMAN: It does seem to me that this is a company matter, a confidential record of the company. If private companies were to disclose all of their intra-company departmental records, they would not be in business very long.

Mr. DRYSDALE: I realize that, Mr. Chairman, but there always comes into my mind the difficulty of balance. On the one hand I do not want to affect the internal management of Polymer, yet on the other hand, how is the

committee to make an adequate examination of the situation if that information is not to be made available? If the minister has indicated that it cannot be made available, I suppose that ends the matter. There is an alternative, and I have often wondered whether it might be a method of procedure in cases of this nature. That is, to examine the information in camera. Provided the minister would consider that would be practical and feasible, the internal matters would not be of such a secret nature. If the minister considered that the information could be examined in camera, then we would have the information available, and could then decide what part, if any, should be part of the public transcript. My only motivation is that if we are to examine these companies adequately, we have to know why they are making some of these decisions.

The CHAIRMAN: I have always personally maintained the attitude that this is a committee which should meet in camera, but in point of fact the committee does not meet in camera, but in public. As long as we meet in public, it seems that we should not constitute ourselves a court of appeal from decisions of the cabinet with regard to policy. This market report is certainly a confidential document, it would seem to me. The letters patent are public documents. I do not know what more we can do under the present set up.

Mr. DRYSDALE: There is one further question. I was not too clear whether Polymer was to be invited back. Would you consider this also a matter of cabinet or internal policy—this question of dividends paid, for example, in 1960 when they had a net income of $9 million, and they paid a dividend of somewhere around $3 million; and in 1956 with approximately the same net income, they paid a dividend of $6 million? I am curious as to what the dividend policy is, and how it is arrived at. Would you consider that a matter of internal policy?

The CHAIRMAN: No; I think that should have been asked when they were here. Certainly I cannot answer it.

Mr. DRYSDALE: Personally, when they finished I had no idea they were not coming back, because of the matters that had been left open and the questions I, myself, had asked.

The CHAIRMAN: Let us begin at the beginning. You have heard the report of the steering committee. Does that satisfy you?

Mr. DRYSDALE: It does not satisfy me, but I am prepared to accept it. I assume they have made the appropriate references and assessment of the situation. I think there is a mistake in the understanding when they think it is basically carried out. I have contended—perhaps not too clearly in the record—that any question of the sale is a matter of policy as far as the government is concerned, but if there is an offer which is a question of fact, then if it is in the past the committee would normally be entitled to look at it just as a question of fact—not to question as to why it was done one way or another, but to look at it factually as to the amunt of the offer, and the people concerned in it.

Mr. HELLYER: I think that is right. I do not think Mr. Drysdale should allow himself to be bulldozed by the steering committee. Quite frankly, as you have stated, this is a fact-finding committee. Part of the facts which Mr. Drysdale seeks is the value of the capital assets of the shares of this company. He does not wish to determine policy as to whether it should or should not be sold. On the other hand Mr. Drysdale said that he is a representative of the shareholders of this company and he is entitled to some of the information which permits shareholders to come to a realistic appraisal in respect to the validity or otherwise of the policies being followed. I do not

think this committee should be just a public relations committee for Polymer, or any other crown corporation, where they may come in and show films. If there are certain basic facts such as the market value of the assets of the company, this is something which the shareholders are entitled to know about. I do not think that market analysis and this type of information should be made public, but I believe that any offers to buy the company, and the prices at which these offers were made should be public information at some point. I think Mr. Drysdale is quite in order in asking for it. Personally, I think this is the type of information which the Canadian public should have. I disagree about meeting in camera in ordinary circumstances. The maximum amount of information should be made available without at the same time jeopardizing the position of the company. It must be remembered that this is not a private company; this is a public company. The public put up the money to put it into operation and keep it in operation, and they are entitled to know as much as is reasonably possible about its affairs.

Mr. BELL (*Carleton*): The only issue is as to which is the appropriate forum. Nobody questions the information being made available, but is the appropriate forum the House of Commons when the estimates of the Minister of Defence Production are up, or is it this committee? This committee is not invested by its terms of reference with the power to make specific recommendations on policy matters. The house of course can do what it will, and as I understand it the situation is that the steering committee in effect says the appropriate forum for the inquiry into these details is the committee of supply, and not the standing committee on public accounts.

Mr. HELLYER: Lacking authority has not deterred us from making recommendations in other matters, some of them having to do with policy, such as changing the form of public accounts.

The CHAIRMAN: I would just like to say that there was certainly no attempt to limit criticism. On the contrary, we welcome criticism, and the more of it the better, as it means we have a very strong and healthy committee. This committee works from year to year, and creation of precedent is an important thing. We went into this very carefully and seriously. On the question of whether or not offers should be produced, the steering committee suggest they should not, and I would so rule. But on the question of whether you would want information—

Mr. HELLYER: How do we know how this public asset is valued in the market places of the world?

Mr. MCGEE: There is an easy way to find out, if Mr. Hellyer were to talk to some of his Bay street friends.

Mr. HELLYER: Some of Mr. McGee's Bay street friends, you mean.

Mr. DRYSDALE: Mr. Chairman, on another point that has concerned me, and I had not commented on it at the time—I hope it will not be considered as perhaps an unfair comment—but the person we had representing the directors was Mr. Todgham, who started service with Polymer on September 19, 1956. It was just stated that Mr. Brunning, who was chairman of the board and who had been with the company since April 25, 1947, was not available. It strikes me as a little unusual that we would take the last appointed director, and presumably the one who knew the least about the history of the company, to be the one to represent the directors, but have no reference to Mr. Brunning who with Mr. Rowzee made all the important policy decisions.

The CHAIRMAN: There is no mystery. Mr. Todgham wanted to come and did come, while Mr. Brunning wanted to come but could not on that date.

We shifted these dates three times, so that it is no one's fault. Mr. Brunning was anxious to come but he could not come on those days.

Mr. DRYSDALE: The only reason I raised these points was in regard to the other question I asked, if there is any consideration being given to further interrogation of these people.

The CHAIRMAN: If the committee wanted to interrogate further, there is no basic reason why they should not. Certainly I am not out to do P.R. work for Polymer.

Mr. DRYSDALE: I refer to these matters out of consideration of the members. Perhaps they feel we have spent a sufficient amount of time. If that is the case, I prefer to abide by the committee's decision.

The CHAIRMAN: What further information would you want?

Mr. DRYSDALE: It is fairly clearly stated on the record.

The CHAIRMAN: I mean outside of the office?

Mr. DRYSDALE: On this dividend policy, I would like an opportunity to examine Mr. Barrington who is no longer with the company, to get his evaluation of the company.

The CHAIRMAN: What is the desire of the committee. Would the committee like to hear those witnesses?

Mr. DRYSDALE: I thought that was also going to be examined by the steering committee, because I had raised these three points at the same time.

The CHAIRMAN: Frankly, we did not.

Mr. DRYSDALE: Perhaps it might be appropriate to refer it back to the steering committee.

The CHAIRMAN: Surely we should have an expression of opinion here. It will mean bringing back Mr. Rowzee, Mr. Wilk, and calling Mr. Barrington. Is there anyone else?

Mr. DRYSDALE: Mr. Brunning.

The CHAIRMAN: What is the desire of the committee? Are you going to make a motion?

Mr. DRYSDALE: I was more interested in the expression of opinion from the committee rather than in making a formal motion. As I said, I thought it was being considered by the steering committee.

The CHAIRMAN: It was not, I suppose by accident.

Mr. WINCH: They do not seem very enthusiastic.

Mr. MORTON: At the time Polymer was here most of us had the impression it was the last day they would be here and most of us felt quite content that we had reached the limit of our examination. That was my own opinion and I would not want to impose my views on any other member; but Mr. Drysdale wants an expression of opinion: that is mine.

Mr. HELLYER: I was unfortunately unable to be here previously, so under the circumstances I have no right to request their return.

Mr. DRYSDALE: What I am actually trying to find, Mr. Chairman, is what the committee considers to be the scope of our reference. There were three other organizations which were to come before the committee as recommended by the steering committee—the national research council, the defence research board and the Canadian Broadcasting Corporation. Perhaps this might be an opportune time for the steering committee to examine the scope. My difficulty is that I may be going outside of what the public accounts committee thinks their scope of examination is, but since I am unable to ascertain what the scope is I do not know whether I am outside or inside it.

The CHAIRMAN: The scope is set forth in the terms of reference. Could we try to get this information for you by letter or would you insist on examining the persons? I see your point; you want the fullest possible information, and if you want it you should have it.

Mr. DRYSDALE: I am not trying to impose my will on the committee, but we should either take a good look at it or we should forget about the whole thing.

Mr. WINCH: We are not going to have time to look at what was the original decision of the committee, and we will have to drop some of the ones we were going to interrogate, especially so if we are going to have to get through the Auditor General's report in the time that is left.

The CHAIRMAN: Our basic duty, the steering committee feels, is the Auditor General's report and the Canada Council. We had hoped that we covered Polymer sufficiently. With regard to the C.B.C., the National Research Council and Defence Research Board we felt that if we were to get out of here by July 1, it would be impossible to consider them this year.

Mr. DRYSDALE: Perhaps to get out of it delicately, could I refer these documents and suggestions I have made to the steering committee, and since they are responsible for the apportionment of time, if they would consider there is time available after we have cleared up what they consider matters of prime importance, that consideration be given either to recalling or calling some of the witnesses anew; or if they consider the questions I asked relevant, and if time is not available, that a letter be directed to the Polymer Corporation.

The CHAIRMAN: Agreed.

Mr. HELLYER: Is Mr. Drysdale moving that the offers be produced?

Mr. DRYSDALE: I think there was a recommendation of the steering committee which you have placed before.

The CHAIRMAN: There was a recommendation of the steering committee, and I ruled after that that this information be not produced.

Mr. HALES: Let us proceed.

Mr. HELLYER: Personally, I do not like to see Mr. Drysdale's initiative being stifled in this.

Mr. DRYSDALE: I can assure you Mr. Drysdale's initiative is never stifled.

Mr. WINCH: I do not see how it can be stifled; we have been on this thirty-five minutes.

The CHAIRMAN: Mr. Ian Stevenson, the Assistant Auditor General, is replacing Mr. Henderson. Mr. Stevenson, maybe you would like to say a few words to the members of the committee?

Mr. IAN STEVENSON (*Assistant Auditor General*): Mr. Chairman, the Auditor General asked me to express his regret at being unable to be in attendance at this meeting of the committee. He had an engagement of long standing to address the members of the Institute of Internal Auditors at their 20th international conference which is being held in Montreal this week.

The CHAIRMAN: We had asked for a certain amount of information with regard to paragraph 51 regarding the number of medical student officers who had been subsidized and had been released earlier than the completion of the contractual agreement. This was a question by Mr. Benidickson.

Mr. E. B. ARMSTRONG (*Deputy Minister of National Defence*): Mr. Chairman, the total number enrolled under the plan since its inception is 296. The number who have been released before they have completed their obligated service is 27.

The CHAIRMAN: Are there any questions, gentlemen?

On paragraph 52, there was a question from Mr. Hellyer asking for further explanation in the case of pension referred to in that particular paragraph.

Mr. ARMSTRONG: Mr. Chairman, as I understand Mr. Hellyer's question, he wished to have some background starting at the time of the first loss in 1957. The first loss amounted to $1,756.51 which was a shortage in the ship's canteen account—that is the non-public funds, not in the public funds. This loss was investigated by the commanding officer and there was no formal board of inquiry in connection with that loss. The supply officer in question became aware of the shortage in May 1957. He apparently believed that it was due to an error somewhere in the accounts and he did not report it. In the meantime he wrote to the various suppliers with whom the canteen account had been dealing in an attempt to determine if there had been any duplicate payments, and so on. However, he did not succeed in finding any errors in the accounts.

When the inspectors of supply and accounting arrived at his establishment in October, he reported the shortage in his accounts to them. They conducted an audit of the account and confirmed that there was a shortage of non-public funds in the amount of $1,756.51. They were unable, as a result of their audit and examination, to determine the cause or account for that loss. The supply officer then voluntarily offered to make up the shortage and borrowed sufficient funds from the bank to do so, thus bringing the non-public fund account into balance.

The commanding officer's investigation revealed that the supply officer had had a good record. He apparently had been rated somewhat better than average over the years, and as a result that ended the action. He was posted to another establishment shortly thereafter and continued his duties as a supply officer.

The second loss which occurred in 1958 followed a very similar pattern to the first one. Again, the supply officer became aware of the shortage some two or three months before he reported it and apparently endeavoured to find the error in his accounts. In this particular case the command supply officer discovered the shortage, and the supply officer thereupon admitted that there was a shortage in his accounts and that he had known about this for the last couple of months. Again the shortage was in the non-public fund account—in the canteen account, and not in the public account. In this case there was a formal board of inquiry in respect of the loss, and the inquiry resulted in the conclusion that the loss was due to the negligence of the supply officer who was in charge of the accounts.

Mr. MCGEE: What was the order of the second loss?

Mr. ARMSTRONG: $1,695.39. They found also that the loss had been discovered by the supply officer in August of 1958, but he had not reported it. They also reported that the supply officer was hospitalized and placed under medical treatment for severe hypertension for a period of approximately five weeks following discovery of the loss.

Mr. HELLYER: This was after the first or after the second loss?

Mr. ARMSTRONG: After the second loss. The board of inquiry expressed the opinion—and mind you this is merely an opinion—that the negligence and inefficiency in handling the fund appeared to them to be largely the result of a disturbed mental and nervous state on the part of the supply officer, which apparently was related to the condition of hypertension for which he was subsequently hospitalized. In this case the administrative deduction in the full amount of the loss was made against the supply officer concerned, and $375 odd was recovered from the credit in his pay account. The balance, as we noted last week, is being deducted from his pension on a monthly basis.

I think one of the members wished to know whether this officer had served in the public service. All of his service was in the navy. He joined as a boy seaman on April 4, 1938 and served continuously in the navy until his release following this shortage. At the time of his release he had just about 22 years' service.

In respect to the pension, does the committee wish me to explain a little bit about the rules of the pension at this point?

Mr. BELL (*Carleton*): I think it would be well to hear them.

The CHAIRMAN: I believe Mr. Hellyer is interested in that aspect.

Mr. ARMSTRONG: In the case of compulsory retirement for personal inefficiency, there is a statutory entitlement to pension where the member of the service has ten or more years service, regular force service, for payment of a pension reduced by one-half until the contributor reaches the age of 65, and reduced by one-third from the age of 65, on. Treasury board has the discretion to approve up to a full annuity in these circumstances where the minister recommends that it is in the public interest, by reason of good and faithful service rendered by the contributor before his inefficiency arose, that an annuity be paid. To deal with the application of that section of the act, a formula has been developed under which that portion of a normal annuity which bears the same relationship to a full annuity that the term of "good and faithful service" bears to the contributor's total pensionable service is normally recommended. In other words, if the man had 20 years of good and faithful service and 22 years total service, as in this case, the recommendation would be for 95 per cent of his normal pension. His normal pension is 2 per cent for each year of service of the average pay and allowances for six years.

On voluntary retirement the act provides that in respect of men—that is, other than officers, other than commissioned officers—a man is entitled upon voluntary retirement to a pension if he has 20 or more years regular force service. Between 20 and 25 years service the pension is reduced by 5 per cent for each complete year that the service in the regular force is less than 25 years. In other words, at 20 years service on a voluntary retirement, he would be entitled to 75 per cent. Then it goes up by 5 per cent each year until he reaches 25 years, at which time he is entitled to 100 per cent of the full pension.

In the case of officers, they are entitled to a pension on voluntary retirement if they have 25 or more years regular force service, and in their case the annuity is reduced by 5 per cent for each full year by which the age at retirement is less than retirement age.

Mr. HELLYER: When you say "less than retirement age", is that the uniform across-the-board retirement age for rank?

Mr. ARMSTRONG: Retirement age for rank.

There is a third section which deals with voluntary retirement, and that provides that an annuity may be granted at the discretion of the treasury board—this applies to both officers and men—where the total regular force service is ten or more years service. In this case the annuity is reduced by 5 per cent for each full year by which the age at the time of retirement is less than the retirement age, again for the rank. This is subject to certain directions under the act. The annuity may only be paid where the minister recommends that the contributor's retirement on a voluntary basis is in the public interest, and that it is in the public interest that an annuity be paid. This provision was included in the act for the purpose of providing a basis for voluntary retirement with an annuity, to take care of marginal situations where an individual may have an offer of a position of public importance, where

it is agreed that he should be released from the forces to take it up; or perhaps an individual coming up to retiring age, with a year to go, has an opportunity again to take a position of some significance. It provides a basis on which he can be released on a voluntary basis.

There are not very many retirements under this section. It has been in force roughly for a year and a half, and in total since it has been in force I believe there have been about 14 releases under that section.

Perhaps the important thing, the significant thing, to remember about the defence services pension and the key difference here between the type of pension arrangement which is provided and those that normally apply to civilian occupations, is that first of all retirement in the armed forces is, of course, at a much younger age than applies in a civilian occupation, and the pensions provided under the terms of the act are normally available only under the circumstances when the man has completed a required period of service in the armed services, and is compulsorily retired.

Now, as I have pointed out, there are provisions for voluntary retirement in two cases, essentially, and then the special one—where a man has completed 20 years, or an officer has completed 25 years.

In other cases, if a man retires voluntarily he gets a return of contributions. In other words, he has to stay in the force for that period of time to earn and receive a pension. If, on the other hand, circumstances arise where he is retired on a compulsory basis, then if he has had ten years regular force service he is normally granted a pension. In the case of the individual we are dealing with, he had 22 years service, of which 20 were service to which the term that is used here "good and faithful service" applied, and as a consequence he was granted a pension even though he was retired for inefficiency.

Mr. HELLYER: Going back to 1957, you state there was no formal inquiry. Is there a policy in respect of the amount of loss or shortage which necessitates a formal inquiry?

Mr. ARMSTRONG: There is a policy. In the case of theft there is always an inquiry, and a board of inquiry as a rule. Now, in this particular case, there was an inquiry by the commanding officer and there was, of course, an audit. Then the individual said: "I will pay the shortage that has been disclosed"—and having regard to the man's past record, and the fact that he had reinstated the amount of shortage, and the third fact that the auditors, having looked at it, were unable to find any evidence of misappropriation of funds, the officer in question did not convene a formal court of inquiry. In the ordinary course of events—this, I think, was an exception—there should have been a formal court of inquiry rather than simply a commanding officer's inquiry in this case; but it having proceeded on this basis and the money having been refunded, and there being little possibility of producing any evidence, any new evidence, that would be of any value, it was decided not to proceed with the formal court.

Mr. HELLYER: Is it natural for a man to wish to make restitution of $1,756 which has disappeared due to circumstances, unexplainable circumstances, beyond his control?

Mr. ARMSTRONG: I think you could answer that question as well as I can. This is a matter of opinion, I suppose.

Mr. HELLYER: Was this question of the commanding officer's investigation relayed to headquarters, and was it given consideration there?

Mr. ARMSTRONG: Yes, it was conveyed to naval headquarters here in Ottawa.

Mr. HELLYER: Did the inquiry show the following year, whether, in fact, the back flow of $1756 had been paid off?

Mr. ARMSTRONG: I do not recollect that the inquiry specifically showed that it had been paid off. I suspect it had because the individual did not have any substantial debts at the time of the 1958 inquiry. Moreover, he had received a small legacy in the meantime of about $900 or $1,000 I think.

Mr. HELLYER: This would be the legacy which had been applied to this?

Mr. ARMSTRONG: I do not really know, to tell you the truth, but I am telling you what did happen.

Mr. HELLYER: I am restraining myself from making some extraneous observations.

Do you feel that the exercise of the treasury board discretion in this case was a good precedent for a case of this type, where really the nature of the details of the situation is more or less indeterminate?

Mr. ARMSTRONG: When you say the details of the case are more or less indeterminate, I think certain factors were clear. One is that the man had served satisfactorily for 20 years and, in going through the history of his confidential reports and other things, he was considered to be somewhat above average as an officer, so that fact was available. Then, the second set of circumstances or facts was also available, that he had been short in his accounts twice in a period of two years, in which the circumstances resulting in that shortage were never adequately explained. That is the part I think you are saying was indeterminate—and that is true, they were not satisfactorily explained.

On the other hand, the man was suffering from, certainly in the second case, some mental depression arising out of hypertension, apparently, and in the circumstances the standard formula was applied. Had the man, in fact, stolen the money, if this had been the case, then he would have been court martialled, and the discharge in that case would have been for misconduct and he would not have been entitled to a pension; but he might have been granted a pension at the discretion of the treasury board of one-half and two-thirds at age 65, but this was not the case. At least there was no determination of theft, and the conclusion was that this loss was due to negligence.

Mr. HELLYER: This was the formal finding of the particular inquiry?

Mr. ARMSTRONG: That is right.

Mr. HELLYER: That it was due to negligence?

Mr. ARMSTRONG: Negligence, yes.

Mr. HELLYER: And this was due to lack of substantive evidence in respect of any other possible explanation?

Mr. ARMSTRONG: Well, I think in part that is so. Also in part, due to the way the man handled his accounts, he was permitting a good deal of cash transactions in terms of his canteen accounts, where people were paying the bills with cash and not cheques, and this sort of operation may lend itself to some shortages, I think, as you would appreciate. The exact reason for the loss simply was not determined.

Mr. HELLYER: Mr. Chairman, a thing that concerns me here is whether there is any way considering whether the possibility of a person being pensioned—who may in fact have been other than careless, or worse than that, with public or non-public funds—can be tightened up.

It seems to me a rather loose arrangement. Even in private industry, for instance, I do not suspect that a person fired or laid off compulsorily, even after 20 years or 22 years of presumed good and faithful service, would be rewarded so generously. There seemed to be much more generous treatment than would be accorded in most operations outside.

Mr. ARMSTRONG: I think this in part goes back to, perhaps, what I expressed earlier, the basic difference in philosophy between the pension plan which applies to the service and the pension plan you will find normally applying in civilian occupations. As you know, in a civilian pension plan it is normal to vest the contributions of the company and the individual in the individual after a given period of time, and if the man is released, his vested interest in that pension plan remains. Of course, it will remain also if he retires voluntarily. In the armed forces, this is not so. His pension is earned by having put in a career in the armed services in the ordinary course of events. Where he is compulsorily retired, then having put in ten or more years service he may receive a pension, reduced in some respects, depending on the circumstances of that retirement.

Mr. HELLYER: The point is that this is very generous treatment for ten years service under these circumstances, and one of the reasons why I am wondering if it cannot be tightened up in some way is that since this case was made public, for example, I have received communications from one or two sources saying that people have, under some circumstances, deliberately tried to see how far they could go in the armed forces to get themselves retired involuntarily, so that they could get a partial pension and get out into the Canadian economy. I think it is wrong that there should be an incentive under any circumstances for people to try and do this.

Mr. ARMSTRONG: Of course there is an element of risk there. If this is ascertainable, that the man is endeavouring to be released, he of course would not get a pension. On the other hand, if you look at it from the other side, here is a man who has 20 years of service and had built up very substantial interest in his pension which he would get when he reaches retirement age, or if he is medically unfit. In this case he is short in his accounts and the evidence was that this was due to negligence. Now, any substantial reduction in the pension is a very significant penalty. I suppose, $1,000 of pension at that age must be worth $16,000 or $17,000 at least, so that if you cut that back you are imposing a very drastic penalty on a man who has rendered 20 years of good service. Therefore there is a problem here of balance about the universal system of vesting pension.

Mr. BELL (*Carleton*): Surely there is only one issue left before the committee, and that is whether the formula on record as regards the good service or the total service is a sound one or not. I think we have got to the stage where anything else is really irrelevant. There is no question of misconduct on this man's part. He could not have been retired on grounds of misconduct. It appeared there were only two choices. One was to retire him on grounds of inefficiency. The second one was to retire him on grounds that his retirement would promote economy or efficiency. If it had been the latter he would have been entitled to full pension. In fact, it was the former that was used. I think the committee should direct its attention entirely to whether that formula is an appropriate one or not.

Mr. SMITH (*Simcoe North*): There is something else which should not be lost sight of. Presumably, if a court of inquiry had found that there was criminal wrong-doing, he would have been charged with theft. Under the system of law under which we operate, a man is presumed innocent until proved guilty, and since no charges were ever laid in relation to shortage of these funds, I think we must assume that he, personally, was in no way criminally responsible for the loss. We should not lose sight of that fact.

Mr. McGEE: On the other point Mr. Hellyer raised, as regards the treatment by the government as opposed to the treatment the man might receive in private industry, I have a case in mind where a man put in much more than 20 years good service. This particular individual, among other things, developed acute alcoholism in about the 35th year of his service, and the same general principle operated. The man was clearly unable to carry on, but nobody in that particular private enterprise organization was prepared to deprive that individual of the long-term benefits of his pension, and the excellent service he had rendered to the company.

Mr. MORTON: There is one obvious question. If there has been an abuse of this formula there must have been a number of instances which would be apparent. I wonder if Mr. Armstrong has any idea of how many similar cases like this there were. I think from his position he could judge if there had been an alarming increase in such cases.

Mr. ARMSTRONG: There has not been an increase. I think what you are asking me is, since the Pension Act has been altered, has there been an increase?

Mr. MORTON: Of this type, under this formula? Is there any indication that people are taking advantage of this?

Mr. ARMSTRONG: I could not tell you in terms of numbers specifically, or give you a statistical answer; but I could say—this is an expression of opinion, seeing these things from time to time—that the answer is "no", there has not been.

Mr. HALES: In this particular instance, what would it be assessed at, or capitalized at?

Mr. STEVENSON: I think the capitalized value of this pension was of the order of $88,000.

The CHAIRMAN: Do you wish to make a comment, Mr. Stevenson?

Mr. STEVENSON: On the comment made by Mr. Hellyer a few minutes ago, expressing some concern as to the way in which the discretionary authority is being exercised, I wonder whether it would be of interest to consider the wording of paragraph 4 of section 10 of the Canadian Forces Superannuation Act, which is the one which gives the Treasury Board this discretionary authority. In that paragraph discretionary authority is, in effect given to the Treasury Board to make an award up to the full amount of a normal pension. This means that in the case referred to in the paragraph now under consideration, the result was one which I think seemed to members of the committee to be unreasonable—that a man was able to get a pension when he was retired compulsorily in these cloudy circumstances, greater than if he had retired voluntarily. I wonder whether the committee would wish to consider recommending that consideration be given to amending the wording of paragraph 4 of section 10 so as to restrict, if you like, the discretionary authority of the Treasury Board to awarding a pension of up to the amount that would be awarded in the case of a voluntary retirement, but not beyond that.

Mr. BELL (*Carleton*): Would you apply that to all compulsory retirements, Mr. Stevenson? For example, where the Minister of National Defence decides that a man should be retired on the ground that his retirement will promote economy and efficiency? Would you do it in such circumstances?

Mr. STEVENSON: Mr. Bell a contributor who has been retired to promote economy or efficiency due to a reduction in the total number of members of the forces—when he had served for 20 years or more—receives more than a contributor who retired voluntarily. Paragraph 4 of section 10 to which I referred relates the discretionary authority of the Treasury Board to the case

of a contributor who has been retired to promote economy or efficiency due to a reduction in the total number of members of the forces. I was suggesting that, instead, the paragraph might relate the discretionary authority given to the Treasury Board to awarding up to a stated percentage of the amount to which the contributor would have been entitled had he retired voluntarily. Then I think the complaint that has been exercising the committee would be solved, because it would never be possible for a person to be retired in cloudy circumstances and get more than he would have been able to get had he retired voluntarily.

Mr. BELL (*Carleton*): Would that not have the effect of tending to retain people in the service who in fact ought to be compulsorily retired?

Mr. HELLYER: I do not see why it should. If the Treasury Board can award a pension up to the amount that he would get if he retired voluntarily, this other principle seems to me to be even worse. If the people retired involuntarily for one reason or another, they can receive a greater pension than those who have given most faithful service. This means that if you cut down the total amount of people in the armed forces, you would at least weed out the ones least efficient and least useful to continue the efficiency of the armed forces of Canada, and that they would then receive a greater pension than the others. I think the whole principle is wrong.

Mr. BELL (*Carleton*): It seems to me that what would be least likely to happen would be that hereafter all persons who were compulsorily retired would be compulsorily retired on the ground of efficiency and economy, and would thereby become entitled to a 100 per cent pension, rather than to the reduced one, which the Treasury Board now has authority or discretion to grant.

Mr. HELLYER: I suggest it should be limited to matters where they would have received it had they retired voluntarily.

Mr. ARMSTRONG: I would like to say in this connection, if I may, that we have felt in the department that there should be a difference between the amount of payment under circumstances of this kind, where a man retired voluntarily of his own free will, and where a man retires compulsorily, or is retired, compulsorily. Under those circumstances that we are speaking of, it is true that the man was personally inefficient, but there were certain circumstances which perhaps contributed to that personal inefficiency in the way of ill health and so on, although such ill health was not sufficient to base his retirement from the forces.

Mr. HELLYER: Ill health might have been related to his inefficiency.

Mr. ARMSTRONG: It might have been the cause of the inefficiency.

Mr. HELLYER: Or vice versa.

Mr. ARMSTRONG: In circumstances where a man has been in the forces and has put in good service and suddenly, for one reason or another, becomes inefficient, as one of the members has suggested, he may be involved in alcoholism, and in some cases this may result in retirement. When a man comes into the service he is told that when he retires he will get a good pension, but that he cannot retire voluntarily. In the circumstances we have discussed we feel it is not desirable to penalize too heavily.

Of course if a man is compulsorily retired for misconduct he may lose his pension entirely; or if he does get a pension it would be only one-half of the normal pension. So that really all this formula attempts to do is to set up a scale. It is to provide a scale that will be reasonably fair to the individuals concerned. We do not feel that the scale should be applied in the same way in cases of compulsory retirement as it is in cases of voluntary retirement.

The principle here—and the reason for this 5 per cent for each year below the retirement age—is basically to provide that if a man does have enough service to get a pension and if he wishes to retire voluntarily we will not impose a liability on the pension fund, and the 5 per cent knocks the pension down sufficiently so that the pension fund will not suffer substantially.

Mr. HELLYER: Have you a distinction between those retired to promote efficiency and those retired because of inefficiency?

Mr. ARMSTRONG: To promote efficiency or the economy is put in there basically to deal with reductions in establishment, should they occur in the Department of National Defence. If the numbers in the forces are reduced and a man cannot be retired because of age or of ill health, then he falls into this category of retirement to promote economy and efficiency.

Mr. HELLYER: Who would be released first—the most efficient or the least efficient?

Mr. ARMSTRONG: Now you are asking for policy, and I do not think I can answer.

Mr. MORTON: Under circumstances where a person would be retired because of ill health, as in the case of Hand, what pension would be receive?

Mr. ARMSTRONG: If he were retired for the reason of ill health, he would get the regular pension of 2 per cent for each year of service. In this case he would get 100 per cent instead of 95 per cent. That would make it about $2,800.

The CHAIRMAN: Is there anything else on this paragraph? Paragraph 53 was passed at the last meeting. Are there any questions on paragraph 24, "Travel and Removal Expenses"? Have you anything to say, Mr. Stevenson?

Mr. HALES: I had a question on item 3 last time, regarding storage and moving charges.

Mr. ARMSTRONG: Mr. Hales wished to know how much has been paid out for storage in transit charges. I found that this information was readily available for the army, as a survey has just been made by the army. It would have been quite an undertaking to get similar figures for the navy and the air force. Mr. Hales said if the figures for the army could be obtain it would probably meet his need. The total expenditure from April 1, 1960, to March 31, 1961, on storage in transit costs for the army was $212,571.96. The total cost of cartage, and so on, amounted to $3,135,450.38. This represents a little less than 10 per cent.

Mr. HALE: The first figure you gave me was $212,571.96?

Mr. ARMSTRONG: That was for storage in transit.

Mr. HALES: Yes, and the other figure was what?

Mr. ARMSTRONG: The total cost for cartage and moving amounted to $3,135,450.38 for the year.

Mr. HALES: Well, this is a very large amount of money to be spent just because the place to where they are moving is not ready for them. That is the reason for it, is it not?

Mr. ARMSTRONG: Yes, that is the reason; where furniture is delivered to a point and cannot be moved directly into a house—and I think you need to keep in mind here the fact that while this is a substantial sum of money, $212,000, you do have the problem of getting a man from one place to another and getting him into his house as quickly as possible. His family in the meantime has to be located somewhere and you are therefore faced with the bill for hotel and meals.

Mr. HALES: But surely a man would not be moved from one location to another until he had told you he had a house or accommodation to move into. I would not think you would agree to moving him unless he had a home to move into. In other words, you do not move his furniture until he has a place to put it?

Mr. ARMSTRONG: Well, if a man is living in a house and he has to move, he has to take his furniture out of that house and put it somewhere.

Mr. HALES: The greater percentage of this money is spent because a man cannot move into another house right away, so he has to put his furniture in storage. That is how it occurs?

Mr. ARMSTRONG: Yes, the amount would cover such a situation; but when a man's furniture is lifted from where he lives and taken to another place, there may be a lapse of time—perhaps as much as two weeks—before he is able to get into his new house. It may have taken only three days to move the furniture to his new posting, and so he has to put it in storage.

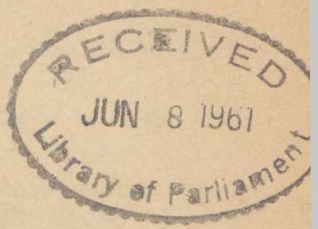
Mr. HALES: I would like to continue this investigation further, because I am not satisfied that this money is well spent.

The CHAIRMAN: Our next meeting will be on Tuesday, May 30. The meeting is now adjourned.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

Report of the Auditor General to the House of Commons—1960

TUESDAY, MAY 30, 1961

WITNESSES:

Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25279-1—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech	Fisher	Pigeon
Bell (*Carleton*)	Grenier	Pratt
Benidickson	Hanbidge	Robichaud
Bissonnette	Hellyer	Rouleau
Bourbonnais	Keays	Smith (*Lincoln*)
Bourget	Lahaye	Smith (*Simcoe North*)
Brassard (*Chicoutimi*)	Macdonnell	Smith (*Winnipeg North*)
Broome	McGee	Spencer
Bruchési	McGrath	Stefanson
Campeau	McGregor	Stewart
Chown	McMillan	Tucker
Danforth	Morissette	Valade
Denis	Morton	Villeneuve
Deschatelets	Murphy	Winch
Drysdale	Noble	Woolliams
Dupuis	Nugent	Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, MAY 30, 1961.
(17)

The Standing Committee on Public Accounts met at 9.50 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Brassard (*Chicoutimi*), Drysdale, Hales, Hellyer, Macnaughton, Morton, Noble, Spencer, Stefanson and Tucker.—12

In attendance: Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; Mr. D. A. Smith and Mr. G. A. Morrison.

The Chairman tabled a letter received from the Vice-President, Polymer Corporation Limited, together with letters patent incorporating the Company; supplemenary letters patent and corresponding documents relating to its subsidiary, (SAF). (*See Appendix "A"*)

The Auditor General reported on his "follow-up" concerning paragraph 59 of his report and filed with the Committee a statement, commenting on the determination of "sale price" for sales tax purposes.

Messrs. Henderson, Armstrong and Morrison were questioned concerning paragraphs 54, 55 and 56 of the Auditor General's Report.

On paragraphs 61 to 64 inclusive, Mr. Henderson, assisted by Mr. Smith, was questioned.

Agreed,—That the Deputy Minister of Public Works be called before the Committee at its next meeting, to be interrogated concerning paragraphs 63 to 65 inclusive.

Mr. Henderson reviewed and was questioned on paragraphs 66 to 70 inclusive.

Agreed,—That the Deputy Minister of Transport be called before the Committee at its next meeting in connection with paragraphs 70 and 71 of the Auditor General's Report.

At 11.00 a.m. the Committee adjourned to meet again at 9.30 a.m., Tuesday, June 6, 1961.

J. E. O'Connor,
Clerk of the Committee.

25279-1—1½

EVIDENCE

TUESDAY, May 30, 1961.
9.30 a.m.

The CHAIRMAN: Good morning, gentlemen. We have a quorum and the meeting will come to order. Now, on this rather dull day shall be proceed?

Mr. HALES: It is a bright day.

Mr. MORTON: I see lots of sunshine.

Mr. DRYSDALE: Mr. Chairman, could you advise us, have you had any report from Polymer as to the letters patent on the parent company and the French company?

The CHAIRMAN: Yes, certainly. I had that as item number two on the agenda, but first of all I was going to ask Mr. Heber Smith, has he anything to report. Mr. Smith, have you anything to report from the subcommittee on the form and contents of public accounts?

Mr. SMITH (*Simcoe North*): Not a thing.

The CHAIRMAN: I beg your pardon.

Mr. SMITH (*Simcoe North*): Nothing. There is nothing to report yet.

The CHAIRMAN: Do you wish to announce any future meetings?

Mr. SMITH (*Simcoe North*): No.

The CHAIRMAN: Things are under control?

Mr. SMITH (*Simcoe North*): Yes.

Mr. DRYSDALE: Mr. Smith does not sound like his usual self.

Mr. SMITH (*Simcoe North*): I thought today we might embark on a policy of brevity.

The CHAIRMAN: Mr. Drysdale, I have received only this morning a letter dated May 26, enclosing copies of the letters patent incorporating Polymer under the Canada Companies Act, and supplementary letters and a copy of the proceedings which is similar to letters patent under the French procedure. With the permission of the committee I should like to have these included as an appendix to the record. Is that agreeable?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: In the meantime, Mr. Drysdale, would you like to look at them?

Mr. DRYSDALE: Yes.

The CHAIRMAN: I believe the Auditor General has a statement to make with regard to paragraph 59.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman, at the May 16 meeting I undertook to obtain an explanation from the Department of National Revenue regarding the question of assessing sales tax on the basis of the wholesale price level, and on a related question by Mr. Broome as to whether sales tax bears more heavily on articles produced in Canada than on articles which are imported. I have been in touch with the Deputy Minister of National Revenue (customs and excise), and he has informed me that he or his assistant would be glad to attend a meeting of this committee to furnish the required information any time the committee pleases. In the

meantime, I have prepared a memorandum dealing with the matter set forth in paragraph 59 in my report, which I could table today if the committee wishes to have it for the information of its members.

The CHAIRMAN: Is that agreeable?

Some Hon. MEMBERS: Agreed.

Mr. HENDERSON: The purpose of paragraph 59 was to draw to the attention of parliament the fact that the Department of National Revenue, in establishing regulations which authorize manufacturers to compute sales tax on less than the actual sale price in certain circumstances was, in my opinion, exceeding the authority provided by the Excise Tax Act. This was also the opinion of my predecessor, paragraph 22 of his 1946 report including:

> *Sales Tax.*—Section 86 (1) of the Special War Revenue Act requires the tax to be calculated on the "sale price" of manufactured goods, but in certain circumstancse the Department of National Revenue collects tax calculated on lesser amounts. Examples are:
>
> (*a*) For the fur manufacturing industry: it was directed that, for purposes of tax computation, deductions of 10 per cent and 37 per cent be made from sales to retailers and consumers, respectively. The object was to reduce all sales to the approximate "wholesale price level" of the industry as a whole.
>
> (*b*) For the carbonated beverage manufacturing industry: it was directed that, although increases in the sale prices had become effective on August 1, 1945, the sales tax (and also the excise tax) was to continue to be computed on the basis of the former prices.
>
> In making regulations such as the foregoing, the department relies on section 99 (1) of the Special War Revenue Act, which reads:
>
> 99. (1) 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.
>
> It is not apparent that authority to make regulations is intended to extend to the purposes above noted.

In the budget speech of April 5, 1955 the Minister of Finance made the following statement with regard to sales and excise taxes:

> my colleague, the Minister of National Revenue, and I are concerned about the present statutory provisions with respect to the base on which the tax rate applies. The problem arises when manufacturers sell to customers at different levels in the marketing process. This and several related questions need careful examination. In view of the nature of the particular problems involved it seems desirable to seek some advice from persons outside the government service. We propose, therefore to invite a small committee including experienced persons in the business world, to study these technical problems with us and to make recommendations.

The first of the terms of reference of the advisory committee as set forth in the letters of appointment was:

> To examine the problem arising under sales and excise taxes where manufacturers sell to customers at different levels in the marketing process and to make recommendations for a definition of a tax base or statutory method of administrative practice designed to equalize approximately the tax payable on goods of like value.

The committee reported to the minister of Finance on January 12, 1956 and its first recommendation was:

> The existing scheme of valuation be continued for the present with statutory sanction.

The committee also recommended that "selling price" receive a statutory definition and a possible wording of such a definition was given.

From the foregoing it will be seen that the concern of the Minister of Finance and the advisory committee, as well as my predecessor, was that the authority provided by the act was not adequate for the practice that was being followed. At no time, however, has there been any suggestion that the department be obliged to change the long established practice. On the contrary, the suggestion has been that the department be provided with adequate statutory authority to do essentially what it is now doing.

As the act now stands, there is technically a shortfall of revenue but I am in agreement with the recommendation of the advisory committee that the existing scheme of valuation be continued for the present with statutory sanction. If the public accounts committee could at this time see its way clear to endorse this recommendation, I feel that this would be a step in the right direction.

The CHAIRMAN: May I interject here, gentlemen, that according to my calendar we shall be meeting on June 6, 13, 20 and 27, which gives us four more meetings. We have a long way to go and I was wondering if we could speed up the business a bit and try to finish within the next three meetings, so that we would have the last two weeks in June in which to prepare our report, on the assumption that we will be out of here on July 1. Is that agreeable?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: We were dealing with paragraph 54, item 3, and Mr. Hales was seeking further information.

Mr. HALES: Yes, Mr. Chairman, I asked Mr. Armstrong if he had got the answers to a few questions. The first question asked was as to whether he could give us the amount of storage and transit charges for any of the years previous to the one he mentioned at the last meeting?

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): Mr. Chairman, in answer to Mr. Hales' question, the storage and transit charges for the period April 1, 1959 to March 31, 1960 amounted to $146,018.96.

Mr. HALES: Have you figures for any other year besides that?

Mr. ARMSTRONG: These particular records separating these costs were first started on June 1, 1958, and the charges for the period from June 1, 1958 to March 31, 1959—

Mr. HALES: The first figure you have given compares with the one you gave us the other day of approximately $212,000?

Mr. ARMSTRONG: The other figure covers the period from April 1, 1960 to March 31, 1961. The figure I have just mentioned covers the previous year.

Mr. HALES: What I am trying to establish is whether it is going up or coming down.

Mr. ARMSTRONG: Well, it has gone up. It was higher in the last year. The figure I gave you before was $212,000. The figure for the previous year was $146,000, and I may add that the figures vary directly in relation to the weight of the furniture. In the last year, that is April 1, 1960, to March 31, 1961, there were 8,282,393 pounds of furniture involved, and in the previous year there were 6,413,562 pounds.

Mr. HALES: That is sufficient on that. Now, will you please give the largest single account for any one transfer?

Mr. ARMSTRONG: The largest single account in the year 1960-61 was $388.50.

Mr. HALES: What was the date of that, and the reason for it?

Mr. ARMSTRONG: The date of that move was August 8 to August 25, 1960. The person involved was a man with the rank of major and he was posted from Kingston to Ottawa. The reason for the added charges was that he could not find a suitable accommodation and therefore it was necessary to put his furniture in temporary storage.

Mr. HALES: Suitable accommodation could not be found for the major, but had he to be moved right away?

Mr. ARMSTRONG: That is right. He moved from Kingston to Ottawa and it was not possible for him to locate accommodation immediately. There were 17 days during which his furniture was in storage awaiting accommodation.

Mr. HALES: He could stay at a hotel. A lot of people have to do that. Did he stay at a hotel as well?

Mr. ARMSTRONG: Presumably he would be staying at a hotel in any case, since he was here in Ottawa without accommodation.

Mr. HALES: And he was only moved from Kingston to Ottawa, a very short distance?

Mr. ARMSTRONG: From Kingston to Ottawa, in this particular case.

Mr. HALES: Could he not commute?

Mr. ARMSTRONG: Well, it is a rather long distance to commute from Kingston every day. It is a two and a half or three hour drive.

Mr. SMITH (*Simcoe North*): Is not part of the problem, Mr. Armstrong, having to give up accommodation at the other end? His previous accommodation has to be surrendered at the date he leaves?

Mr. ARMSTRONG: That is the problem. We normally move the man and his family together, but there are different variations of how the move could be made. You could, of course, leave the family where they are and move the man and pay his expenses in his new location until he finds a house, and then move his family. However, you would still have storage charges, because the furniture takes longer to move than the individual. The other possibility is to pay the expenses for moving the man and his wife to the new location and let them try to find accommodation together. We have looked at all of these things. Where we have a lot of moves and many of them are for great distances, we think that the way we do it is the most economical one; that is, to follow the principle, by and large, of moving the man and his wife together and pay interim lodging and allowances for the period in which it is necessary to do so, while he is finding accommodation. Of course, there are limitations in this as to how long. If necessary we pay the said charges. The said charges are a normal part of most moves, except where the furniture is being moved out of long term storage in which case we would leave the furniture in storage until the accommodation is available.

Mr. HALES: I am satisfied. I do not wish to labour the point any further.

The CHAIRMAN: Thank you, Mr. Armstrong.

Subparagraph (4).

Mr. HENDERSON: This was the first time that there had been occasion for naval officers to go to Centralia and it was not certain how much time would be involved in the duties there. Both the officers continued to be responsible for duties at headquarters which necessitated their returning to Ottawa whenever possible. The department agreed with us that it would have been more economical to have sent both officers on temporary duty rather than on appointment, and action was accordingly taken to recover allowances paid while in Ottawa, and the amounts were in due course repaid in full.

The CHAIRMAN: Are there any questions?

Subparagraph (5).

Mr. HENDERSON: The mistake in this case was that the officer was posted in "travel status" instead of being given an appointment in Vancouver. As a result of the case having been brought to notice, the responsible naval officer stated that the policy of making appointments when the period of duty is in excess of thirty days would be enforced in future. The comment regarding this item ends by stating that we had been informed that recovery was being effected. This has since in fact been done, the officer in question having refunded the $974 travel allowance which he had been paid.

The CHAIRMAN: Are there any questions? This recommendation is to the effect that there should be an improvement in the regulations. What do you mean by that?

Mr. HENDERSON: It should be stated that in accordance with our usual practice all cases such as those itemized in this paragraph are drawn to the attention of the department by the auditor in the hope of achieving recovery where possible as well as bringing about improvement in the regulations. I would like to add here that we feel that the departmental officers concerned have in fact cooperated with us by giving the most careful attention to the various points which have arisen and have acted promptly in seeking revision of regulations and effecting recovery wherever possible.

I would be interested in knowing what other views Mr. Armstrong might care to add. Where improvement can be brought about in the regulations, we most certainly would like to see it done.

Mr. ARMSTRONG: I do not think I have anything to add. Of course, we welcome comments on the regulations. Obviously, in drafting regulations of this kind it is possible not to cover all the circumstances. When things are brought to our attention, where we feel it is justifiable we certainly make the changes. I do not think I have anything to add to what the Auditor General has said.

Mr. SPENCER: These were brought to light only as a result of a test examination. There must be other cases which have not been brought to light.

Mr. ARMSTRONG: This, of course, is not the only source of information in regard to operations that are not entirely satisfactory. As I pointed out previously the treasury office audits these accounts. We have a certain amount of audit in our own department. When anything is brought to our attention as a result of this which would warrant a change in the regulations, we take action to make the change.

Mr. HENDERSON: It might be of interest if I asked Mr. Morrison, the acting audit supervisor in charge of National Defence, to say a few words.

Mr. G. A. MORRISON (*Acting Audit Supervisor*): We had certain other categories which we reported to the deputy minister. An illustration might be the case of men returning from overseas who had exceeded the weight limits. One case which I remember was of a person who had fifteen large packing cases which greatly exceeded the amount he could bring back. Also we found some duplicate and overlapping claims.

Mr. HALES: How thorough is your audit of this department? Are you the only one who checks the audit of the Department of National Defence, or do you have helpers?

Mr. MORRISON: Mr. Armstrong has explained that the treasury department does a pre-audit of all charges; that is a statutory audit. In turn, the department has an auditing division. In the case of travel, their transportation officers are charged with checking the travel. Therefore, across the board, there is a pretty effective audit. I will admit that some irregular payments probably get through which are not caught. There are probably 300,000 travel claims in the course of a year. No doubt a few get through.

Mr. HALES: Do you have any assistants—any men who assist you.

Mr. MORRISON: We have a staff of three working almost continuously on travel claims.

Mr. HENDERSON: I might mention that at a previous meeting this point was covered. I think I informed the committee that during the year some 200 cases of the type mentioned in paragraph 54 were referred back by us to the chief treasury officer for attention. For the most part these were straightforward breaches of the regulations or mistakes in preparing claims. In most cases refunds were obtained.

Mr. SPENCER: I am sorry; I did not hear the last part of your statement.

Mr. HENDERSON: I said that in most cases refunds were obtained after we had discussed the cases with the chief treasury officer and with officers of the department.

55. *Interim allowances for lodgings and meals on transfer.* When members of the forces with dependents are transferred from one place to another they are entitled, by regulation, to be reimbursed for expenditures incurred for lodgings and meals for periods required to find living accommodation and complete the moves. The maximum daily rates for lodgings and meals are based on costs at commercial establishments and vary according to the rank of the serviceman and the size of his family. Normally reimbursement is made for a period up to 21 days, but this may be extended in special circumstances. During the course of the audit a number of cases were observed where liberal application of the regulation seemed to confer benefits beyond what was intended:

1. While staying with relatives:

   Cases were noted where substantial payments were made for accommodation provided by relatives. For example, an officer with two dependents was paid $374 to cover the cost of his lodgings only, in the home of his parents for 34 days.

2. While awaiting possession of purchased accommodation:

   Experience has shown that rented accommodation can usually be obtained within the normal interim allowance period of 21 days. However, instances were noted where servicemen were paid interim allowances for 35 days—in one case amounting to $908—while awaiting possession of homes purchased at new duty locations.

3. While awaiting redecoration of home:

   An officer during a tour of duty outside Canada rented his home and upon his return decided to repair and redecorate it. He was paid $267 in interim allowances during a period of 19 days while he and his family occupied temporary accommodation.

When the first two classes were drawn to the attention of the department, instructions were issued calling for greater care and discretion in future before such reimbursements were made. In the last case, the department considers that the officer was entitled to the allowance in question.

Mr. HENDERSON: Paragraph 55 notes that ordinarily members of the forces who are transferred are reimbursed for expenditures they incur for periods of up to twenty-one days while looking for new accommodation. Three cases are listed here in which more liberal allowances were made in circumstances which did not seem to warrant it. In the last sentence of the paragraph it is indicated that the department agreed with our view in the first two classes

of cases, but in the third case the department continues to feel that the officer was entitled to the allowance in question; that is to say, the allowance while awaiting repair and redecoration of his home.

The CHAIRMAN: Have you any comment, Mr. Armstrong?

Mr. ARMSTRONG: I do not think I have any further comment.

Mr. BELL (*Carleton*): What about the particular comment in respect of item 3?

Mr. ARMSTRONG: In respect of item 3, this was an instance where the individual was posted back to the place where he owned a house. During the period he had been serving away from that location he had rented the house. When he came back it was necessary for him to do a considerable amount of repair work to the house which had become necessary during his absence. He was not able to move into the house until the repairs were completed. In this case we took the view that it was appropriate for us to pay his interim lodging during that period. I think the period amounted to nineteen days. Some men buy their own homes and when they are away on a posting rent them. One of the hazards in renting a home is that when you come back you may find it requires considerable repair work to make it habitable again. That was the case here. Had he been a man who was renting a home, he would have had to find a home to rent in Ottawa—I believe this was Ottawa—and we would have paid his interim lodging. We felt it was appropriate and fair to the man in this case to pay a period of interim lodging while he was having done to his house things which were necessary with regard to the occupancy of his home after having come back from a posting away.

Mr. BELL (*Carleton*): Was the repair work to the house such that the house was uninhabitable upon his return?

Mr. ARMSTRONG: I suppose this would depend on what one would be prepared to accept.

Mr. BELL (*Carleton*): Most of us have had to put up with the awkwardness of having repairs done in a home and continue to live in it.

Mr. ARMSTRONG: This involved repairs to the floor and plaster, all of which was quite extensive.

Mr. NOBLE: Had he asked for permission to have this work done before he proceeded to do it?

Mr. ARMSTRONG: It was not necessary to have permission to have the work done.

Mr. NOBLE: He incurred this bill which he expects the department to pay. Did he ask permission to vacate his home and have the department pay the bill before he went ahead with it?

Mr. ARMSTRONG: He did not vacate the home; he was away and the home was rented. When he came back, before reoccupying the home it was necessary to have these repairs done. We, of course, did not pay for the repairs.

Mr. NOBLE: But we paid the $267. What I am trying to find out is this: did he ask permission of the department for this payment before he went ahead and took these other premises at an expenditure of $267? Was this bill paid by him before he requested permission to incur the bill?

Mr. ARMSTRONG: I cannot answer with certainty. However, I think it would be safe to say that he did not ask for permission in advance, but would rather submit his bill for the interim lodging together with the reasons.

Mr. NOBLE: Is this a common practice?

Mr. ARMSTRONG: No; I do not think one could say it is a common practice.

Mr. HALES: Would you also pay storage on the furniture in this case?

Mr. ARMSTRONG: I am not sure. It would depend on where the furniture was.

Mr. HALES: It would be a pretty safe guess.

Mr. ARMSTRONG: If it were in long term storage we would not pay the storage because it would have been moved out when the house was rented.

Mr. SPENCER: Did his family accompany him overseas?

Mr. ARMSTRONG: If he were overseas, his family would accompany him.

Mr. SPENCER: He would receive an extra living allowance overseas.

Mr. ARMSTRONG: Yes. The amount would depend on where he is located and the type of job he has overseas.

Mr. SPENCER: So he would receive that help and also the rent on his place at home?

Mr. ARMSTRONG: The two things are quite separate. The amount payable while he is overseas is to meet the expenses incurred on account of that particular posting.

Mr. HENDERSON: I think there was storage in this case. I have some notes which say something about $300 storage in transit.

Mr. HALES: I think it is time we tightened the reins a bit in this department. As Mr. Bell says, it seems that if it were you and I we would have to move into the house, move our furniture in, and get along as best we can.

When the government pays the shot these people seem to have regard only for their own wishes in these things. I think our committee will have to make some pretty strong recommendations in this regard.

Mr. MORTON: I wonder in this case was it a sudden movement of someone from overseas back home, so that he would not be able to give the people living in his house their notice.

Mr. HENDERSON: Could you add anything to that, Mr. Morrison? Can you answer Mr. Morton's question?

Mr. MORRISON: I was just checking my papers. Could you repeat the question, please.

Mr. MORTON: The question was whether this was a sudden move from overseas back home in such a way as to prevent giving notice to the tenants, so that the house could be prepared sooner, or were the tenants under some sort of lease which prevented them getting out sooner?

Mr. MORRISON: I do not think it would be a sudden move. The officer would be well aware in advance of the move, and anyway he would be in a position to give the tenant notice after he arrived back in Ottawa. When he arrived back he found the house in rather poor state of repair and at that time decided he would have it renovated.

Mr. HALES: It is his own personal property, and it is up to him to make these arrangements himself.

Mr. HENDERSON: The officer in question had been posted to Washington and while he was away he had rented his home. When he returned it needed cleaning, repairing, redecorating, and generally required to be made fit for occupancy. The question then arose as to whether an interim allowance should be paid after delivery of his furniture to Ottawa, and also whether some $300 storage charges in transit should be accepted as a charge to public funds.

Mr. TUCKER: How long was the house rented? What period?

Mr. HENDERSON: Unfortunately, I do not have any more details with me, but I can let you have more information later. We would be able to obtain it from the files of the department and report back.

Mr. ARMSTRONG: I would assume it would probably be a three year posting.

Mr. TUCKER: A three year posting?

Mr. ARMSTRONG: Very likely.

The CHAIRMAN: Is there anything else, gentlemen?

Mr. HENDERSON: I might just mention, on the question of interim allowances while staying with relatives, that my attention has been drawn to a step in the right direction in the form of a treasury board minute which was passed as recently as May 11. It amends the Removal Expense Regulations, which apply to civilian employees of the Department of Defence and, without going into details, it appears the per diem rate has been set at a level of $4.50. I think that is correct, is it not?

Mr. ARMSTRONG: That is right. That, of course, only applies to civilians. It is not applicable to members of the forces.

The CHAIRMAN: We shall go on to deal with paragraph 56.

56. *Reimbursement to servicemen for lease termination payments.* The Department of National Defence is faced with a difficult administrative problem in dealing with servicemen who, having entered into leases for housing accommodation, are transferred to other localities or are ordered into departmental quarters prior to the expiration of the leases. In such cases, the department may, by regulation approved by the Governor in Council, reimburse the servicemen for the amounts paid to terminate their leases up to a maximum of three months' rent.

Lease termination payments approximate $500,00 annually and the department's problem is to balance the cost to the public with the protection which should be afforded the servicemen. A serviceman is left free to make his own arrangements with his landlord in respect of both the term of the lease and the manner of its termination, and it appears that many landlords, being aware of the regulation, demand the maximum amount before agreeing to terminate the leases. No administrative responsibility is assumed for arranging sublets where the vacated premises are rented by landlords to other servicemen. In fact some landlords anticipate this situation by incorporating in their leases a provision under which they may arbitrarily refuse to accept a subtenancy.

Mr. SMITH (*Simcoe North*): On paragraph 56, what steps are taken, or what are the mechanics of seeing that reimbursement to servicemen is a legitimate reimbursement? Do they have to produce a lease or settlement form?

Mr. ARMSTRONG: They have to produce a lease and the settlement that has been agreed upon. Under the regulations, there may be reimbursements up to three months rent, based on evidence that in fact servicemen have to pay this charge.

Mr. SMITH (*Simcoe North*): If I may comment very briefly on this, I wish to point out that the matter of rent payments for soldiers being transferred is a source of continual irritation in our part of the country. Most of the leases are monthly leases and of course, notice should be given on the anniversary date or payment date. However, we found soldiers in Camp Borden are being continually given advice that they can give their notice any time in the month, so long as they give a month's notice, no matter whether it is an anniversary date or not. They then find themselves in the division court, and discover the advice they have been given is quite wrong in law. Then everyone is angry and the soldier, in addition to one month's rent, has to pay two weeks' more rent plus the division court costs.

Mr. ARMSTRONG: This is the first time I have heard about that. Have you any idea where this advice is coming from?

Mr. SMITH (*Simcoe North*): I presume it comes from adjutants and unit officers. It is to them it is usually attributed when a case comes to a country law office.

Mr. ARMSTRONG: I would be very much disposed to examine that and see if incorrect advice is being given.

Mr. SMITH (*Simcoe North*): It is a continual source of irritation, and not only does it cost the soldier money but it also costs the army money.

Mr. DRYSDALE: Could there be any provision made whereby you would have an examination of the lease made by, say, a departmental solicitor before the agreement is entered into, making that a condition prerequisite to the three month refund period? I suggest this because you have indicated some of the difficulties as to sub-tenancy and as to termination.

Mr. ARMSTRONG: I am not sure if I understand your question correctly but, if I do, you are suggesting there should be a clause in the lease which provides for termination with a month's notice. Is that what you have in mind?

Mr. DRYSDALE: That would be one aspect, and I also suggest an examination of the lease by the department, to see whether or not it provides the necessary flexibility, considering the type of service the man is engaged in, and the likelihood of his being moved very quickly.

Mr. ARMSTRONG: We do that now. The lease signed by the individual in the ordinary course of events will usually be the same sort of lease that the landlord is making civilians sign. The question really revolves around our ability to get leases of a peculiar nature, or something different to the standard sort of lease, from the landlord. It certainly would be possible to produce a clause that we could say to the serviceman: "Have this inserted in your lease", a clause providing for termination within a period of one month, two months or whatever might be selected. That, of course, would depend on the market, and would perhaps impose a penalty on the serviceman in that it may become more difficult for him to rent property because of the necessity to insert that particular clause.

Mr. DRYSDALE: I think this is presumably related directly to areas where there is this high turnover of personnel, where the landlord is used to having servicemen coming in, and where the lease is a little bit tighter than normal. That is the difficulty I should like to try and see overcome, especially in regard to subtenancies.

Mr. ARMSTRONG: I do not think it is right to say the leases of servicemen are tighter than normal.

Mr. DRYSDALE: That is the implication in this paragraph.

Mr. ARMSTRONG: We have not been able to determine whether the leases are not standard form. In the ordinary course of events, if a man signs a lease for a year, or for whatever the period may be, if he leaves his accommodation he has an obligation for the balance of that lease. It is, I think, fairly standard practice to accept some arrangement whereby he may get out of the lease, and that standard practice normally involves three months rent. This is what has given rise to the particular comment. I certainly agree it would be possible to say we would not reimburse more than one month or two months' rent, and tell a serviceman: "You should endeavour to get a special clause in your lease".

If we do that, then the serviceman has to contend with whatever handicap it puts in his way towards getting suitable accommodation, and at as reasonable a price as he can get it. It is a question of judgment as to what is a reasonable price.

Mr. DRYSDALE: It is inferred in the paragraph that the landlords are taking advantage of the regulations. I wonder has the auditor general any comment to make?

Mr. HENDERSON: You are touching on a point that perhaps the committee would see fit to take a position on, because we are paying three months' rent and, as you see, it amounts to $500,000 a year. The R.C.M.P. lease form only provides for a thirty day termination clause. Whether their circumstances are the same or not, I cannot say, and perhaps Mr. Armstrong could speak on that. In the United States armed forces no provision exists for payment of any compensation, and perhaps we should take a leaf out of their book.

Mr. ARMSTRONG: So far as the mounted police are concerned I have checked with them on this. Apparently they have little or no problem, presumably because they do not have the volume of movement we do, and there are other factors involved. In fact, they told me they had only one case in the last couple of years. In so far as the United States are concerned, the position as outlined by Mr. Henderson is that laid down by federal law. In this country, of course, this particular subject is governed by provincial law, but in the United States there is a law which prevents the charging of rent for termination of leases of servicemen. As I understand it, it is a federal law.

The CHAIRMAN: Surely, Mr. Armstrong, in these cases if the department may, by regulations approved by the governor in council, reimburse up to a period of three months, then obviously the private house owners are going to demand three months rent?

Mr. DRYSDALE: Why do you not make it one month?

Mr. ARMSTRONG: As I have said, we could make it one month and, if we do, I think the serviceman is put in the position where, in order to protect his own interests, he must insist that there be a provision in his lease allowing him to break it at one month's notice. If he does that he may be handicapped in getting accommodation, and he may have to pay more because his selection may be limited. This is a question of judgment.

Mr. DRYSDALE: Could you give us an indication of the number of cases where the full three months' rent was demanded, where two months' rent was paid, or where one month's rent was paid?

Mr. ARMSTRONG: I do not have the statistics on that.

Mr. DRYSDALE: There is no breakdown of this $500,000?

Mr. ARMSTRONG: I do not know. I do not know if the Auditor General has that.

Mr. HENDERSON: We do not have that.

Mr. DRYSDALE: Then I am wondering how much control you have on this particular amount, since you have no breakdown.

Mr. ARMSTRONG: We only pay when the serviceman involved has had to pay, and when he has produced documentary evidence that the payment has been made.

Mr. MORTON: It seems to me the biggest difficulty is that there is evidence of an attitude amongst servicemen and landlords that they can make these leases, and the government will give them three months' rent on the breach of such leases. I think some of these leases are entered into a little carelessly, because they have the attitude that the government will bail them out of the situation.

I think if the servicemen were better advised by their units as to the type of lease they were getting into, and if they were given any indication that they were going to be transferred sooner than they thought, then the leases could be made more favourable for termination purposes. I know that in some areas it is difficult to get accommodation without a lease, but the evidence indicates that in certain areas leases are loosely entered into, due to the feeling that the government will help when it comes to the time to bail out. I am afraid some landlords are taking advantage of the situation, almost to the point of a racket.

Mr. ARMSTRONG: That, of course, is a matter of opinion. My own information, so far as the serviceman is concerned, is that he does endeavour to avoid that payment. Neither does he enter into this in a loose fashion, in the belief or understanding that, after all, the government is going to pay for termination of his lease.

Mr. DRYSDALE: But this amounts to $500,000. That is half a million dollars and you say you have no breakdown.

Mr. ARMSTRONG: I said we had no breakdown on the basis of how much is paid for three-month terminations, two-month terminations and one-month terminations.

Mr. DRYSDALE: That information would give an indication whether the regulations were being abused or not.

Mr. ARMSTRONG: We only pay when there is a legal obligation that the payment must be made.

Mr. DRYSDALE: There may be a legal obligation because the servicemen have entered into tight leases, as I suggested earlier. That could be prevented if there were an examination of the lease by an officer in the department.

Mr. ARMSTRONG: The lease is examined to see if it is a legal payment.

Mr. DRYSDALE: But only after the lease has been signed.

Mr. ARMSTRONG: You can say: "Only pay a month", and insist on every lease having a clause in it enabling a serviceman to terminate it at one month's notice but, as I have said, that simply inhibits to some degree his ability to get accommodation.

Mr. DRYSDALE: I suggest that the lease be studied and examined before it is signed, and not afterwards.

Mr. ARMSTRONG: Surely it is not necessary to examine the lease before it is signed? That would be an enormous administrative task. We would require to have every lease sent in for examination, and I suggest it would be simpler to say: "We will only pay one month's rent". However, in doing so we may be making it difficult for the serviceman to get accommodation.

Mr. HELLYER: Is it not a fact that the situation with regard to accommodation has changed very substantially in the last two years or so? Heretofore rented accommodation was in short supply and landlords were inclined to be discriminating, but with increased accommodation becoming available, landlords are more than anxious to take tenants, even on a month to month basis. It seems to me, Mr. Chairman, that while this in fact might have been a protection to the serviceman, and an assistance to him at a time when there was a seller's market in respect to accommodation, now that situation has been reversed and the necessity for this provision has disappeared.

Mr. ARMSTRONG: I think this is exactly the point, that it depends on the rental market. If you have a market which is in favour of the buyer you can impose things that you cannot do otherwise. Maybe circumstances have sufficiently changed so that one could successfully do this.

Mr. HALES: Mr. Chairman, I think we have covered this to the point where it is quite evident that moves are very costly, and are costing the department a lot of money. Therefore, I should like to ask have any steps been taken to restrict the number of moves which you are making in the department?

Mr. ARMSTRONG: Yes, steps have been taken. I think the committee is aware that over the past two or three years arrangements have been made for lengthening postings. The postings overseas, as you recall, were increased from two years to three years in the case of the army, and from three years to four years in the case of the air force. Also, the average period between postings has been increased quite substantially. I think it has been increased close to a year within the last two or three years.

Mind you, however, there are limits to which you can go in this field because you have to fill the positions that have to be filled. Some of them are in isolated places, in fact a considerable number of them, and you cannot leave men in such places indefinitely.

Mr. DRYSDALE: How many leases does this $500,000 represent?

Mr. ARMSTRONG: I do not know offhand.

Mr. DRYSDALE: Are there any particular areas in which the leases are clustered?

Mr. ARMSTRONG: I do not think so. They are spread pretty well across the country.

Mr. DRYSDALE: But you do not have any information?

Mr. ARMSTRONG: No.

Mr. DRYSDALE: I think our difficulty, Mr. Chairman, is that we have not got any factual information on the situation, to enable us to assess it in an objective fashion.

The CHAIRMAN: Mr. Armstrong, why is it that the storage figures have gone up?

Mr. ARMSTRONG: As I said before, this is related directly to the weight of the furniture, which in itself has increased, but because of what I am not sure. I presume the men may gradually be accumulating more furniture. At one time the figure for the average weight of furniture was 4,000 lbs, but now we are working on a figure of 4,500.

The CHAIRMAN: May I ask what is perhaps a rather naive question? Would it be possible for your department to have a draft form of lease? If you are contracting with D.P.W. you are given a form of contract which is normally standard and covers most details, and I am wondering would it be possible to have a draft form of lease such as that?

Mr. ARMSTRONG: I think it is possible to have a draft form of lease, or what is much simpler, a draft clause which must be inserted in the leases. I do not think there is anything which prohibits us doing that, but again you see the real question is how does this affect the serviceman's ability to rent accommodation at reasonable prices? That is the question which I think really needs to be answered. We have been turning this over in our minds in the department, and it seems to me the answer lies in the direction of taking an arbitrary decision to say that instead of reimbursing three months' rent we shall only reimburse two months' rent, or perhaps only one month's rent. We could implement that, if necessary, by providing a subclause which could be inserted in the leases, but we have been endeavouring to find out how this will effect the servicemen. Is it going to put them in a more difficult position?

Also, it must be remembered that the serviceman is in a rather difficult position anyway, by reason of his job which requires him to move frequently, which is indicated by the fact that we spend a lot of money on movements. A move is also an expensive operation for the serviceman himself, and these expenses mount up when it is necessary for him to move fairly frequently from place to place.

Mr. DRYSDALE: Mr. Henderson, do you have any of the information I was trying to get as to a breakdown of this $500,000?

Mr. HENDERSON: I do not have it here. I suppose, from what has been said, it could be obtained by examining all the files in the department. Is that not true, Mr. Morrison?

Mr. MORRISON: I might add that there are certain areas of the country in which we notice the whole three months' rent is generally paid. These areas include Ottawa, Kingston and Halifax. These are the places where the three months' rent is inevitably paid.

Mr. DRYSDALE: That was the information I have been trying to get. I think the committee cannot make a suitable recommendation until it has this basic information as to the number of cases involved, the location of the cases, and the number of cases in which the landlords have refused to accept sub-tenancies. We need that information in order to assess the scope of the situation. It may well be that this is an entirely reasonable amount, taking all those circumstances into consideration.

Mr. ARMSTRONG: I can make arrangements to provide the committee with this information, if the committee so wishes.

Mr. DRYSDALE: That will probably involve more time and expenditure.

Mr. HENDERSON: Does Mr. Morrison's answer furnish sufficient details?

The CHAIRMAN: Mr. Drysdale, what you want are the areas?

Mr. DRYSDALE: All we see is that there is $500,000 spent, and there is no breakdown given of that.

Mr. MORTON: Mr. Chairman, I do not think there is much use spending more money investigating what has happened, but I think we should try to devise some machinery to examine this thing in the future. I think there is much merit in what Mr. Drysdale has said to the effect that in a situation where service personnel have to enter into a longer term lease rather than monthly notice, that the adjutant of that unit, or some similar officer, give some sanction to that because he would be able to know whether or not such personnel would be there that long. If he knows they will not be, then he can discourage such a type of lease. There will be circumstances in which he will not know, but he, perhaps, would be in a better position to know than would the person concerned. If a lease had to be given such initial approval, then when the person concerned is unable to break off the lease the government would be more justified in making some termination allowance. There have been situations indicated to me in which the personnel knew darned well they would not be there for a year and yet they entered into a lease for a year and have received a certain allowance. These things could be avoided and the tendency of persons taking advantage of the situation eliminated.

I do not know whether or not this would be a burden on the units concerned; I do not know whether or not there is much turnover in this regard. However, I think it would be well worth looking into, rather than going to the expense of digging out facts and figures from the past. I think the military personnel themselves could give an answer to this and could do it very quickly.

Mr. DRYSDALE: The reason for the facts and figures from the past was in order to assess whether or not there is a problem. I do not know that there is a problem. First of all you have to ascertain whether or not there is a problem and then assess the remedial measures. I do not know, for example, how many landlords refuse to sublet under circumstances where there is going to be a long term lease.

Mr. MORTON: I do not know that the committee can sit in judgment. I think it is up to the officials. Surely we can trust them to assess the situation rather than have them dig up past figures.

Mr. ARMSTRONG: Of course most leases do have a clause which permits the subletting of the accommodation. Normally the landlord must agree to the new tenant. It does involve some difficulty, of course, because normally the serviceman in the first place does not have the time to find a new tenant. If he does find a new tenant, he remains responsible under the lease. If the new tenant departs somewhere in the course of the lease, then he is responsible again to find a new tenant. The subletting is really not a very good way to handle this problem. It is extremely difficult for a man who is posted perhaps 2,000 miles away to hold the responsibility for subletting.

The CHAIRMAN: May I suggest, in as much as Mr. Henderson has filed a statement in respect of paragraphs 57, 58 and 59, and paragraph 60 was dealt with at a previous meeting, that we go on to paragraph 61.

61. *Extra cost resulting from seemingly insufficient consideration given before constructing boat harbour.* In June 1957, the Department of Public Works called for tenders for the construction of a boat harbour at Erieau, Ontario, intended mainly for the use of local fishermen. As a result of delays in acquiring land for the site, the contract had not been awarded by October 4, 1957, when a petition signed by a group of the fishermen was received by the department, requesting that the plans for the harbour be revised. Accordingly the department decided to defer the project.

On December 3, 1957, a second petition, signed by another group of fishermen, requested the department to proceed with the original contract. The firm that had submitted the lowest tender agreed to undertake the work at the tendered price of $154,545 and the contract was awarded to it on January 30, 1958.

On April 14, 1958, a third petition renewed the request that the plans be changed and, on April 29th, the contract was cancelled. The plans were then revised and new tenders called and in due course a contract was entered into with another contractor for the construction of the harbour on the basis of the revised plans, at a cost of $192,526.

Meanwhile, $61,890 of expenditures had been incurred by the original contractor prior to the cancellation of the contract, and this sum was reimbursed to him in August 1959 and charged to the appropriation for "Ontario —acquisition, construction and improvements of harbour and river works" (vote 340). It was noted that $43,417 of this amount represented materials later used on the revised project, leaving $18,473 as the extra cost resulting from insufficient consideration having been given to alternative plans before proceeding with the project.

The CHAIRMAN: I believe Mr. Henderson has a statement on this paragraph.

Mr. HENDERSON: At the last meeting, Mr. Drysdale asked for information regarding provisions included in contracts entered into by the departments, regarding the basis of settlement when a contract is cancelled by a department. I find that the form of indenture used by the Department of Public Works in connection with works projects provides that the department may "at any time before the final acceptance of the works, order... the whole or any portion of the works to be dispensed with". The relative section provides that the decision of the department as to the amount to be paid as the result of an order to diminish the work shall be final. The indenture also provides that "if the whole or any portion of the works be dispensed with no compensation shall be claimed by the contractor for any loss of anticipated profits in respect thereof".

Similar provisions are contained in the construction contract form used by the Department of Transport. I am informed that a proposed standard form for all construction contracts currently is under consideration by a treasury board advisory committee on contracts.

I think that is the information you were asking, Mr. Drysdale.

The CHAIRMAN: Gentlemen, at this stage may I request, Mr. Armstrong having finished his duties, that we thank him and give him congé.

Mr. HENDERSON: I do not know whether or not there are any further questions in respect of paragraph 61.

The CHAIRMAN: Paragraph 62.

62. *Expenditure caused in advance of parliamentary sanction.* On November 29, 1958, a treasury board minute authorized the Minister of Public Works to purchase a property in Vancouver, and directed that the expenditure be

chargeable "against funds allocated for this purpose in the 1959-60 Estimates—'Post Office station E, Vancouver, B.C.' ". The minute provided that interest would be payable at 5 per cent of the purchase price of $50,000 from the date of the conveyance until the date of final settlement. Title to the property was acquired on February 18, 1959. Interest for the period from that date until May 31, 1959 was included in the payment which was then made and charged against the appropriation for "acquisition, construction and improvements of public buildings—British Columbia" (vote 329).

The acquisition of the property in this way, in advance of the provision of funds for the purpose, lacked conformity with the restriction contained in section 13 of the Public Works Act that "nothing in this Act authorizes the minister to cause expenditure not previously sanctioned by parliament, except for such repairs and alterations as the necessities of the public service demand". Moreover, as a result of the action taken, interest costs were incurred to the extent of $699.

Mr. HENDERSON: The main point in paragraph 62 is that the property referred to was acquired in advance of funds having been provided by parliament and contrary to the specific prohibition which is contained in section 13 of the Public Works Act. In this connection, in the last sentence you will see that as a result of the action taken, interest costs were incurred and paid to the extent of $699. I found this rather interesting, because I understand from my predecessor that the public accounts committee in the United Kingdom always has frowned on interest payments being authorized in circumstances such as these. I think he made several statements before this committee in years past on this point.

Mr. BENIDICKSON: Have you any references in respect of the previous comments made by your predecessor?

Mr. HENDERSON: I do not have them handy.

The CHAIRMAN: He was always very insistent on authorization first and payment second.

Mr. HENDERSON: Yes.

Mr. BELL (*Carleton*): We hope Mr. Henderson will be also, and we are sure he will be.

Mr. HENDERSON: Thank you.

The CHAIRMAN: Paragraph 63.

63. *Dredging operations for the benefit of a private interest.* In September 1959, a private company requested the Department of Public Works to carry out dredging operations over its marine railway slip adjacent to the public harbour at Liverpool, N.S. Although the request was refused initially, the department finally agreed to do the work and the cost, amounting to $4,281, was charged to the appropriation for "dredging—maintenance and operation of plant and contract and day labour works" (vote 347), instead of being recovered from the private company for whose benefit the dredging had been done.

Mr. HENDERSON: Paragraph 63 largely is self explanatory.

Mr. HELLYER: Before we leave 62, was the title conveyed to the crown before the vendor was reimbursed in full? Is that the purport of this?

Mr. HENDERSON: I believe it was.

Mr. D. A. SMITH (*Audit Supervisor*): Yes. Title was conveyed to the crown in February of this particular year, but payment was not made to the vendor until the latter part of May.

Mr. HELLYER: It is a most peculiar arrangement from all sides.

Mr. DRYSDALE: British Columbia is a most peculiar province.

Mr. HELLYER: I think I have to rest my case there, Mr. Chairman.

Mr. HENDERSON: In respect of paragraph 63, the dredging operation at Liverpool, I think it speaks for itself. I do not know whether or not the members have any questions on it. I would think that any explanation in respect of this would have to be given by an official of the department.

The CHAIRMAN: Would it be your desire to call the deputy minister? We have several cases here involving the same department.

Paragraph 64.

64. *Questionable charge for construction of protection wall.* Among the 1959-60 appropriations for harbours and rivers engineering services under the Department of Public Works was vote 345 which reads:

> Remedial works where damages are caused by, or endanger, navigation or federal government structures; and the completion of protection works already under way.

Costs of $9,245 were incurred during the year under a contract entered into, in the amount of $20,264, for closing a gap in existing protection walls at Lac Megantic, P.Q. The existing works had been built by the government partly in 1936 and partly during the period from 1949 to 1956.

There appears to have been no question of any damage having been caused by or endangering navigation or federal government structures, the department relying on the words "completion of protection works already under way" as justification for undertaking the work. Our interpretation of the wording would restrict work to what is required to be done to complete a project which had been in progress at the end of the preceding fiscal year.

Mr. HENDERSON: On paragraph 64, Mr. Chairman, the report is that the Department of Public Works relied on the phrase "completion of protection works already underway" in the wording of vote 345 as permitting expenditures during the year in closing a gap in a retaining wall that had been built partly in 1936 and partly during the period from 1949 to 1956. In the audit office we felt that such an interpretation seemed to stretch the meaning of the phrase "completion of protection works already underway". The phrase in question has been deleted from the text of the corresponding 1961-62 vote, so no similar problem will arise in the future.

Mr. BELL (*Carleton*): Effect is really given to the Auditor General's representations on this point.

Mr. HENDERSON: Yes. I would certainly say so, in respect of the wording in the 1961-62 vote.

Mr. DRYSDALE: Who would we get the money from if we wanted to get it back.

Mr. HENDERSON: I think perhaps that is a question we should ask the deputy minister.

Mr. HELLYER: I take it that we will call someone to give us more information in respect of paragraphs 63 and 64. I think there are some questions implicit in this report which should be gone into a little more fully.

The CHAIRMAN: Is it the desire of the committee to call the Deputy Minister for the next meeting?

Mr. MORTON: If a difficulty which has been pointed out is remedied, is there anything further this committee can do? If there is an advantage in bringing evidence to show how we can remedy a situation in the future, then we should have the people here; but if the situation has been remedied, then it is another matter.

Mr. HELLYER: I think that while Mr. Morton's comment applies to some extent to paragraph 64, it does not cover the points raised in paragraph 63.

I think we should find out the name of the private company which made representation to have the work done and also the other details.

Mr. HENDERSON: There also is an interesting point which comes up in respect of paragraph 65 on which the Deputy Minister might be consulted.

The CHAIRMAN: I would suggest we ask the Deputy Minister to be here. It is always possible for people to make a few mistakes, but that does not excuse us for not checking.

Paragraph 65.

65. *Inadequate settlement re damages to wharf.* In June 1959, the government wharf at Sturdies Bay, B.C., was damaged by a tanker which struck it while making a landing. The cost of repairing the wharf was $1,956.

When the Department of Public Works sought to recover the cost from the tanker's owners, they offered only $1,174 in settlement, being 60 per cent of the estimated original cost of the damaged portion of the wharf. This was on the grounds that the wharf had an estimated life of 15 years of which six had elapsed. The department accepted the settlement notwithstanding the fact that it is usual to recover the full cost of restoring damaged facilities, without taking depreciation into consideration.

Mr. HENDERSON: Again this is self explanatory. I thought the committee might wish to recommend that in future there be no exception to the general rule that departments seek to recover the full cost of restoring damaged facilities.

Mr. MORTON: If the Deputy Minister is going to appear, let us leave 65 and get on with 66.

The CHAIRMAN: Paragraph 66.

66. *Adjustment of pension to ex-member of R.C.M.P.* Subsection (2) of section 27 of the Royal Canadian Mounted Police Superannuation Act, c. 34, 1959, provides that:

> All claims for pension under this part shall be dealt with and adjudicated upon in like manner as claims under the Pension Act, and all provisions of the Pension Act not inconsistent with this part apply *mutatis mutandis* in respect of any claim under this part.

Section 20 of the Pension Act requires that any amount collected in respect of damages be taken into account in fixing the amount of a disability pension.

A constable injured in an automobile accident received $5,000 in settlement of a civil action and was subsequently granted a disability pension for life. A review of the file indicated that the settlement had not been taken into account in fixing the pension. On attention being drawn to the case, administrative officers advised that payments were being suspended pending adjustment of the pension.

Mr. HENDERSON: The pension referred to in this paragraph remained in suspension until April 1961, by which time the overpayment which had been made up until the time of the suspension was fully recovered. The pension was then reinstated at a lower amount. The matter has been appropriately adjusted.

The CHAIRMAN: Paragraph 67.

67. *Charges for annual fee for membership in international organization.* Vote 380 for the Department of Trade and Commerce reads:

> Departmental administration, including fees for membership in the international organizations listed in the details of the estimates. . . .$2,636,084.

Included in the details was an item for "international sugar agreement fee $8,500". This was to provide for Canada's share of the expenses of the international sugar council for 1959. The share actually amounted to $7,993 and

was paid in April 1959, but the appropriation was charged with an additional payment of $7,818 in March 1960 for Canada's share of the council's expenses for 1960. This made a total of $15,811 charged to the appropriation in the fiscal year 1959-60. Although the fees of the member countries become payable to the council at the beginning of the calendar year for which they are assessed, Canada's practice, since 1954, had been to make payment only after April 1, when funds became available for each fiscal year.

The desirability of Canada paying its annual fee when due cannot be denied, but in view of the fact that Parliament provided a specific amount of $8,500 to cover the fee payment in 1959-60, we are of the opinion that no sum should have been paid in excess of that amount in the absence of a supplementary appropriation provided for the purpose.

Mr. HENDERSON: This paragraph draws attention to the payment in 1959-60 of membership fees in an international organization beyond what was listed in the detail of the estimates.

The CHAIRMAN: It is the same thing. It is something which had been paid, in excess of the amount shown, in the absence of supplementary parliament sanction.

Mr. HENDERSON: That is correct.

Mr. HELLYER: What is an international sugar agreement?

Mr. DRYSDALE: That is a sweet question.

Mr. HENDERSON: It is Canada's membership in the international sugar council which splits up the allocation of world sugar supplies.

The CHAIRMAN: Paragraph 68.

68. *Contracts with Colombo Plan experts.* At March 31, 1960 there were 33 persons, including a number of civil servants on leave without pay from their regular positions, under contract with the Department of Trade and Commerce to act as technical experts in connection with Canada's Colombo Plan technical assistance program. Fees payable under these contracts were based on the expectation that they would be subject to income tax, and a clause in each contract required the technical expert to repay a stated amount should the fees not be taxable under the laws of Canada.

In some cases where technical experts were classed as non-residents and therefore not taxable, failure by the department to amend taxation clauses in the agreements, when periods of service were extended, placed such persons in a position to bargain. In one instance where an agreement covered a period of service of 24 months and provided for a repayment of $3,000 in the event that the fees proved not to be taxable, the period of service was extended twice before the repayment provision was amended. Then when the department wished to amend the agreement to provide for repayment of $10,500, the expert refused to sign and the department finally agreed to an amount of $4,900 plus two-thirds of any amount in excess of $4,900 that the taxation division might refund to the expert. It is not yet known what the actual benefit to the expert may have been.

Obviously the system of including in the fee an amount which is to be refunded in the event that income tax is not payable is cumbersome and lends itself to abuse. If compensation is to be paid for income tax, it seems logical that reimbursement should be made only on production of the tax assessment notice and evidence of payment of tax.

Mr. HENDERSON: This paragraph draws attention to the difficulties which arise in settling the remuneration of Colombo Plan experts, under the present practice of establishing fees on the assumption that the income therefrom will be subject to tax and then seeking to recover portions of the fees in instances where the income is not subject to tax. The point is put forward, in the last

sentence of the paragraph, that it would be better for the department to pay lower fees to the experts in the first instance, on the assumption that income tax ordinarily would not have to be paid by them, and reimburse an expert on the basis of adequate documentation, in a case where he does in fact have to pay income tax.

It seemed to us that the members of this committee might wish to make a recommendation that consideration be given to providing such a basis of settlement along these lines.

The CHAIRMAN: Paragraph 69.

69. *Repairs to landing craft without inviting tenders.* Early in June 1959 the Department of Transport arranged with a Montreal firm with ship repairing facilities to inspect a number of landing craft at Frobisher, damaged by ice during the preceding winter. After the firm had commenced repairs, with departmental concurrence, it was asked to tender for the work involved and quoted a price of $245,415 which was accepted. The repair work was completed before executive approval was sought on August 24, 1959 and granted on September 17, 1959 for entry into a contract covering the work.

This failure to obtain prior approval was contrary to executive regulations governing contracts, but what is of particular concern is that tenders had not been invited by public advertisement for execution of the work, as required by Section 36 of the Public Works Act. It is understood that, in future, repair work of this sort will be given consideration by the department at an earlier stage in order that firms in a position to undertake the work might be invited to tender and a competitive situation thereby established.

Mr. HENDERSON: The situation referred to here is not likely to be repeated in the future, I understand, because the department is proposing in cases where major repairs are likely, to bring the craft out to a port in eastern Canada to do the necessary work.

Mr. TUCKER: Is this the only firm which could do that type of work?

Mr. HENDERSON: That is what we were informed by the officials of the Department of Transport when we took this up with them. It is a Montreal firm.

The CHAIRMAN: Paragraph 70.

70. *Financial consequences of faulty preliminary engineering.* In August 1957, the Department of Transport entered into a contract for development of an airport at Riviere-du-Loup. The lowest tender of $479,965, based on firm unit prices for estimated quantities, was accepted. After the work had been commenced it was found that the runway, the construction of which formed a major part of the project, had to be angled away from the location that had been erroneously staked out under direction of a departmental engineer, and that had been inspected by prospective bidders following the tender call. The correction of the deviation placed part of the runway over a large and deep area of muskeg which had to be removed and replaced with suitable materials, some of which had to be purchased and hauled to the airport. In addition, a hummock of solid bedrock was uncovered outside of graded areas and had to be removed to provide aircraft take-off clearance.

Negotiations with the contractor regarding the increased costs involved led to an amendment of the contract to permit settlement, on a cost plus fee basis, for $725,000. Any advantage that might have been gained from competitive bidding on this project was therefore lost through faulty preliminary engineering work.

Mr. HENDERSON: This paragraph reports a case where, due to error in preliminary engineering work, additional costs had been incurred.

The CHAIRMAN: I am wondering, gentlemen, if you do not think we should have the Deputy Minister as a representative from the Department of Transport here. After all, they have an engineering department and make a mistake like that; surely they could have taken soundings. It seems to me that our purpose is to check up on administration once in a while.

Mr. MORTON: Is that engineer still employed?

The CHAIRMAN: It is possible to make a mistake, but there are quite a few mistakes.

Mr. DRYSDALE: What was the actual difference between the original contract and the amount it was increased by on the cost plus fee basis?

Mr. SMITH: The amount of the fee?

Mr. DRYSDALE: I see that the lowest tender figure was $479,965 and the final cost plus fee price was $725,000. The difference between these two figures would be the increased amount of the price. My mathematical friend Mr. Bell says it is $246,000.

Mr. DRYSDALE: I wonder why, when this mistake was discovered, the contract was not reopened, and why the people bidding on the contract and surveying the situation had not come across the mistake?

Mr. HENDERSON: Can you speak to that, Mr. Smith?

Mr. SMITH: I am afraid, Mr. Chairman, the department would have to answer that question.

Mr. HALES: Mr. Chairman, I think your suggestion is a good one, that we have someone from the Department of Transport and the engineer responsible for this mistake appear before the committee.

Mr. HELLYER: I think some members of the committee should get in in time for prayers this morning, so I move we adjourn.

Mr. DRYSDALE: I think the Liberal party needs them most.

The CHAIRMAN: Our next meeting will be on Tuesday, June 6.

APPENDIX "A"

POLYSAR

POLYMER CORPORATION LIMITED — SARNIA, CANADA

MAY 26, 1961.

Mr. A. Macnaughton,
Chairman,
Standing Committee on Public Accounts,
Room 537 S,
House of Commons,
Ottawa.

Dear Mr. Macnaughton:

At the hearing before the Standing Committee on Public Accounts on May 10th, 1961, we were asked to file with the Committee a copy of the Letters Patent of Polymer Corporation Limited and a translation of the Letters Patent of its French subsidiary, Polymer Corporation (SAF).

In France, the Government does not issue a formal document similar to our Letters Patent evidencing the incorporation of a company. However, a notice of incorporation is published in the Journal Spécial des Sociétés, a publication officially recognized for legal announcements. This notice sets forth the objects of the company, its authorized capital, restrictions on transfer of shares, powers of directors, and other basic information with respect to the company.

Accordingly, we are submitting herewith a copy of the Letters Patent incorporating Polymer Corporation Limited dated February 13th, 1942, and of the Supplementary Letters Patent issued under date of May 16th, 1952 which increased the capital stock of the Company. Also enclosed is a translation of the notice which appeared in the February 25th, 1961 issue of the Journal Spécial des Sociétés with respect to the incorporation of Polymer Corporation (SAF).

Yours very truly,

Stanley Wilk
Vice-President — Finance

LETTERS PATENT
INCORPORATING
POLYMER CORPORATION LIMITED

(As a Private Company)

Dated	13th February,	1942
Recorded	18th February,	1942
Lib. 385	Fol. 295	

"E. H. Coleman"
Dept. Registrar General of Canada.

Ref. No. 109793
AP.

CREST

CANADA

By the Honourable Norman Alexander McLarty,
Secretary of State of Canada.

To all to Whom these Presents Shall Come, or Whom the Same May in Anywise Concern,

Greeting:

WHEREAS, in and by Part I of The Companies Act, 1934, it is, amongst other things, in effect enacted that the Secretary of State of Canada may, by Letters Patent, under his Seal of Office, grant a Charter to any number of persons, not less than three who having complied with the requirements of the said Act, apply therefor, constituting such persons, and others who thereafter become shareholders of the Company thereby created, a Body Corporate and Politic for any of the purposes or objects to which the Legislative Authority of the Parliament of Canada extends, except the construction and working of railways within Canada or of telegraph or telephone lines within Canada, the business of insurance within the meaning of the Canadian and British Insurance Companies Act, the business of a trust company within the meaning of the Trust Companies Act, the business of a loan company within the meaning of the Loan Companies Act, and the business of banking and the issue of paper money, upon the applicants therefor establishing to the satisfaction of the Secretary of State, due compliance with the several conditions and terms in and by the said Act set forth and thereby made conditions precedent to the granting of such Charter.

AND WHEREAS, WILLIAM ANDREW GRESHAM KELLEY AND EDWARD FRANKLIN BORBRIDGE, Solicitors, HELEN LOTHIAN, ANNE ARTHUR, and HAZEL CARRICK, Secretaries, all of the City of Toronto, in the Province of Ontario, have made application for a Charter under the said Act, constituting them and such others as may become shareholders in the company thereby created, a Body Corporate and Politic, under the name of

POLYMER CORPORATION LIMITED

for the purposes hereinafter mentioned, and have satisfactorily established the sufficiency of all proceedings required by the said Act, to be taken, and the truth and sufficiency of all facts required to be established previous to the granting of such Letters Patent, and have filed in the Department of the Secretary of State a duplicate of the Memorandum of Agreement executed by the said applicants in conformity with the provisions of the said Act.

NOW KNOW YE, that I, the said Norman Alexander McLarty, Secretary of State of Canada, under the authority of the hereinbefore in part recited Act, do, by these Letters Patent, constitute the said WILLIAM ANDREW GRESHAM KELLEY, EDWARD FRANKLIN BORBRIDGE, HELEN LOTHIAN, ANNE ARTHUR and HAZEL CARRICK, and all others who may become shareholders in the said Company, a Body Corporate and Politic, by the name of

POLYMER CORPORATION LIMITED

with all the rights and powers given by the said Act, and for the following purposes and objects, namely:—

(*a*) 1. To manufacture, produce, purchase, procure, acquire, import, inspect, store, or cause to be manufactured, produced, purchased, procured, acquired, imported, inspected, stored and to sell, export, realize

or otherwise dispose of and generally deal in synthetic rubber and any goods, chemicals, oils, gasolines, components, substances, machines, tools, articles, apparatus or things which may form a part thereof or may be required or useful or which may seem capable of being useful or convenient in connection therewith or in the production thereof;

2. To acquire or cause to be acquried by purchase, concession, exchange, lease or otherwise and to construct, erect, operate, hold, maintain and manage or cause to be constructed, erected, operated, held, maintained and managed all refineries, factories, shops, stores, depots, foundries, machine shops and other structures and erections necessary or convenient for the carrying on of the business of the company and all other property real or personal necessary or useful for the carrying on of any of the purposes of the company and to lease, sell or otherwise dispose of the same;

3. To carry on any other business which may be capable of being conveniently carried on in connection with the business of the company or calculated directly or indirectly to facilitate or ensure the production of synthetic rubber or any goods, chemicals, oils, gasolines, components, substances, machines, tools, articles, apparatus or things necessary or convenient in connection therewith or in the production thereof;

(*b*) To exercise and perform in Canada or elsewhere such of the powers conferred or the duties imposed on the Minister of Munitions and Supply by the Department of Munitions and Supply Act (being Chapter 3 of the Statutes of 1939 (Second Session) and any amendments thereto) or by the Governor in Council as may from time to time be delegated to the company by the Minister of Munitions and Supply.

The operations of the company to be carried on throughout the Dominion of Canada and elsewhere.

The head office of the company will be situate at the City of Toronto, in the Province of Ontario.

The capital stock of the said company shall consist of One thousand (1,000) shares without nominal or par value, subject to the increase of such capital stock under the provisions of the said Act, provided, however, that the said shares may be issued and allotted by the directors from time to time for such consideration as may be fixed by the directors not exceeding in amount or value in the aggregate the sum of Fifty thousand dollars ($50,000.00).

AND IT IS HEREBY ORDAINED AND DECLARED that the company shall be deemed to be a private company under the provisions of The Companies Act, with the following restrictions, viz:—

1. The shares of the company shall not be transferred without:

(*a*) the consent of the directors, expressed either by a resolution passed by a majority of the board of directors or by an instrument or instruments signed by a majority of the board of directors, or

(*b*) the consent of the shareholders, expressed either by a resolution passed at any annual or special general meeting of shareholders or by an instrument or instruments signed by the registered holder or holders of not less than sixty-six and two-thirds (66 2/3%) per cent of the issued and outstanding shares in the capital stock of the company;

2. The number of its shareholders shall be limited to fifty (50), not including persons who are in the employment of the company and persons who, having been formerly in the employment of the company were, while

in that employment and have continued after the determination of that employment, to be shareholders of the company, two or more persons holding one or more shares jointly being counted as a single shareholder;

3. Any invitation to the public to subscribe for any shares or debentures of the company shall be prohibited.

AND IT IS FURTHER ORDAINED AND DECLARED that any director or directors may be removed from office and one or others elected in his or their stead by resolution passed at a special general meeting of the shareholders.

And it is further ordained and declared that, if authorized by by-law, duly passed by the directors and sanctioned by at least two-thirds of the votes cast at a special general meeting of the shareholders duly called for considering the by-law, the directors may from time to time:

(*a*) borrow money upon the credit of the company;

(*b*) limit or increase the amount to be borrowed;

(*c*) issue debentures or other securities of the company;

(*d*) pledge or sell such debentures or other securities for such sums and at such prices as may be deemed expedient;

(*e*) mortgage, hypothecate, charge or pledge all or any of the real and personal property, undertaking and rights of the company to secure any such debentures or other securities or any money borrowed or any other liability of the company.

Nothing in this clause contained shall limit or restrict the borrowing of money by the Company on bills of exchange or promissory notes made, drawn, accepted or endorsed, by or on behalf of the Company.
That the said WILLIAM ANDREW GRESHAM KELLEY, EDWARD FRANKLIN BORBRIDGE, HELEN LOTHIAN, ANNE ARTHUR AND HAZEL CARRICK, are to be the first Directors of the said Company.

PROVIDED ALWAYS that nothing in these Presents expressed or contained shall be taken to authorize the construction and working of railways within Canada or of telegraph or telephone lines within Canada, the business of insurance within the meaning of The Canadian and British Insurance Companies Act, the business of a trust company within the meaning of the Trust Companies Act, the business of a loan company within the meaning of the Loan Companies Act, and the business of banking and the issue of paper money.

GIVEN under my hand and Seal of Office, at Ottawa, this thirteenth day of February, 1942.

E. H. Coleman,
Under Secretary of State.

SEAL

Department of the Secretary of State
of Canada.

SUPPLEMENTARY LETTERS PATENT

to

POLYMER CORPORATION LIMITED

Confirming By-LAW No. 15 of the Company increasing its capital stock

Dated 16th May, 1952
Recorded 20th August, 1952
Lib. 501 Fol. 170

"H. W. Doyle",
Acting Deputy Registrar General of Canada.

Ref. No. 138291
MD.

Coat of Arms

CANADA

By the Honourable Frederick Gordon Bradley,
Secretary of State of Canada.

To All to Whom These Presents Shall Come, or Whom the Same May in Anywise Concern,

Greeting:

WHEREAS POLYMER CORPORATION LIMITED (hereinafter referred to as "the Company") was duly incorporated under the provisions of Part I of the Companies Act, 1934, by letters patent dated the thirteenth (13th) day of February, one thousand nine hundred and forty-two (1942), with a capital stock consisting of one thousand (1,000) shares without nominal or par value to be issued and allotted by the directors from time to time for such consideration as may be fixed by the directors not exceeding in amount or value in the aggregate the sum of fifty thousand dollars ($50,000.00);

AND WHEREAS it has been established that thirty-four (34) shares without nominal or par value of the capital stock of the Company have been issued and are now outstanding as fully paid and non-assessable;

AND WHEREAS the Company has applied by petition to me, the Secretary of State of Canada, for the issue of supplementary letters patent under the provisions of the said act confirming By-law No. 15, enacted by the directors of the Company on the first (1st) day of May, one thousand nine hundred and fifty-two (1952), and duly sanctioned by at least two-thirds ($\frac{2}{3}$) of the votes cast at a special general meeting of the shareholders of the Company duly called for considering the same and held on the said first (1st) day of May, one thousand nine hundred and fifty-two (1952), increasing the capital stock of the Company as hereinafter set forth;

AND WHEREAS the Company has satisfactorily established the sufficiency of all proceedings by the said act required to be taken, and the truth of all facts by the said act required to be established previous to the granting of such supplementary letters patent;

NOW KNOW YE THAT I, FREDERICK GORDON BRADLEY, Secretary of State of Canada, by virtue of the power vested in me by the said act, and of any other power or authority whatever in me vested in this behalf, do by these my supplementary letters patent confirm the said By-law No. 15 of the Company, duly enacted and sanctioned as aforesaid, increasing the capital stock of the Company by the creation of two million nine hundred and ninety-nine thousand (2,999,000) additional shares without nominal or par value to rank equally in all respects with the said one thousand (1,000) shares without nominal or par value of the capital stock of the Company heretofore authorized, so that the authorized capital of the Company shall be as follows:—

"The capital stock of the Company shall consist of three million (3,000,000) shares without nominal or par value (of which thirty-four (34) shares have been issued and are outstanding as fully paid and non-assessable), provided, however, that the two million nine hundred and ninety-nine thousand nine hundred and sixty-six (2,999,966) unissued shares without nominal or par value may be issued and allotted by the board of directors from time to time to the Minister of Defence Production or his nominee or nominees in trust for Her Majesty the Queen in Right of Canada for such consideration as may be fixed by the board of directors of the Company not exceeding in amount or value in the aggregate the sum of forty-five million dollars ($45,000,000) or such greater amount as the board of directors of the Company may deem expedient and as may be authorized by the Secretary of State of Canada on payment of the requisite fees applicable to such greater amount."

GIVEN under my hand and seal of office at Ottawa, this sixteenth day of May, one thousand nine hundred and fifty-two.

"H. W. Doyle",
Acting Under Secretary of State.

(Seal)

POLYMER CORPORATION (SAF)

Joint Stock Company with a capital of 26.800.000 NF

Head Office

41, Avenue de l'Opéra, PARIS 2°

FORMATION

1. In accordance with a private agreement dated December 12, 1960, at Paris, of which one of the original copies is attached to the original of the declaration of subscription and payment as set forth below, the statutes of a Joint Stock Company have been established and of which an extract follows:

Creation of the Company

A Joint Stock Company which will exist between the owners of the shares hereinafter created and those which may be created subsequently is formed; it shall be governed by the laws in force and by these articles of association.

Object

The Company has as object:

—the manufacture in France of synthetic rubbers and all chemical products and their commercialization in France and out of France;

—the building and the industrial and commercial working of factories concerning such manufactures;
—all scientific and technical researches, obtainment, acquisition, acceptance and transfer of any patents, licences, or processes relating to those manufactures;
—participation in any commercial or industrial operations likely to be connected with the aforesaid object, especially by means of creation of new companies, participating in and entering into any agreements, conventions or contracts;
—and, in general, any commercial, industrial and financial operations and those connected with real and personal estate, directly or indirectly connected, wholly or partially, with the present Company's object or with any similar object or connected therewith.

Name

The Company takes the name of

POLYMER CORPORATION (SAF)

Head Office

The Head Office is fixed at 41 Avenue de l'Opéra, PARIS.

It may be transferred by mere decision of the Board of Directors to any other place in the same City, and anywhere else by virtue of a resolution of the Extraordinary General Meeting of Shareholders.

Duration

The duration of the Company is fixed at 99 years dating from the day of its definitive incorporation, subject to the cases of anticipated winding-up provided for in these articles of association.

Capital

The registered capital is fixed at 26,800,000 NF divided into 268,000 shares at 100 NF each.

Form of the Shares

The shares are registered shares even after they have been fully paid up.

Transfer of the Shares

Transfer of the shares can only take place by a declaration of transfer signed by the transferor or by his authorized agent and entered in a register of the Company.

The identity and the civil status of the parties are proved in conformity with the legal or regulation provisions concerning the transfer of registered shares.

The cost of transfer is borne by the transferee.

Pre-emption Clause

The shares are freely transferable between the shareholders.

Any other transfer or change of ownership either for a valuable consideration or free of charge as well as transfers in kind to assignees, heirs or donees is subject to the approval of the Board of Directors who is never bound to make the reasons for its decision known.

(*a*) In case of voluntary transfer, the shareholder who wishes to transfer all or any part of his or her shares must so advise the Company by registered letter addressed to the head office, indicating the quantity and the numbers of the shares of which the transfer is contemplated, as well as the name, christian names, profession, domicile and nationality of the transferee or transferees proposed, the whole accompanied by supporting documents.

The said declaration constitutes an application for transfer of the shares indicated therein, either in the name of the proposed transferee or transferees, or in the name of any shareholders or any persons likely to exercise the following right of taking over or of pre-emption, or likely to be proposed by the Board.

Within 21 days of receipt of the registered letter from the transferor, the Board of Directors must notify to the former, also by registered letter, its decision on the approval applied for.

If the transferee is approved, the transfer is immediately made in his or her name.

If, on the contrary, the proposed transferee is not approved, the shareholder may withdraw the request. If he or she does not do so within ten days from the receipt of the notice, the Board of Directors must, within fifteen days from the expiry of that period of time, acquaint, by registered letters, the other shareholders with the number of shares to be taken over, with indication of the price fixed by the transferring shareholder in his application for approval, but which, in no case, may be higher than the value fixed by the last annual ordinary General Meeting of shareholders and arrived at by taking into account the capital paid up, the reserves shown on the last approved balance sheet, the increases or decreases of the assets, as well as any losses which have been sustained since the beginning of the financial year, the future prospects, the dividends distributed in course of the past three years and, in a general manner, all the data likely to bring out the fair price of the share.

The shareholders then dispose of a period of ten days for acquainting, by registered letter, the Board of Directors with their intention to acquire all or any part of the said shares, as well as with the price they offer.

The Board thereafter regularizes the transfer to the profit of the shareholder or shareholders who made the highest bid. In case of equality of bids, the distribution of the shares for sale is made proportionately to the number of shares owned by each of them.

If, on expiry of the time fixed, the right of pre-emption (first offer of purchase or refusal) was not exercised for the whole of the shares offered, the transfer would be regularized by the transferor to the profit of the transferee originally proposed by him or her.

(*b*) In case of death of a shareholder, his or her heirs and representatives must, within two months from the day of the death, advise the Company of their names, christian names, profession, domicile, nationality and rights of inheritance, accompanied by all supporting documents, and ask to be accepted in the conditions provided for in the case of voluntary transfer; the registered letter notifying the qualifications and titles of the applicant produces the same effect as the letter of advice from the transferor.

(*c*) Any voluntary or forced sale by auction must, subject to otherwise being null and void, be submitted to the conditional clause of the approval as shareholder of the purchaser by the Board of Directors, or, failing exercise of the right of pre-emption or taking over, the purchaser must, within fifteen days from the auction sale, notify to the Company his name, christian names, profession, domicile and nationality, enclosing an extract of his or her qualifications.

(*d*) In case of gifts *inter vivos*, the donee can only become shareholder if he or she is approved by the Board of Directors, such agreement being submitted to the same rules and conditions as those stipulated in connection with voluntary transfers.

(*e*) In case of change of ownership free of charge, the price of the taking over is always that fixed by the General Meeting.

(*f*) The transfer to the name of the acquirer or acquirers designated by the Board of Directors is automatically regularized on the signature of the President of the Board or of his delegate; advice thereof is given to the holders or persons entitled thereto within eight days from the acquisition, with notice to have to call at the head office for receiving the price of the transfer which is payable in cash and is not productive of interest.

The right of pre-emption or of taking over exercised in the conditions fixed hereabove must apply to the whole of the shares to be transferred, failing which the transfer of the whole of the shares takes place to the profit of the original beneficiaries of the transfer or of the change of ownership.

Members of the Board of Directors

The Company is administered by a Board composed of members, the number of which may not be less than the legal minimum nor more than the legal maximum, taken from among the individuals or bodies corporate who are shareholders and are appointed by the Ordinary General Meeting.

Resolutions of the Board

The resolutions of the Board are recorded by minutes entered in a special register and signed by the Chairman of the meeting and the secretary, or by a director and the secretary or by two directors who attended the meeting.

Copies or extracts of those minutes to be produced in justice or elsewhere are signed either by the President or by the Director who temporarily replaces him, or by the General Manager, or, again, by a director or by the Secretary of the Board.

Proof of the number of directors in office and of their election, of the number of directors present or absent, of the powers given to the representatives of the Companies who are directors, and of the proxies of the directors replacing their absent colleagues, results validly, with respect to third parties, from the enunciation in the minutes of each meeting and in the copies or extracts which are delivered thereof, both of the names of the said directors and representatives present and of the names of those who were absent and not represented.

Powers of the Board

The Board of Directors is vested with the most extensive powers for acting on behalf of the Company and for performing or authorizing all acts and operations relating to its object.

It has, in particular, the following powers of which the enumeration is not limitative:

(1) *Personnel:*

It appoints and dismisses the agents and employees of the Company, fixes their remuneration either fixed or proportional to the profits, as well as the other conditions of their admission and their retirement; it organizes, if it so deems fit, provident and benevolent funds for the personnel.

(2) *Opening of offices, agencies or branches:*

It opens in France and outside of France offices, agencies or branches, changes their places or shuts them down.

For that purpose:

—it enters into, transfers or rescinds, any leases and rentals and accepts transfer of any lease, with or without promise of sale;

—it deals with any work, more especially installation work, or fitting up, and any new buildings.

(3) *Commercial Management:*

It performs all the acts necessitated by the carrying out of the Company's object;

It fixes the conditions under which the operations relating of the Company's object are carried out;

It fixes the general administration expenses;

It authorizes any credit or advance payment;

It authorizes any covenant entered into between the Company and one of its directors.

It supplies any surety bonds;

It signs, endorses, accepts and pays any negotiable instruments;

It causes the opening in any French or foreign bank, of deposit accounts, current accounts or accounts for advances on securities and issues cheques and bills for the working of those accounts;

It collects the amounts due to the Company and pays those it owes.

(4) *Administration of the Company's property:*

It manages the personal and real estate of the Company;

For that purpose:

—it grants or rescinds any leases and tenancies, with or without promise of sale;

—it performs any work and any new buildings;

—it fixes the investment of the available funds, subject to what will be stated hereinafter.

(5) *Acquisitions and alienations:*

It deals with any acquisitions, exchanges and alienation of personal and real estate, it may not, however, initiate the sale of the Company's goodwill.

(6) *Loans:*

It may contract any loans, without limitation of the amount, in the manner and on the terms and conditions it considers suitable; loans by means of issue of debentures must, however, be authorized by the ordinary General Meeting of shareholders. The Board of Directors may, however, on its sole decision, issue debentures up to a nominal amount equal to the double of the nominal amount of the registered capital at the time of the issue.

(7) *Constitution of guarantees:*

It consents to any mortgages, any collateral security delegations, surety-bonds, endorsements and other personal and real guarantees on the Company's property.

It authorizes any priorities or subrogations, with or without guarantee.

(8) *Actions in Justice:*

It institutes any legal proceedings both as plaintiff and as defandant.

(9) *Settlements:*

It authorizes any treaties, arrangements, compromises, acquiescences and waivers.

(10) *Withdrawals:*

It consents to any withdrawals of registrations, seizures, oppositions or other rights, with or after payment.

(11) *Drawing up of the accounts:*

It closes the inventories and the accounts to be submitted to the General Meeting and decides upon any proposal of allotment or of distribution of the profits to be submitted to the shareholders.

Delegation of Powers

(1) The President of the Board of Directors assures under his own responsibility the general management of the Company; the Board may delegate to him, for that purpose, all the necessary powers.

(2) On the proposal of the President, the Board may give to assist him, either one of its members, or an authorized agent chosen outside of its body, who takes the title of "General Manager" and whose powers and term of office are fixed by the Board in agreement with its President.

(3) When the President is prevented from exercising his duties, he may delegate all or any part thereof to a director, preferably a Vice-President; such delegation, which may be renewed, is always given for a limited period.

If the President is temporarily unable to make such delegation, the Board of Directors may proceed thereto as a matter of course, in the same conditions.

(4) No member of the Board other than the President, the director who might be chosen as general manager and the director who receives a temporary delegation as it is stated hereabove, may be vested with managerial functions in the Company.

But the Board of Directors or the President may confer on a director, with option of appointing a substitute, all the powers necessary for carrying out specific decisions taken by them.

Signature of the Company

The acts concerning the Company, as well as the withdrawals of funds and securities, the money-orders on any bankers, debtors and depositaries, and the signatures, endorsements, acceptances or receipts of negotiable instruments are validly signed, either by the President, General Manager or the director temporarily acting in his stead, or by the General Manager, or even by any agents holding special power of attorney, each acting within the limit of their respective powers.

AUDITORS

Appointment—Powers—Remuneration

The ordinary General Meeting of shareholders appoints for three years, one or more Auditors, complying with the legal conditions of eligibility.

GENERAL MEETINGS

Minutes

The resolutions of the General Meetings are recorded by minutes entered in a special register and signed by the Officers of the Meeting, or, at the least, by the majority of them, or by the Chairman of the Meeting and by the Secretary of the Meeting.

Copies or extracts of these minutes to be produced in justice or elsewhere are signed by the President, General Manager or the Director temporarily

acting in his stead, or by the General Manager, or again by a Director or by the Secretary of the Meeting, or by an authorized agent entitled by the Board to do so.

After the dissolution of the Company and during its winding-up, the copies and extracts are signed by the liquidators or, as the case may be, by the single liquidator.

APPROPRIATION AND DISTRIBUTION OF THE PROFITS

Financial Year

The financial year begins on January 1st and ends on December 31st.

Exceptionally, the first financial year will begin on the date of the definitive incorporation of the Company and will end on December 31st, 1961.

Drawing up and communication of the accounts

1. An inventory containing particulars of the assets and liabilities of the Company, a profit and loss account and a balance sheet are drawn up each year.

The inventory, the balance sheet and the profit and loss account are placed at the disposal of the Auditors at least forty days before the date of the annual Ordinary General Meeting and submitted to the said meeting by the Board of Directors.

2. During the fifteen days which precede the holding of the annual Ordinary General Meeting, the inventory, the balance sheet, the profit and loss account, as well as the documents which, according to law, must be submitted to that Meeting and the list of the shareholders, are held, at the Head Office, at the disposal of the shareholders.

Any shareholder may, moreover, at any time of the year, either personally or through an authorized agent, consult or take a copy of all the documents which have been submitted to the general meetings in the course of the past three years and the minutes of those meetings.

Appropriation and Distribution of the Profits

(1) The net profits are constituted by the net proceeds of the financial year after deduction of the overhead expenses and other social charges, as well as any amortizations of the Company's assets and all provisions for commercial and industrial risks.

(2) Out of these profits, are set aside:

—5% for constituting the reserve fund prescribed by law, until this fund has reached one tenth of the registered capital.

—And the amount necessary for paying to the shareholders, as first dividend, an interest calculated at the rate of 5% per annum on the amounts paid up on their shares and not redeemed, without the shareholders being able to claim same out of the profits of subsequent years in the event of the profits of one year not allowing such payment to be made.

(3) Out of the surplus, the general meeting decides, as the case may be, to set aside the amounts for:

—allotting to any reserve funds which might be prescribed by law or by the articles of association;

—allotting to any extraordinary, general or special reserve funds it might decide to constitute;

(4) The remainder, if any, is distributed among the shareholders.

(5) The time, the method and the place of payment are fixed by the annual general meeting or failing same, by the Board of Directors.

The dividends regularly collected cannot be the object of return or of restitution; those which are not collected are forfeited to the profit of the State five years after they are made payable.

II. In accordance with a document received by Maître CHARDONNET, a notary in Paris, on the 5th of January 1961, the representative of the founding company (specially empowered to this effect by a meeting held in the presence of Maître CHARDONNET, a notary in Paris, on December 9, 1960) declared that the 268,000 shares of 100 NF each, which represent the capital of the company have been completely subscribed to without it being necessary to call for public subscription, by 7 physical and juridical persons and that each one of these persons has paid in cash a sum equal to one quarter of the value of the shares to which they have subscribed, that is a total sum of 6,700,000 NF which in accordance with current legal requirements has been deposited by the founder with Maître CHARDONNET, notary, for the account of and in the name of the company in the process of formation with a list of the subscribers showing the amount paid by each one of them.

To this declaration is attached a document prepared by the founder indicating the surname, Christian name, occupation and residence of each of the physical persons subscribing, the name, legal form and Head Office of the juridical persons subscribing, the number of shares subscribed for by each subscriber as well as the amount of money paid in which was equal to one quarter of the value of the shares subscribed for.

III. The founding general meeting held on January 25, 1961, of which an original copy has been deposited with Maître CHARDONNET, a notary in Paris, on February 10, 1961, and has been registered in Paris the 6th notary on the 20th of February 1961, folio 280, no. 1, volume 185 with fees of 428.800 NF, has:

Taken note of, after verification, of good faith of the declaration of subscription and payment set forth above;

Named as first Directors according to the terms of the statutes for a term which will end at the annual General Meeting which will be called to pass the accounts for the first fiscal year:

Mr. Jean-Pierre FONTAINE Assistant Director of a bank, living at Paris, 6, rue de l'Ecole-de-Médecine.

Mr. Roger-Eugène HATCH, Vice-President, living at 351, East Street North-Sarnia (Ontario)—Canada.

Mr. Edwin-Ralph ROWZEE, President and General Manager, living at 580, Woodrowe Avenue—Sarnia (Ontario)—Canada.

Mr. François-Pierre VERNHES, Manager of a company, living at 9, place des Ternes—Paris 17°.

Mr. Stanley WILK, Vice-President Finance, living at 123, Cecil Street—Sarnia (Ontario)—Canada.

Who have accepted their appointments during the course of the meeting.

Named Mr. Julien DUFOUR, living in Paris at 6, rue Henri-Heine, who has accepted the function of auditor for a period which terminates at the date of the general meeting which will be called to pass the account for the fiscal year 1961.

Approved the statutes of the company as they have been established by private agreement on the 12th of December 1960.

And has taken note of the formal establishment of the company, all the formalities prescribed by the law having been satisfied.

IV. At the first meeting of the Board of Directors held on January 28, 1961, the Board appointed Mr. R. E. HATCH, Chairman of the Board and Mr. Sidney KILBANK, living at Strasbourg at 4, rue des Francs-Bourgeois, to the post of Directeur Général.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

Report of the Auditor General to the House of Commons—1960

TUESDAY, JUNE 6, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Major General H. A. Young, Deputy Minister, Department of Public Works; and Mr. J. P. Baldwin, Deputy Minister, Department of Transport.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25281-7—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,
Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech
Bell (*Carleton*)
Benidickson
Bissonnette
Bourbonnais
Bourget
Brassard (*Chicoutimi*)
Broome
Bruchési
Campeau
Chown
Danforth
Denis
Deschatelets
Drysdale
Dupuis
Fisher
Grenier
Hanbidge
Hellyer
Keays
Lahaye
Macdonnell
McGee
McGrath
McGregor
McMillan
Morissette
Morton
Murphy
Noble
Nugent
Pigeon
Pratt
Robichaud
Rouleau
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Winch
Woolliams
Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 6, 1961.
(18)

The Standing Committee on Public Accounts met at 9.36 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Bourget, Brassard (*Chicoutimi*), Broome, Drysdale, Hales, Hellyer, Macnaughton, McGee, McMillan, Morton, Smith (*Lincoln*), Smith (*Simcoe North*), Stefanson, Tucker, Villeneuve and Wratten—18.

In attendance: Major General H. A. Young, Deputy Minister, Department of Public Works; assisted by Mr. L. V. McGurran, Chief Financial Services; Mr. J. P. Baldwin, Deputy Minister, Department of Transport; Mr. A. M. Henderson, Auditor General of Canada; and Mr. I. Stevenson, Assistant Auditor General.

The Chairman introduced General Young and Mr. McGurran, and called for consideration paragraph 63 of the Report of the Auditor General to the House of Commons.

General Young outlined the sequence of events leading to the expenditure by the Department of $4,281 for the dredging of a marine railway slip at Liverpool, Nova Scotia; and was questioned.

On paragraph 64

General Young reviewed the background of the vote under which the Department undertook the construction of a protection wall at Lac Mégantic, Quebec; and was questioned.

On paragraph 65

Mr. Henderson and General Young commented on the Department's procedure in the settlement of a claim in connection with the damage of a wharf at Sturdies Bay, British Columbia.

On paragraph 81, sub-section (1)

General Young was questioned concerning the proposed construction of an addition to the Postal Terminal Building at Halifax, Nova Scotia.

On paragraph 69

Mr. Baldwin was introduced and explained the circumstances surrounding the repair of landing craft at Frobisher Bay, without first inviting tenders.

On paragraph 70

Mr. Baldwin commented on the preliminary engineering in the construction of an airport at Rivière-du-Loup, Quebec. He is to supply the Committee with additional information concerning the deviation between the plans and the staking of the runway.

On paragraph 71

Messrs. Henderson and Baldwin were questioned concerning the financing of aids to navigation on the Canadian portion of the St. Lawrence Seaway.

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On paragraph 80, sub-section (1)

Mr. Baldwin was questioned concerning the dredging of the St. Lawrence River Ship Canal.

At 11.00 a.m. the Committee adjourned to meet again at 9.30 a.m., Tuesday, June 13, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

The CHAIRMAN: Gentlemen, we have a quorum. Let us get started. Rumour has it that we do not have too long to go, so please let us make an effort to try to get through the balance of this report as quickly as possible.

Mr. HELLYER: Explain!

The CHAIRMAN: It is not up to me to explain. The government is still in charge. Now, might we have a report from the subcommittee on the form and content of the estimates?

Mr. SMITH (*Simcoe North*): We hope to have the report for the next meeting of the committee, which will be on Tuesday next.

The CHAIRMAN: This morning we have with us Major General Young, the Deputy Minister of the Department of Public Works, and Mr. L. V. McGurran, Chief of Financial Services of the Department of Public Works. I believe we should start at paragraph 63 and then continue. Paragraphs 66, 67 and 68 have already been discussed and passed.

> 63. *Dredging operations for the benefit of a private interest.* In September 1959, a private company requested the Department of Public Works to carry out dredging operations over its marine railway slip adjacent to the public harbour at Liverpool, N.S. Although the request was refused initially, the department finally agreed to do the work and the cost, amounting to $4,281, was charged to the appropriation for "Dredging—Maintenance and Operation of Plant and Contract and Day Labour Works" (Vote 347), instead of being recovered from the private company for whose benefit the dredging had been done.

Mr. HELLYER: I wonder if the Deputy Minister would give us an explanation of how this came about.

MAJOR GENERAL H. A. YOUNG (*Deputy Minister of the Department of Public Works*): We had just completed a dredging project at Liverpool, dredging out the complete channel. At the conclusion of this dredging, Steel and Engineerings Products Limited made representation that through our dredging we had caused siltation at their marine dock to such an extent that it was impossible to get any ships in for repair. The question then arose, and they indicated they would take legal action. They thought they had a justifiable case. On the one hand, it was the policy that we do not dredge at private docks, and secondly, the over-all dredging that we had done was of considerable benefit to the company. Therefore, it could be expected that they would carry out the additional dredging, even if the siltation had been caused by us. That is the story on the one hand. On the other hand there was no doubt in our mind that the dredging we had done had caused considerable siltation. We were using a dipper dredge, and there is nothing worse to cause siltation than a dipper dredge. This is very different from a hydraulic dredge. We are in the midst of discussing with them some form of compromise which they indicated they would not accept, when the navy made representations to us that they were very concerned, because they wanted to get a tugboat, the *St. John,* in for repair. They could not, and it would cost a considerable amount to move it elsewhere. There were arguments pro and con. It was almost impossible to say to what extent our siltation had caused the trouble, whether it was 30 per cent or 75 per cent. So, having regard to

the urgency of it, and since the amount was small, and since my legal men indicated that certainly we would be assessed part of the claim, I approved the item.

Mr. HELLYER: Were any independent studies made to indicate, or to give you an opinion as to the extent of the damage?

Mr. YOUNG: No, we could not do it, because we did not take soundings of this area before it started. We should have got a release, which we normally do when dredging, but this abnormal problem was not anticipated. So we were not in a position to say whether our siltation caused 30 per cent, or 80 per cent of the trouble, except that ships had been able to go in there before, but were not able to go in after.

Mr. HALES: Had there been any previous dredging done there in former years?

Mr. YOUNG: Yes, around ten years ago.

Mr. HALES: And you did not run into the same problem?

Mr. YOUNG: No.

Mr. HALES: I think your judgment was good.

Mr. YOUNG: I would be interested in the views of the committee, because I have a very similar case in British Columbia at the present time on the Squamish River, where we are dredging for the benefit of some 13 firms. One of the firms had a log pool just adjacent to the river. I think that our dredging has lowered the level of the river and the log pool, and has drained the log pool. They now come to us and say that we should re-dredge the log pool because it was in working order before, and that now we have dredged the river, it is not of any value. It is a cause very similar to this particular project.

Mr. HELLYER: I can understand why you would feel "squamish".

The CHAIRMAN: Why do you not rely on the legal provision of "an act of God"? The point here is that the Auditor General says that although the request was refused initially, the department finally agreed to do the work. I take it that the committee has now received your explanation.

Mr. SMITH (*Simcoe North*): It is a very practical explanation.

The CHAIRMAN: Is there anything else on paragraph 63? If not:

64. *Questionable charge for construction of protection wall.* Among the 1959-60 appropriations for Harbours and Rivers Engineering Services under the Department of Public Works was Vote 345 which reads:

> Remedial works where damages are caused by, or endanger, navigation or Federal Government structures; and the completion of protection works already under way.

Costs of $9,245 were incurred during the year under a contract entered into, in the amount of $20,264, for closing a gap in existing protection walls at Lac Megantic, P.Q. The existing works had been built by the government partly in 1936 and partly during the period from 1949 to 1956.

There appears to have been no question of any damage having been caused by or endangering navigation or Federal Government structures, the department relying on the words "completion of protection works already under way" as justification for undertaking the work. Our interpretation of the wording would restrict work to what is required to be done to complete a project which had been in progress at the end of the preceding fiscal year.

The CHAIRMAN: This is a case where the work, I understand, was started in 1936, and again in 1949 to 1956; and four years later it was completed. So the question is, what is under construction and what is continuing?

Mr. YOUNG: If I might just reply by giving you the background of this problem, it is as follows: During the thirties there was a special vote for protection works and it continued as a regular vote with no restrictions. As the years went by it became known throughout Canada that there was a vote for erosion. By 1954 Mr. Winters, the minister, and I reviewed the problem and came to the conclusion that there had to be some restriction placed on the federal responsibility for protection walls. There was one proposed project on one of the Great Lakes which would run into $1 million. With all the locks, rivers, and streams across Canada, I think there had to be some rule set out or it was just going to be a hopeless job to cope with the requests in respect to erosion. So a decision was made by the government that they would assume responsibility for erosion only where it was due to commercial navigation, or where it was caused by a federal structure. Well, to initiate or to put in a new rule would be unfair and difficult, because many of the projects had been based on a two, three and four-year program. Therefore, to the vote was added "and the completion of protection works already under way". Even with this, it was very difficult to define, because in some cases there were 30 miles of erosion where previously there had been only two or three miles, so it might have gone on ad infinitum. So we established a general policy that if a project was two-thirds completed, we would finish it. It was not as simple as that in many cases.

In this particular problem the protection work started at one end of a village in the thirties, and was carried out through 1940, and a lot was done in the forties and fifties. They started at the ends and worked towards the center, so when the new regulations came into effect, there was a gap of some 400 feet. At first it was thought that we would not have to complete it, and that we would do what we have done in several places, that is, to put in wing-walls and terminate it. But there was one other factor which entered into this particular case; there was a government dock in the gap. So after review, and representations, it was felt that we should really complete the project. That is reason No. 1.

Reason No. 2 was that we had our own federal government dock to protect, because it was right in the gap. So this decision was made. I myself took the responsibility that we should close that gap. The problem, Mr. Chairman, of defining this completion of projects is, of course, now non-existent, because the vote does not refer to the completion of projects.

Mr. HELLYER: Had the federal dock been there for some time?

Mr. YOUNG: Yes, it had been there for some time. It was actually at the end of the work that was done in the thirties and early forties. On the other part of the wall there was a 90-degree bend. The public dock was where the first protection work had terminated, but it was open on the other side.

Mr. HELLYER: Is there much commercial navigation on the lake?

Mr. YOUNG: None at all.

Mr. HELLYER: What is the purpose of the government dock?

Mr. YOUNG: It is there for some shipping, but the erosion had not been caused by commercial navigation. Some fishermen use the dock; but the dock itself could not come under the erosion through navigation provision.

Mr. HELLYER: Is the dock which you would build now a commercial or a federal government responsibility?

Mr. YOUNG: I would doubt it. It might have been so in earlier days, but not today.

Mr. HELLYER: To what extent would there have been damage if this further retaining wall had not been built? What would have been the consequences of not building it?

Mr. YOUNG: You mean as against the dock or against erosion?

Mr. HELLYER: As against erosion.

Mr. YOUNG: There would have been erosion because of the spring floods.

Mr. HELLYER: Had the local authorities contributed a part of the cost in the earlier works?

Mr. YOUNG: They contributed to some of the earlier work in the 30's under the act, but mostly it had been done by the federal government.

Mr. HELLYER: But not during the 40's?

Mr. YOUNG: No.

The CHAIRMAN: It used to be a very active lumber district.

Mr. YOUNG: Yes; that is why the dock was active.

The CHAIRMAN: Is there anything else, gentlemen? If not, we will proceed.

65. *Inadequate settlement re damages to wharf.* In June 1959, the government wharf at Sturdies Bay, B.C., was damaged by a tanker which struck it while making a landing. The cost of repairing the wharf was $1,956.

When the Department of Public Works sought to recover the cost from the tanker's owners, they offered only $1,174 in settlement, being 60% of the estimated original cost of the damaged portion of the wharf. This was on the grounds that the wharf had an estimated life of 15 years of which six had elapsed. The department accepted the settlement notwithstanding the fact that it is usual to recover the full cost of restoring damaged facilities, without taking depreciation into consideration.

This is a case where a private ship ran into a dock, damaging it to the extent of $1,956; and the department settled in the amount of $1,174. The question was: why was full recovery not made from the private concern?

Mr. HELLYER: The principle involved in the settlement here, on the face of it, was one which seems rather unusual.

Mr. BROOME: I would like to know, if the life of the dock was 15 years, suppose 14 years and 360 days had gone by when it was damaged. Does the Auditor General think he could recover the full replacement cost of the dock in such a case?

Mr. A. M. HENDERSON (*Auditor General of Canada*): That is a nice question, Mr. Broome. In this particular instance, after the vessel, which was owned by the Shell Oil Company, struck the government dock at Sturdies bay, and damaged it the department spent $1,956 in repairing it. In other words, it was put back in shape. So the department having been put to out of pocket expenditures to that extent on the repairs, it was not unreasonable to invite the Shell Oil Company to pay the bill.

Mr. HELLYER: Hear, hear!

Mr. HALES: I would agree, because in the case of a car which somebody hits, when that car is taken in for repair, the insurance company will pay the full bill to repair it. They do not pay just part of it.

Mr. HELLYER: I wonder if someone crumpled the fender of the Deputy Minister's car would he settle for 60 per cent of the damage?

Mr. YOUNG: I drive a car which is three years old, but it is in excellent condition. It only has about 12,000 miles at it. If my car were completely wrecked I would not expect to get the full value of it.

Mr. HELLYER: That is correct.

Mr. HENDERSON: But in this case I do not think the dock was completely wrecked. Some of the timbers were damaged, according to the information I have.

Mr. YOUNG: There are two types of damage to our wharves: there is the "fender" type of damage, where we do try to collect the full amount, and generally do; and then there is the type that in doing the work on the wharf we are actually extending its life. In those instances, when we get into an argument, we do make concessions. In this case there was a little bit of both kinds of damage. The wharf was six years old. The bearing piles which were damaged were the ones which would, under ordinary wear and tear, be the first to be replaced. Therefore, in our view, the repair done on this particular dock is, in fact, lengthening the life of the dock. As I said, there was an element of both in it; and rather than become legally involved, upon the advice of our legal adviser, I considered that it was a fair settlement. Also I think it was done in the light of the fact that in the opinion of our engineers the life of the dock was extended.

Mr. HELLYER: Surely the principle in a case like this is to put the wharf back in as good a condition, from the standpoint of usability, as it was prior to the damage. Is that not the principle used in a settlement of this nature?

Mr. SMITH (*Simcoe North*): I think, from my limited knowledge as a country lawyer, that the proper principle of assessing the damage was used in this case. If the structure was partly worn out—and I am not referring to automobiles now—and if what you get is something better, by way of settlement, then I think it is proper to proceed in this way, and to take into consideration the extension of the life of the dock.

Mr. HELLYER: I never have met a simple country farmer who would settle on that basis.

Mr. SMITH (*Simcoe North*): I have.

Mr. HENDERSON: May I draw the attention of the members of the committee to the fact that one of the things that intrigued me in this was a letter from the chief engineer of the department in Ottawa to the district manager in Vancouver on July 7th, 1959, reciting the circumstances of this collision, and saying that he concurred in the recommendation that the Shell Oil Company be assessed the cost of collision repairs which, at that particular date, were estimated at $1,700. Apparently, this was subsequently reversed.

Mr. YOUNG: Initially we did try to collect it all.

Mr. BROOME: I would like an answer to that part of the paragraph where it says "without taking depreciation into consideration." This happened to be six years. However, if it had been twelve years, what would be the government's attitude in this case? Suppose 80 or 90 per cent of its life had been used up? The point on which I would like clarification is this: Is there any place where you say: "No, we do not work on this basis of not taking depreciation into account." Let us take 99.9 per cent of its life being used up. Let us take something a bit larger than the 30 per cent. Let us take 90 per cent.

Mr. YOUNG: In most of the cases we have looked at which have gone to court, there has been a depreciation factor. When the Jackson building was blasted a few years ago and we came to the question of settlement with the gas company, they made an offer; a counter-offer was made, and the discussions went on. Then, the Department of Justice advised us that we should accept settlement which would provide for depreciation of some 15 or 18 per cent.

Of course, that was based on the fact that everything inside the building was new, and that this, therefore, lengthened the life of the building. I think the question in this case comes down to whether it is a repair that will not lengthen the life of the dock. That being the case, we would press for the full payment. However, if there is a factor of depreciation, and the life of the dock is, in our opinion, lengthened as a result of repairs, then, to avoid complicated legal action it has been our policy to accept the settlement. Perhaps I am wrong, Mr. Chairman, but that is the way I have been trying to operate.

The CHAIRMAN: Although I am just a simple man, I cannot understand that when a ship just runs smack into a dock, through negligence—let us put it that way; at least, the dock did not do anything—it still costs the people of Canada $782 to repair the wharf. In private business you would have to make full compensation.

Mr. YOUNG: In our opinion, Mr. Chairman, the life of that dock was extended by that amount.

Mr. BELL (*Carleton*): But surely the principle of it is the same as in fire insurance. If you have a fire, you are paid the depreciated value of your property, and not its replacement—unless you have bought a policy and paid an additional premium on that policy which entitles you to the replacement cost.

The CHAIRMAN: If I might extend this principle, where would we be today this country if a dozen ships ran into wharves. It would cost the people of Canada quite a bit.

Mr. YOUNG: Mr. Chairman, in most cases we do collect the full amount, unless we have evidence or are confronted with a complicated legal action which will cost us more in the end than the amount involved. Obviously, in this case, we would lose, if we had a legal case on our hands.

Mr. SMITH (*Simcoe North*): There is a second matter involved here. If the government is going to pay a lawsuit, must they determine the exact dollars and cents in each claim by legal process? In a claim of this magnitude, the legal costs certainly would have made the government contribution much greater than the $700, in all probability. Someone is going to have to be able to exercise a certain amount of judgment in the compromise of these claims.

Mr. HELLYER: I think that is a bit spurious. If the government had the dock repaired and sent the company a bill for the repairs, there would not be any action about recovering it.

Mr. YOUNG: That is what we did.

Mr. HENDERSON: That is what they did. They are out of pocket. They paid $1,956.

Mr. HELLYER: Why did you not press to collect it?

Mr. YOUNG: It was a question of whether we went to court and had sustained the legal fees and the costs, plus the knowledge that in the opinion of our engineers the life of this dock had been extended. These things made me decide the way I did.

Mr. HELLYER: Did you refer the matter to the treasury board?

Mr. YOUNG: No, but we referred it to our representative of the Department of Justice.

Mr. HALES: If this had been a private wharf, the Shell Oil Company would have paid the whole bill; however, the fact the government owned it perhaps put a little different light on it. Do you think that would have happened?

Mr. YOUNG: I do not know, as I never owned a private dock. However, I would doubt that. But, as I say, I do not know. I should not say.

Mr. DRYSDALE: Was this the only case of this nature this year?

Mr. YOUNG: No, it is not. In most cases, as I have said, where damage is done—and in most cases the life of the dock is not extended—we press for full settlement. However, we have had several where the courts have ruled. There was one at Burlington, which was in court for two years, and there was certain depreciation. It was a large amount. In any court cases with which I am familiar, there has been depreciation allowed.

Mr. DRYSDALE: In the Burlington case you had pressed for the full amount, and the court had allowed depreciation.

Mr. YOUNG: That is what we would anticipate that they would have done. It is our feeling that they would have allowed depreciation.

Mr. DRYSDALE: But that is what happened in the Burlington case.

Mr. YOUNG: Yes. And in connection with the Jackson building.

Mr. HELLYER: Can you say whether any representations were received on behalf of the Shell Oil Company, urging a settlement?

Mr. YOUNG: Only from the company. We dealt only with the company, and the only representations made on either side were negotiations between ourselves and the company.

Mr. HELLYER: Would your decision not to sue for the full amount be based on your own judgment and the reference to the officer of the Department of Justice?

Mr. YOUNG: That is right.

The CHAIRMAN: I must say that I find it rather strange to think of the present Minister and Deputy Minister being afraid of a court case.

Mr. YOUNG: I do not think the Deputy Minister is afraid of a court case. We have several on at the present time. We have some with contractors. Where I feel that we have a case, I am ready to go to court any time. We have one big one on with a contractor out west, and perhaps another one coming up. However, where I feel I have not a good case, then I am reluctant to spend the legal fees.

Mr. BELL (*Carleton*): And, to increase the costs you would have incurred in this case.

Mr. MORTON: I think, in this case, you have to take into consideration what the government is going to net when it is through with the action. No matter what type of case we have, whether it is a private or public one, if we feel the client is going to come out with less money, we urge him to settle. Even in insurance cases where there has been damage, say, to a verandah by fire, the companies often refuse to settle fully, but want to settle on a depreciation basis. Although our clients do not understand it, we do come to a compromise, taking into consideration what that amount would be to the client.

Mr. DRYSDALE: I think the Deputy Minister is in an awkward position because, if he had proceeded with this and run up $500 or $600 in legal fees, he would have been asked next year why he used all the money in legal fees when he could have settled out of court.

Mr. HELLYER: I do not accept that. I think there should be a principle established that unless the particular work in question is in such a state of repair—in other words, that it is so far depreciated out that it cannot be put back into useful life for a useful period—every effort should be made for full recovery. I know this does happen in private business. I have had dealings with insurance companies. They try to settle more cheaply. However, in an ordinary policy, if you say you have to put the vehicle or work back in the same usable condition it was in at the time of the accident, they will do it,

and they will not incur a lot of legal costs in doing it, because it will add to their general costs.

I feel, as a matter of principle, unless it was of such a nature it was going to rot and fall apart in two or three years, thereby being of no further use to the public, it should be put back into the same workable condition that it was in at the time of the accident, and I do not think, under normal circumstances, you would incur legal costs in trying to enforce that principle.

Mr. HENDERSON: If I may say so, I think Mr. Hellyer makes a good point there, and I think the point is confirmed, also, in the third party liability or comprehensive insurance which companies like Shell Oil take out, which protects them by paying collision costs and damages of this type. You will find in many of these policies that the insurer is protected to the full amount. Of course, he will try to settle for a lesser amount.

Mr. BELL (*Carleton*): He has to pay what is assessed as damages. However, that begs the question of what principle the courts proceed upon in connection with the assessment of damages.

Mr. HENDERSON: Of course, this case never went to court.

The CHAIRMAN: Are there any further questions?

Mr. BEECH: Does the Auditor General suggest we should take all these cases to court?

Mr. HENDERSON: I am very interested in the discussion that is taking place this morning, because of the precedent it could establish in the settlement of similar cases in the future.

I think we must respect General Young's judgment in these cases, and I think his explanation is a very fair one. You have to balance what you are going to lose against what the fees are going to cost, and I think in all these cases we have this sort of problem. I would hope that the committee might underscore the importance of fighting all these to the last ditch. This is public money, and where the cost is an out-of-pocket cost, it seems to me the bill should be sent to the people involved and that every possible pressure should be applied. If, on the other hand, the committee were to agree that depreciation should be taken into consideration in such cases, then that is something else again. That is the reason I brought this up. I thought it was a very good example to lay before the committee.

Mr. HELLYER: The question of depreciation is one of judgment, as well.

May I ask the Deputy Minister how the life of this wharf was estimated to be only 15 years?

Mr. YOUNG: The life of the wharf was not really estimated, but the life of these particular piles was estimated to be about fifteen years—not the overall dock, but these particular piles. The piles are the most vulnerable, and they would be the first to go.

Mr. HELLYER: Were they not treated in such a way that you would expect them to last considerably longer than that?

Mr. YOUNG: They were treated, but when they are in salt water it does not mean too much.

Mr. HELLYER: From the standpoint of depreciation, it often happens that the work will last maybe twice as long as the original estimate of its life at the time of construction, and with very minor repairs. If you were to accept the depreciation principle, this would mean that you might collect nothing from a ship, as a result of an accident with your wharf, which might have a potential use for a further fifteen years.

Mr. YOUNG: Well, that is an extreme example. I cannot see an instance where I would not want to get something out of it. It is just a matter of drawing a balance between the two.

Mr. MORTON: In a case like this, and in other similar cases, there must be discretion used. The government cannot set up a rigid formula and fight every case to the bitter end, because in several instances we would end up with it costing us more than the net return involved. In this case, I think the initial steps were taken to collect the full amount, but during the discussion the people who knew the circumstances at the time had advocated that we should settle on a certain basis. It would be difficult for the government to set a fast rule where discretion must be used to say that the department must or must not do this, other than to say, as they are doing, to collect, wherever possible, as much as they can. I do not think that necessarily means that you must always fight it out in the courts because, in many instances, it does not bring the most in net return.

Mr. YOUNG: We have many of these cases and in 95 per cent of them we collect the full amount—$50, $200, $400. However, this seems to be different.

Mr. HENDERSON: Could I answer Mr. Morton, and say, does it not seem to you, sir, that it is not so much a question of taking depreciation into account in this case as it is of General Young having satisfied himself that it was worth $782 to have gotten new timbers out of it and, therefore, a better dock; in other words, he was satisfied because, as a result of this wharf being knocked over, they had to go in and put better under-pinnings in, which resulted in a longer life for the wharf? In other words, it was not so much a question of depreciation as such. Perhaps I should have put that in my note.

Mr. MORTON: That had a big bearing on it, but, in the over-all consideration, I think depreciation does come into it. However, as I say, in this particular case, in assessing the value to the government after the thing is done—and there was the consideration that it had been approved to a point where he felt it was justifiable to make a settlement—as I say, that is the type of thing on which I do not think our committee should set up any rigid rules which would prevent a person from using his discretion.

Mr. DRYSDALE: Was there any admission of liability?

Mr. YOUNG: Yes, there was an admission of liability.

Mr. DRYSDALE: So, it just ammounted to the amount of damages?

Mr. YOUNG: Just the amount of settlement was in question. They never denied liability. It was only when we came to settlement and we sent them the bill that the argument started.

The CHAIRMAN: Surely the general principle is simply that: that we are justified, as the public accounts committee, in supervising, looking over, and taking some of these things into consideration. We do not say they are wrong.

Mr. BROOME: Certainly. It seems to me that that is the whole point.

The CHAIRMAN: Thank you very much, General Young.

Mr. HALES: Were we not going to do another paragraph while Public Works were here?

Mr. YOUNG: There is one other item, concerning paragraph 81.

The CHAIRMAN: Could we go on to paragraph 81, subsection (1), concerning the Halifax post office. Is that the one in question, General Young?

Mr. YOUNG: Yes.

81. *Non-productive payments.* A number of cases were observed in the course of our examinations where amounts were paid out for

plans and designs and pre-production expenses although the projects never reached completion. The following cases illustrate:

1. An architect was engaged by the Department of Public Works in 1954 to prepare plans and specifications for, and to supervise the construction of, an addition to the postal terminal building in Halifax. In 1955 he submitted plans for premises which it was estimated would cost $1,250,000 to construct. When the Post Office Department requested that, instead, a new terminal building be provided, the requirements of the department were re-studied and eventually it was decided that an addition of a different type would meet requirements and could be constructed for about $800,000. The original architect was not re-engaged and payments totalling $37,500 were made for his services—$24,600 in 1958-59 and the balance of $12,900 in 1959-60.

Mr. HENDERSON: Paragraph 81, subparagraph (1), Mr. Chairman, describes a non-productive payment, it having been the practice for some years that we report instances that we came across. Therefore, three are mentioned here, and the first has to do with the post office in Halifax. It concerns only architectural fees which are not required.

Mr. YOUNG: As a result of a request made in 1952, Mr. Dumaresq was engaged to prepare plans and specifications for an addition to the postal terminal building in Halifax. The decision to build this addition was approved by the post office. Consideration had been given to the question of traffic, but it was contemplated that with the completion of the new bridge and with the widening of Water street there would be no difficulty. Plans and specifications were proceeded with on that basis and the architect completed the plans and specifications. However, there was no action taken to carry on with the building. Then in 1958 the question was reviewed with respect to the traffic to and from the post office, and particularly with respect to the hauling of mail by motor vehicles, which had changed the picture. It was decided that the plans and specifications that had been prepared were of no value, that this problem would have to be approached completely anew, and that a different type of development, at lesser cost, I might say, was to be implemented. Then there was the question whether this architect would be re-employed or whether or not a new firm would be appointed. The final decision was to employ a new firm. It did not make any material difference, although some of his earlier work might have been taken over from Mr. Dumaresq. But he had been paid off and we were starting on a new project. New architects were appointed.

Mr. SMITH (*Simcoe North*): When was the payment made of the first architect?

Mr. YOUNG: He was paid in 1958 and 1959; there was a small balance paid in 1959-60.

Mr. SMITH (*Simcoe North*): For the plans which he had drawn up in 1953?

Mr. YOUNG: Throughout the years.

Mr. MCMILLAN: Why was the architect changed?

Mr. YOUNG: It was a decision of government that the architect be changed.

Mr. BOURGET: Ask the minister.

The CHAIRMAN: I wonder if we have the right witness?

Mr. HELLYER: It might be that the original one grew old about 1957!

Mr. HALES: Perhaps General Young could give the committee the basis on which architects are hired. Here was a building which was to cost $1¼ million, and his payment was $37,500, including supervision of the building

and so on. What are the requirements? Whether you proceed with the building or not do you have to pay this?

Mr. YOUNG: Oh yes, less inspection; but he is paid for the preparation of the plans and specifications. I think it runs about 3 per cent of the project.

Mr. HALES: What would this figure out to?

Mr. YOUNG: Sometimes it is three and a quarter; it runs between 3 per cent and 3¼ per cent.

The CHAIRMAN: Is there anything else on this paragraph? If not, thank you very much, General Young.

> 69. *Repairs to landing craft without inviting tenders.* Early in June 1959 the Department of Transport arranged with a Montreal firm with ship repairing facilities to inspect a number of landing craft at Frobisher, damaged by ice during the preceding winter. After the firm had commenced repairs, with departmental concurrence, it was asked to tender for the work involved and quoted a price of $245,415 which was accepted. The repair work was completed before Executive approval was sought on August 24, 1959 and granted on September 17, 1959 for entry into a contract covering the work.
>
> This failure to obtain prior approval was contrary to Executive regulations governing contracts, but what is of particular concern is that tenders had not been invited by public advertisement for execution of the work, as required by Section 36 of the Public Works Act. It is understood that, in future, repair work of this sort will be given consideration by the department at an earlier stage in order that firms in a position to undertake the work might be invited to tender and a competitive situation thereby established.

The CHAIRMAN: Would the Deputy Minister of Transport please come forward? Gentlemen, we have with us this morning Mr. J. R. Baldwin, Deputy Minister of the Department of Transport. In particular I know you will want to ask certain questions with regard to paragraphs 69, 70 and 71, and perhaps others. Now, we are on paragraph 69.

Mr. HENDERSON: The situation covered in paragraph 69 is not likely to be repeated in the future, because I understand the department is proposing, in cases where major repairs of this type are required, to bring the craft out to eastern Canadian ports and to call for tenders for the necessary work.

The CHAIRMAN: I notice that in the second paragraph it says:

> This failure to obtain approval was contrary to executive regulations—

What is the implication of those words, Mr. Baldwin?

Mr. J. R. BALDWIN (*Deputy Minister of the Department of Transport*): Sir, perhaps I could best explain the position by making a very brief statement on the procedure followed, if that would be satisfactory. This item relates basically to some large LCT-8's taken in for Arctic supply and military work on the D.E.W. line. These two craft went in the first time in the summer of 1958. They are quite large craft, rated around 175 to 200 feet long. They are really ships, if you like. However, there are no landing places where they have to go, so they are built to accommodate themselves to situations where there are no landing places and no wharves. These ships suffered damage going in. They were towed in, and we had to send a firm in on an emergency basis to do the repairs. We selected a firm. I gather this was the type of thing where you find a situation which does not fit into the normal practice and procedure. We selected a firm familiar with the craft, Weir's, of Montreal, who had already done repair work on them. We sent them in to do emergency repairs that

summer. They were put into service on a temporary basis, following the emergency repairs. It was intended to finish the job at the end of the season.

However, it turned out to be a long, heavy shipping season, and these ships suffered additional damage as the season progressed. By the end of the work season there was no time left to do further work on them because weather conditions made it impossible. The Weir firm had left certain equipment in the north, expecting in part that they would have a chance to finish the job in time, and perhaps specifically hoping that they would obtain additional work.

The craft were further damaged during the winter lay-off. There was not time to get them out, so we found ourselves in the spring where we had to get the ships repaired for summer work, and where the general situation did not lend itself to the normal tender call procedures because such tender call procedures would involve the preparation of specifications, which in turn would involve an examination of the vessels on the site, and so on, which would run into a period all the way from ten days to two weeks, and in an emergency case we would need the vessels in the shipping field. It would have involved shipping in people interested and sending crews into the north to look at these ships, to see on what basis they should tender, which can only be done when there is an opportunity to look at the ships in advance. Had there been such an opportunity, we would have called for tenders, but in this particular case we would not have got the job done in time to do any work that summer. Therefore we took the procedure of employing a firm which had worked on them in previous summers to do this particular emergency job in the spring.

As the Auditor General indicated, we realized that this was not being done in accordance with the normal tender procedure, but that we were faced with an emergency situation. We have tried since then to adopt different procedures which would follow normal government requirements in this regard, when we foresee that a ship is likely to require major repairs before it can proceed with further Arctic seasonal work. In such a case we try to get it out and then we do go through the normal procedure in winter of calling for tenders and having the work done. That has been done during the past winter with some of these craft.

But where the craft is not likely to require major repairs, and when it is in the Arctic, we now try to do that work in advance so that the craft is available when required in the spring. I mean that we would call for tenders in the normal procedure and make use of private enterprise, rather than to send in our personnel in the spring to do minor repairs on craft which are left in the Arctic.

Mr. DRYSDALE: What were the specific dates that the repairs were commenced, and the finish of those repairs?

Mr. BALDWIN: I think it was largely in the period of June, or in early June.

Mr. TUCKER: What type of work would these craft perform?

Mr. BALDWIN: These craft are used in the movement from point to point, particularly in landing the cargo of supply ships which has to be taken into the Arctic. In the majority of points there are no wharves and no harbours, so the material has to be dumped on the beach. These were 200-foot craft which were built for the British Admiralty for use in the invasion of Japan in the Pacific. They specifically met our requirements under Arctic conditions, and they are particularly suited for beach landings, since they are able to run right up to the beach and unload their cargo, and move off again.

Mr. HELLYER: Are they normally left in the north?

Mr. BALDWIN: If the repairs would appear to be of a very minor nature, yes; but the majority of them have come out this year.

Mr. HELLYER: What would be the cost of bringing one down?

Mr. BALDWIN: For an LCT-8, the direct operating costs—this is a very rough estimate, and I am taking it off the back of my head—would perhaps be from $1,500 to $2,000.

Mr. HELLYER: Did the department not realize in the fall of 1958 that these ships would require some repairs?

Mr. BALDWIN: We had hoped to have that work performed before winter set in that fall, but it was not possible to complete it. We had only temporary repairs done at the beginning of the season, because of the urgent need to put the ships into service.

Mr. HELLYER: Why were you not able to get them out in the fall?

Mr. BALDWIN: Because they were working late.

Mr. HELLYER: You mean they were frozen in?

Mr. BALDWIN: We deliberately left them in, but they suffered additional damage during the winter. We are now trying to bring out most of the larger craft, while the craft probably of smaller size would stay in.

Mr. BEECH: How long would it take to get executive approval to do these things?

Mr. BALDWIN: I can offer no particular excuse for this. I can only say by way of explanation on our part that it was a matter of paper work which was involved, and that there are cases occasionally where urgent work has to be undertaken, when time does not permit the normal procedure to be followed. In all such cases we try to obtain a proper staff to take on our emergency work, and to see that the necessary paper work is done as soon as possible. Finally, I might say that the person in charge of our shipbuilding and repair work was being transferred to the position of Chairman of the Maritime Commission.

Mr. DRYSDALE: You indicated that a tightening up of these regulations has in fact prevented private enterprise from getting into this type of work. I should think you would have found it easier to have the Department of Transport facilities extended.

Mr. BALDWIN: No. We send our normal marine agency from Quebec in to do minor repairs on the LCM-8's.

Mr. DRYSDALE: But you would still be carrying out some very major repairs of this nature through private firms?

Mr. BALDWIN: Well, we bring them out and call for tenders. If we were confronted with a recurrence of exactly the same situation, where damage occurred during the winter, I do not know what we could do except to deal with it on an emergency basis rather than to proceed on the tender basis under the circumstances.

Mr. DRYSDALE: I notice that after commencing repairs you started to negotiate for a price. Did you find any difficulty in pricing in this field?

Mr. BALDWIN: No, because this firm had done work of this sort before, and we had a pretty standard price for work of this sort on our ships, and moreover our shipbuilding officials were not afraid that we would suffer any from approaching it on this basis.

Mr. DRYSDALE: This is another case where the department has had to exercise discretion. I do not want to have their hands tied too strongly, so as to prevent these necessary repairs being done, but there is no question of the price being reasonable under the circumstances?

Mr. BALDWIN: As far as we are concerned, we are satisfied with the price.

Mr. HELLYER: When one is operating from the standpoint of costs, should it be necessary that he have a complete inventory of the work before it is commenced?

Mr. BALDWIN: We sent him a request to do this. It was a firm selected to go into the north to look at the damage which occurred; and they specified the work, and then we negotiated with these people for that work.

Mr. HELLYER: But they in fact made out the bill and the quantities of the work to be done?

Mr. BALDWIN: We had personnel up there as well, sir, to protect ourselves.

Mr. BROOME: What would have been the cost of this landing barge when you purchased it out of the mothball fleet?

Mr. BALDWIN: You mean when they were originally purchased?

Mr. BROOME: Yes.

Mr. BALDWIN: I am sorry, but my memory is weak on that point. My recollection is perhaps half a million dollars. We are building a similar type of ship—or rather we are calling for tenders for such a shipbuilding—to be used to supply our depots, and for accommodation purposes. It will be slightly more elaborate, but it will be basically the same size. It will cost around 2½ million to build it in Canada.

Mr. BROOME: This would have been pretty cheap, because it was surplus equipment?

Mr. BALDWIN: That is right. This was the only type of equipment which existed anywhere in the world at the time, and we were able to get hold of it.

Mr. HELLYER: If you were able to send a firm in to examine the damage in early 1959, why were you unable to seek approval until August 24?

Mr. BALDWIN: I can offer no reasonable excuse other than the fact that we did run into a lot of paper work that summer because of the facts I mentioned. This was a delay on the part of the department, and the reason I frankly do not know.

Mr. HELLYER: If the bill for the work to be done was prepared by these people, I mean this firm in conjunction with your people there on the job, would they not have given you specifications for calling tenders?

Mr. BALDWIN: Yes sir, but it still takes a long time to call for tenders and to get the tenders in and secure approval from Treasury Board. In the Arctic we only have a very short period of time to work in, in the summer, and we have to make every possible use of it. For instance, if we called for tenders by the end of June, I could not have had those ships back in service by September.

Mr. HELLYER: Because of the length of the season you have, and because it fluctuates?

Mr. BALDWIN: I think so, and it does fluctuate. At Frobisher it opens up at the end of July, and you can work there until some time in October.

Mr. DRYSDALE: Was it just two craft which were involved in this matter.

Mr. BALDWIN: Yes; this was the major point involved in the Auditor General's comment. The services of another concern were also used for a while in the north for minor work concerned with the repair of thirteen 50-foot L.C.M.'s.

Mr. TUCKER: Were you satisfied with the work performed by this firm?

Mr. BALDWIN: Yes sir.

Mr. BOURGET: If you had listed all the repair work that had to be done, it would have given the shipyards an opportunity, and they would have been glad at the time, I think to tender on that work.

Mr. BALDWIN: We quite agree. Some of it would have been put out to tender, but because of the time element, it was not possible to do so. We could not do the review work in the wintertime until the May to June period.

Mr. HALES: What are your future plans for these craft?

Mr. BALDWIN: The larger craft are brought out now and they are repaired. The work takes place in the normal way with the tender procedure being followed.

Mr. HALES: If you had brought the ships out we would not have had such a large repair bill. It was because of the fact that they were left there in wintertime that this damage occurred.

Mr. BALDWIN: No sir. The repair bill would not have been any smaller, because there would have been involved the cost of bringing them out. In this case it was a location problem, and they also suffered damage. The season was late, and there was some question in our mind as to whether we could get them out.

Mr. HALES: What was the cause of the damage?

Mr. BALDWIN: Ice.

Mr. HALES: This would not have happened if you had been able to get them out of there.

Mr. BALDWIN: They had to stay in to work during the summer, following a temporary repair job done at the beginning of the season.

Mr. HALES: But from now on you are going to get them out when possible?

Mr. BALDWIN: Yes. We may not encounter this kind of situation again.

Mr. DRYSDALE: What would it cost to bring them out?

Mr. BALDWIN: I gave you a rough guess before when I said from $1,500 to $2,000.

The CHAIRMAN: I am sure we are all sympathetic but the fact is that our job to bring this out, as to why a quarter of a million dollar job was undertaken even before it was authorized. Surely there is some explanation to it.

Mr. BALDWIN: It could occur in the case of not calling for tenders, unless we were prepared to say that we would not put the ships into service during the summer. It could occur again; and so far as obtaining the Treasury Board's authority is concerned, this could occur in the case of emergency work required by the Department of Transport.

Mr. BOURGET: And similar damage could also occur?

Mr. BALDWIN: It could.

The CHAIRMAN: If conditions are different in the north, surely we have to amend the act to cover such a situation in the future, otherwise your department simply has to go ahead and set the act aside.

Mr. BALDWIN: Wherever possible—and we do encounter these emergencies in the north from time to time—but wherever possible we do try to clear our procedures, and we intend to deal with it, having regard to the Treasury Board, in advance.

Mr. DRYSDALE: What is the requirement of section 36 of the Public Works Act? Does it say that you may, or shall, advertise for these tenders?

Mr. BALDWIN: It says that the Minister shall invite tenders except in cases where the work is one of pressing emergency, and where it would be injurious to the public interest. We should have had full authorization at an earlier stage in this particular case.

Mr. BOURGET: Why was only one firm asked to inspect the landing craft that was damaged?

Mr. BALDWIN: Because this was a firm we had already used in the north, it had its equipment in there.

Mr. BOURGET: Was there not a number of other firms also?

Mr. BALDWIN: Not a this particular stage. This firm had worked for us in the north. This would include the program we had embarked on, which started in the previous year, having to do with major military supply work in the Arctic.

The CHAIRMAN: Is there anything else?

70. *Financial consequences of faulty preliminary engineering.* In August 1957, the Department of Transport entered into a contract for development of an airport at Riviere-du-Loup. The lowest tender of $479,965, based on firm unit prices for estimated quantities was accepted. After the work had been commenced it was found that the runway, the construction of which formed a major part of the project, had to be angled away from the location that had been erroneously staked out under direction of a departmental engineer, and that had been inspected by prospective bidders following the tender call. The correction of the deviation placed part of the runway over a large and deep area of muskeg which had to be removed and replaced with suitable materials, some of which had to be purchased and hauled to the airport. In addition, a hummock of solid bedrock was uncovered outside of graded areas and had to be removed to provide aircraft take-off clearance.

Negotiations with the contractor regarding the increased costs involved led to an amendment of the contract to permit settlement, on a cost plus fee basis, for $725,000. Any advantage that might have been gained from competitive bidding on this project was therefore lost through faulty preliminary engineering work.

Mr. MCMILLAN: In connection with paragraph 70, the final settlement was about 50 per cent over the contract. Do you subscribe to the fact that there was faulty engineering in the department?

Mr. BALDWIN: Yes, sir. I am not sure whether I would have myself used that exact phrase, "fautly preliminary engineering", but there was a regional agency—whether it was the army or not, I do not know—as indicated by the Auditor General in his report, which was staking out the runway location for the purposes of the contract; then we were calling for tenders, through senior regional engineers, and they varied very slightly, or only to a slight degree from the memo, that is, to a very slight angle from the lay-out as shown on the paper work, which the tenderer calls his private plan. Thus in fact the change was slight, and the angle was slight, and it was not noticed by the contractor himself until he had both plans and he had seen the lay-out, when he noticed that it differed slightly; it was not until the contractor himself—that is not until quite a few months after the contract had actually been awarded, that he began to question his own cost of operations.

Mr. BROOME: I would like to ask a question. When you say it was right—

Mr. BALDWIN: The plans were right.

Mr BROOME: But the staking was not?

Mr. BALDWIN: The staking out by the regional engineer was slightly out, and I can offer no explanation why it happened. The reason I cannot say is because the regional engineer, who was not a very young man at that stage, and was working in the Montreal district, died of a heart attack, and I do not know what was in his mind. We do not know whether this was an actual error on his part. He had considered both layouts before we reached the final decision—the one he used, as well as the one on our own plans. We do not know whether this was just carelessness on his part, in that he thought it was the other one we were working to, or whether he thought this other one was preferable and

he hoped to influence Ottawa to accept this slight deviation. As I said, he died before the error came to light.

Mr. BROOME: Well, if it concerns a very slight deviation, and there was a fairly major additional cost involved in the other connection, where he had staked it was not practical from your point of view?

Mr. BALDWIN: Oh yes, we could have built the runway on either location. In the one case, more difficult construction conditions applied, relating to muskeg and, in the other case, much larger quantities of fill would have been required.

Mr. BEECH: Would this have made any difference to the other tenderers if they had known this?

Mr. BALDWIN: They all tendered on the same basis, in that they all looked at the same stake-out and same set of plans.

Mr. BEECH: But the point is that this one firm was the only one which was given an opportunity to correct the mistake.

Mr. BALDWIN: The contract was already awarded to the low tenderer.

Mr. BROOME: The Deputy Minister said that in one case there would be a lot more fill required and that the department could have taken either the way it was staked out, or it could have gone according to the way of the plan. However, you did have a tender of a unit price based on the amount of fill and rock, and all the rest of it, in the amount of $479,000 and, to go according to the plan of the department, which was a very slight deviation in the angle, increased the cost by 50 per cent.

Mr. BALDWIN: We changed the stake-outs back to what it was on the plan when the error was discovered.

Mr. BROOME: But I thought you said you could run it either way.

Mr. BALDWIN: I meant, physically, we could have.

Mr. BROOME: You could have constructed it, and it would have been satisfactory.

Mr. BALDWIN: The added problem of cost here was greatly complicated, and there was more than one audit of expenses made due to the fact that the contractor—and I am not sure of the legal term—filed proceedings in bankruptcy. The exact type—title and so forth—is under Quebec law. In 1959 this added to the cost problems because, at that point, he had to stop work, unless some new arrangements were made, and he did. We had to renegotiate arrangements with him.

Mr. SMITH (*Smcoe North*): Why was not the cheaper way of doing it proceeded with? Why was not the cheaper way chosen in the first place?

Mr. BALDWIN: We thought we had chosen, in terms of the headquarters staff and what was shown on the tender plans, the right location.

Mr. SMITH (*Simcoe North*): But it would appear that the other location would have been cheaper.

Mr. BALDWIN: No, I do not think this conclusion could be drawn.

Mr. BROOME: Well, you had contractors to bid on that, on a tender basis, based on calculated unit quantities, and certainly you should be able to calculate within a small percentage.

Mr. BALDWIN: All these firms had seen the same set of plans, which showed what we thought was the correct layout, and they all saw the same staking on the site, involving a small-angled deviation, and not one of those firms at that point recognized there was any difference, as I understand it.

Mr. BROOME: In other words, the unit quantities which were specified—

Mr. BALDWIN: Were the standard unit quantities for all.

Mr. BROOME: But, they were different.

Mr. BALDWIN: Yes.

Mr. BROOME: They must have been calculated according to the way it was staked.

Mr. BALDWIN: Yes.

Mr. BROOME: And not according to the plan.

Mr. DRYSDALE: To follow up Mr. Broome's line of questioning, if they are calculated according to the way they were staked out, why did they not follow the staked out one rather than the plans?

Mr. BROOME: And you say that it was a very slight deviation?

Mr. BALDWIN: But, enough to make a difference in the type of construction required.

Mr. DRYSDALE: In order to conform with the original plans, it brought an increased cost of a quarter of a million dollars. Although there may be reasons for this, the point the committee cannot understand is this: All right, say they did not follow the plans; they followed the staked-out area, which was a quarter of a million dollars cheaper. Why was it necessary to return to the plans?

Mr. BALDWIN: Because we wanted a runway in accordance with these plans and not on a layout staked by the engineer in error. This is due to a number of factors. I am sorry, but I may not have the additional details here. However, in the development of a runway layout, you do not take into consideration only the subsoil conditions but the surrounding terrain, prevailing wind conditions, and so on, and the runway layout we had shown on our plans originally was a runway layout that our headquarters staff felt should be pursued.

Mr. DRYSDALE: Then it would be a major deviation rather than a minor one. Have you any indication of the extent of the deviation?

Mr. BALDWIN: Not with me.

Mr. DRYSDALE: The thing that concerns me is that if it was a minor deviation, why the necessity of changing? On the other hand, if it was a major one, I cannot see why the construction company's engineers would miss this deviation.

Mr. BALDWIN: We do not understand that one, either.

The CHAIRMAN: The engineers did.

Mr. DRYSDALE: Not the construction company engineer. The original engineer was the person who staked it out. I do not know much about engineering, but I assume he would check the plans. Apparently, going by the information we have, the deviation must have been minor enough that he did not notice it. If it was such a minor one, I cannot understand how the factors of wind, terrain, and so forth would come into it with such a minor deviation, and the fact that it was not noticed by two engineers, or the contractor, until some several months after the contract had finished. Yet, there is this difference of a quarter of a million dollars.

Mr. BALDWIN: I may not have briefed myself sufficiently on that. It is possible that drainage entered into this. I know we have had a great drainage problem on that particular airport, even since the construction phase. As I said, the cost factor was complicated by this situation that emerged in regard to the cessation of work in a bankruptcy proceeding, which left us with the problem of how to get the job finished and what sort of arrangement we could negotiate on this basis.

Mr. BROOME: It would not be just the regional engineer. He does not go out and put his stakes down and run his lines. Certainly, there is a lot of departmental engineers who would have been involved.

Mr. BALDWIN: I think one engineer would be sent out to supervise.

Mr. BROOME: But departmental engineers would be working under him.

Mr. BALDWIN: Not in the staking out. He would have assistants down here, but he would not have other engineering personnel down at that stage.

Mr. DRYSDALE: But the contractor would have.

Mr. BALDWIN: Yes.

Mr. DRYSDALE: But if there was any weight to be put on this, I would not be inclined to put it on the regional engineer. I would say it is up to the contractor to take the plans and to make sure of them.

Mr. BALDWIN: We cannot deny that our regional engineer made a change in this regard.

Mr. DRYSDALE: I think if there was any criticism, it would be on the engineer employed by the contracting firm.

71. *Questionable charges for aids to navigation.* During the year under review, following the practice of previous years, approximately $223,000 was charged to the appropriation for "Aids to Navigation" (Vote 402) for expenditures incurred by the Department of Transport for the construction or acquisition of buoys, range lights and piers to define the boundaries of the deeper water navigation sections of the Canadian portion of the St. Lawrence Seaway.

Section 10 of the St. Lawrence Seaway Authority Act, c. 242, R.S., reads in part: "The Authority is incorporated for the purposes of . . . acquiring lands for and constructing, maintaining and operating all such works as may be necessary to provide and maintain . . . a deep waterway between the Port of Montreal and Lake Erie . . ." The term "deep waterway" is defined by Section 2 as "adequate provision for navigation requiring a controlling channel depth of twenty-seven feet . . ." Section 16 provides that the costs to be defrayed by tolls include "the cost of operating and maintaining the canals and works under the administration of the Authority . . .".

A reasonable assumption from the foregoing statutory provisions would seem to be that the cost of aids to navigation throughout the length of the Seaway should be included among the costs to be recovered through tolls, instead of being paid from public funds. The question of the propriety of charging the appropriation for "Aids to Navigation" with the cost of buoys, range lights and piers, as mentioned above, was raised with the department and it has recently advised us that it has placed the question before the Treasury Board for decision.

Mr. HENDERSON: In this paragraph the object is to consider whether aids to navigation throughout the length of the St. Lawrence seaway should be paid by the St. Lawrence seaway authority and recovered through tolls, instead of being paid from public funds through the appropriations of the Department of Transport. In the closing paragraph it is stated that we have been advised by the department that it has placed this question before the reasury board for decision. I understand there has been a meeting of the treasury board on this matter. Perhaps the Deputy Minister could explain it further.

Mr. BALDWIN: This is a problem, as set forth in the report, on how to finance the aids to navigation which are required in the seaway, and it has been under consideration ever since the seaway was built as to how this should be handled.

The question that is raised by the Auditor General is whether in fact, from the legal point of view, these aids should be charged to the seaway and financed out of seaway tolls. We had recognized from the outset there were two possible

approaches to this. One was the legal question of whether it was in fact a statutory obligation, these be paid for by the seaway out of tolls, or whether in fact it was purely a policy matter for determination. The question also arose that if it were the latter, what was the proper policy to follow?

In so far as the policy aspect only is concerned, it has always been the practice of the Department of Transport to provide aids to navigation where necessary in coastal and inland waters for commercial shipping, regardless of whether these particular waters are under the jurisdiction of the department directly, or come under some such agency as the national harbours board, the seaway authority, or other special harbours commission.

We never felt we had a policy precedent to say it would be all right if these aids were provided and financed by the Department of Transport, rather than having them charged to the seaway authority, although we had no firm view as to how this should be done.

On the legal point our own legal staff advised that argument could be made both for and against bringing them under the Seaway Act, and in fact the legal staff of the seaway authority advanced an argument, which I shall give you if you wish, but which is highly intricate, in relation to various articles in the act to say this was not a matter of obligation but a matter for policy determination.

In view of all this we placed the matter before the treasury board and they also threw up their hands. They suggested that we go ahead and provide the aids but keep them as a separate account, so that possibly they might be provided for by tolls over the next two or three years.

Mr. DRYSDALE: If the seaway authority is making adequate profit they will be able to pay for additional aids through tolls?

The CHAIRMAN: You must remember they have a very good legal department.

Mr. BROOME: On paragraph 70, I should like to know the amount of deviation, but not necessarily now.

Mr. BALDWIN: I can find that for you.

The CHAIRMAN: May I call the attention of the committee to page 36, paragraph 80 (1).

> 80. *Unpaid accounts charged to new fiscal year.* In the following instances the departments concerned had incurred expenditures beyond what had been provided by parliamentary appropriations for the year, and had avoided recording over-expenditure of the appropriations simply by carrying unpaid accounts forward to the 1960-61 fiscal year:
>
> 1. In April 1956 the Department of Transport was authorized to enter into a contract for a term of four years commencing January 1, 1956 for the dredging of the St. Lawrence River Ship Channel below Montreal, and capital dredging costs amounting to $12,904,535 were incurred during the term of the contract. Because the amount of $5,094,000 made available in 1959-60 by Vote 408, as supplemented by Vote 629, was inadequate to meet costs incurred in the year, $365,582 was carried forward as a charge to an appropriation provided in 1960-61 to meet costs incurred under a new agreement with the same contractor, for a term of two years commencing January 1, 1960.
> 2. Vote 25, as supplemented by Votes 496 and 635, provided $8,187,000 for the payment of quality premiums on high grade hog carcasses by the Department of Agriculture. Payments to producers are made through the issue, at inspection points, of warrants negotiable at

chartered banks. The banks are subsequently reimbursed for redeemed warrants by payments charged to appropriations provided annually for the purpose. Because the warrant is a negotiable instrument, the practice has been to charge the annual appropriations with the value of warrants outstanding at the close of each fiscal year and to credit a liability account, "Hog Premiums—Outstanding Warrants", with a like amount. However, the amount available in the appropriation as at March 31, 1960 was inadequate for the purpose, with the result that $547,770 was carried forward as a charge to the 1960-61 appropriation.

3. Vote 623 provided $25,000 for expenses of the Royal Commission on Coal. $24,975 was charged to the appropriation but additional accounts totalling $20,945 for services rendered prior to March 31, 1960 were carried forward as charges to 1960-61.

The government accounts are kept on a cash basis, subject to year-end adjustment by reason of the provision of Section 35 of the Financial Administration Act that payments made during the thirty days following the end of the year, with respect to goods received and services rendered prior to the end of the fiscal year, may be charged to the accounts of that year. Where necessary, therefore, adequate supplementary appropriations should be sought by departments when balances remaining in appropriations appear insufficient to absorb all charges likely to come in course of payment for goods and services required to be supplied by the year-end.

I understand you wish to make this clear, Mr. Baldwin.

Mr. BALDWIN: As I understand the Auditor General's comment, he has quite properly drawn attention to the fact that we carried on work in one year in relation to a dredging contract, but we did not actually ask for funds to be approved for this contract as part of the work until the following fiscal year. Here again I say quite frankly that the facts are as stated.

In the winter of 1959-60 a problem arose of obtaining a firm decision from the treasury board as to how this particular phase of the contract was to be carried forward. We had a long-term dredging contract on the St. Lawrence ship canal between Montreal and Quebec, covering a period of some years. As you might expect in a contract of this nature, while we allocate funds each year and ask in estimates for funds each year for the amount of work we expect to perform, we are not completely accurate in our forecasting. Sometimes the contractor does less work than the funds provide for, and sometimes it is possible for him to do a little more. However, it all balances out over the period of the contract.

Normally we try to make adjustments as we go along through supplementaries and otherwise, but in this particular case, due to the diversion of dredging due to seaway construction, a diversion we concurred in because of the priority given to seaway work, the contract sometimes fell behind schedule and we found ourselves confronted with the necessity of clearing up a certain amount of work within the contract, but not provided for in the time schedule.

The work had to be carried forward into the following spring season and normally such a matter would be handled in a somewhat different manner. We had referred this as a matter of an extension of contract to the treasury board in the late autumn, but the treasury board felt they had reason to question whether the contract prices were fair and reasonable. For that, or some other reason, they said: "no, you may not carry this forward as an extension," which might have given us an opportunity to bring in the item on a final supplementary. The treasury board told us that we should get fresh tenders, and these were not in until late winter or early spring. It then turned

out that the new tenders were very much higher than the previous contract provided, and they asked us to try and implement it under the original contract.

The original contractor then came to our aid and did the work under the old contract lower unit prices. They had told us to approach him, and I am happy to say that with some considerable reluctance and bitterness he accepted this work as part of his old contract at the old lower unit prices, even though we had been told by the treasury board that the lower prices had seemed unreasonable.

Mr. BEECH: I think that particular contractor was the lowest bidder for the new contract.

Mr. BALDWIN: He was still the lowest tender on the new contract, but his bid was higher than under the old contract.

The CHAIRMAN: Are there any questions, gentlemen? If not, we shall adjourn and start at paragraph 72 on June 13.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

Report of the Auditor General to the House of Commons—1960

TUESDAY, JUNE 13, 1961

WITNESSES:

Mr. L. A. Mutch, Deputy Chairman, *Canadian Pension Commission*; Mr. Lucien Lalonde, Deputy Minister, *Department of Veterans Affairs;* Miss Ruth Addison, Commissioner, and Mr. Paul Pelletier, Commissioner, *Civil Service Commission*; Mr. A. M. Henderson, *Auditor General of Canada*; Mr. I. Stevenson, *Assistant Auditor General*; and Mr. G. R. Long; and Mr. Robert Bryce, *Clerk of the Privy Council.*

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25379-9—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech	Fisher	Pigeon
Bell (*Carleton*)	Grenier	Pratt
Benidickson	Hanbidge	Robichaud
Bissonnette	Hellyer	Rouleau
Bourbonnais	Keays	Smith (*Lincoln*)
Bourget	Lahaye	Smith (*Simcoe North*)
Brassard (*Chicoutimi*)	Macdonnell	Smith (*Winnipeg North*)
Broome	McGee	Spencer
Bruchési	McGrath	Stefanson
Campeau	McGregor	Stewart
Chown	McMillan	Tucker
Danforth	Morissette	Valade
Denis	Morton	Villeneuve
Deschatelets	Murphy	Winch
Drysdale	Noble	Woolliams
Dupuis	Nugent	Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

REPORT TO THE HOUSE

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

THIRD REPORT

Your Committee recommends that it be granted leave to sit while the House is sitting.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

25379-9—1½

ORDER OF REFERENCE

Tuesday, June 13, 1961.

Ordered,—That the Standing Committee on Public Accounts be granted leave to sit while the House is sitting.

Attest

Léon J. Raymond,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, June 13, 1961.
(19)

The Standing Committee on Public Accounts met at 9.37 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Drysdale, Hales, Macnaughton, McGee, Morton, Noble, Pigeon, Smith (*Simcoe North*), Spencer, Stefanson, Stewart, Tucker, Villeneuve and Winch.—18

In attendance: Mr. L. A. Mutch, Deputy Chairman, Canadian Pension Commission; Mr. Lucien Lalonde, Deputy Minister, Department of Veterans Affairs; Miss Ruth Addison, Commissioner, and Mr. Paul Pelletier, Commissioner, Civil Service Commission; Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; and Mr. G. R. Long; and Mr. Robert Bryce, Clerk of the Privy Council.

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

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

On Paragraph 72 of the Report of the Auditor General.

Messrs. Henderson and Mutch were questioned concerning awards made by the Canadian Pension Commission under the Pension Act.

On Paragraph 73

Mr. Henderson commented on the revolving fund existing for the purpose of financing the manufacture of Remembrance Day poppies and wreaths and the use of an advance from a Department of Finance vote. Mr. Lalonde in this connection was questioned concerning the procedure followed.

On Paragraph 74

Messrs. Henderson and Lalonde were questioned concerning the interpretation of the term "casual earnings" under the War Veterans Allowance Act.

On Paragraph 75

Messrs. Henderson and Lalonde reviewed the case of the settlement of a claim for less than 25 per cent of its value and the granting of a full and unequivocal discharge of a debt due the Crown.

On Paragraph 76

Messrs. Henderson and Long questioned the application by the Civil Service Commission of Section 60 of the Civil Service Act in certain cases.

Miss Addison and Mr. Pelletier referred to an opinion obtained from the Department of Justice during 1948 substantiating the position of the Civil Service Commission on this matter.

Agreed,—That Mr. Henderson obtain from the Justice Department a more recent interpretation of the section in question.

On Paragraph 77

Mr. Henderson commented upon the case of the Civil Servants holding remunerative employment with two departments.

On Paragraph 78

Mr. Henderson was questioned concerning unauthorized salary payments to Civil Servants beyond the age of retirement.

On Paragraph 80, sub-section (3)

Mr. Bryce was questioned concerning unpaid accounts of the Royal Commission on Coal charged to the new fiscal year.

At 11.00 a.m. the Committee adjourned to the call of the Chair.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 13, 1961.

The CHAIRMAN: Gentlemen, we have a quorum and the meeting will come to order.

Mr. Heber Smith came to my office this morning and reported progress. I understand he is holding a meeting this afternoon at 2.00 o'clock in room 303 in the west block.

Gentlemen, as you can see from the agenda in front of you, we have a long way to go and a lot of important work to do. Therefore, in order to get through by June 30, it will be necessary for us to speed up our meetings or hold further meetings. I understand the question of whether we should sit while the house is sitting has been discussed by the Liberal party and also by the C.C.F. party and, if everyone is agreeable, I believe it would be helpful if we had a motion to seek permission to sit while the house is sitting. Will someone make such a motion?

Mr. BELL (*Carleton*): I so move.

Mr. PIGEON: I second the motion.

Motion agreed to.

The CHAIRMAN: Then, gentlemen, I intend to report to the House at 11 o'clock this morning, if such meets with your approval. May I also suggest that we consider sitting to-morrow afternoon at 2.30? Is there any reason why we should not? I put this question on the assumption that my motion for concurrence that I move this morning will be carried.

Mr. BENIDICKSON: It would be all right if we have a Public Works estimates and not Defence. We could go ahead with Public Works and that would be satisfactory, but not if we are dealing with the Department of National Defence.

The CHAIRMAN: We shall have to play it by ear and leave it to the chair to call meetings as soon as we can get together.

Mr. Smith is now present. I have already announced that a meeting will be held this afternoon at 2.00 o'clock in your office. Is that right?

Mr. SMITH (*Simcoe North*): No, in room 303 of the west block.

The CHAIRMAN: That meeting is for the purposes of considering the form and content of the estimates.

Gentlemen, we are now back to the Auditor General's report, paragraph 72.

> 72. *Awards under the Pension Act.* The determination of whether or not payments under the Pension Act, particularly those in respect of discretionary and compassionate awards, are in conformity with the Act presents special problems. Section 5 of the Act grants the Canadian Pension Commission full and unrestricted power and authority to deal with and adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension and empowers the Commission to "determine any question of interruption of this Act and the decision of the Commission on any such question is final". Owing to these broad powers and to apparent inconsistencies in the Act, there is often room for doubt that the application given to the legislative provisions would commend itself to Parliament. The situation is illustrated in the following paragraphs.

Sections 14, 36, 38, 39 and 45 of the Act each permit a pension award if the applicant is in a "dependent condition", defined as "the condition of being without earnings or income sufficient to provide maintenance". No mention is, however, made of the treatment to be given when the applicant has assests, and many instances have been observed where pension awards had been made to persons holding cash, securities and other assests in amounts which would have precluded them from receiving assistance under other legislation involving means tests.

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.

An eligibility requirement for a pension award to a dependent parent under Section 38 is that the parent was, or would have been at a later date, "wholly or to a substantial extent" maintained by the member of the forces. An assignment of pay, often of small amount, is usually accepted as the test of dependency, it being assumed that had the soldier survived, he alone would have borne the burden of support. Cases have been noted where as many as 12 surviving children make no contribution towards the support of the parent.

Subsection (3) of Section 38 requires that for a parent, or person in the place of a parent, to be treated as having fallen into a dependent condition subsequent to the death of a member of the forces, the parent or other person must be "incapacitated by mental or physical infirmity from earning a livehood". But subsection (7) provides that the pension to 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) are continued in payment even though they have been able to undertake full-time employment.

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 a recent review of payments made under this section indicated that the tendency had developed of viewing the term "specially meritorious" as "well deserving", without necessarily any military connotation. A number of cases were observed, for example, where additional pensions were paid in respect of wives whose marital status is not recognized under Canadian law.

Subsection (2) of Section 40 provides that not more than one pension shall be awarded in respect of the death of any one member of the forces "except when children are awarded pensions, or parents are awarded a pension jointly, or brothers or sisters are awarded pension, or a pension is divided among several applicants". This subsection would appear to contemplate limitation of a pension in respect of death to a single class of recipient such as to a widow, children or parents. But in fact, other sections of the Act provide for payments in stated amounts to these classes and so one death can result in payments being made concurrently to a widow (section 37), children (section 26) and parents (section 38).

The CHAIRMAN: This morning we have with us some very distinguished witnesses. On my right is Mr. Leslie Mutch, the Deputy Chairman of the Canadian Pension Commission and beside him is Lucien Lalonde, the Deputy Minister of the Department of Veterans Affairs. Also in the room are Miss Ruth Addison, a Commissioner of the Civil Service Commission and Mr. Paul Pelletier, Commissioner of the Civil Service Commission. I hope we shall give them a hearty and warm welcome.

Mr. Henderson, have you anything to say on paragraph 72?

Mr. A. M. HENDERSON (*Auditor General of Canada*): The purpose of this paragraph is to draw attention to apparent inconsistencies in the Pension Act, and reference is made to the fact that in some practices there seems to be room for doubt that the application given to the legislative provisions would commend itself to parliament.

I might mention that there has been a recent change in the commission's attitude where awards were made to persons who were in a dependent condition, as defined in the act, but who held cash, securities and other assets in significant amounts. As these cases come up for periodical review, consideration is now being given to the assets held by the recipients and many pensions have been reduced or discontinued.

Bill C-67, an act to amend the Pension Act, was passed by the House of Commons on March 31 this year and it covers several of the points mentioned in this paragraph. For example, wives whose marital status is not recognized under Canadian law, are now provided for in subsections 5 and 6 of section 34 of the new act.

I think, Mr. Chairman, that is the extent of the comments I have to make at this time.

Mr. DRYSDALE: What do you mean by wives whose marital status is not recognized under Canadian law?

Mr. L. A. MUTCH (*Deputy Chairman, Canadian Pension Commission*): For many years it has been the practice in other legislation, particularly in the War Veterans Allowance Act, for those who administer the legislation to regard as a wife for the purposes of the act a woman who has been residing in common-law relationship with a pensioner for a period of seven years. The recent amendment to the Pension Act introduces the principle whereby the commission may, where a bar to marriage exists between the pensioner and a woman with whom he has lived in an irregular relationship for a period of seven years, in its wisdom, treat the woman as though she were the wife of a pensioner.

Mr. DRYSDALE: I thought the provision dealt with a much narrower context, for example, a quick divorce in Nevada followed by a marriage in one of the Canadian provinces.

Mr. MUTCH: The commission does not recognize a divorce obtained in a jurisdiction the decrees of which are not accepted in Canada.

Mr. DRYSDALE: So you will now recognize a common-law wife?

Mr. MUTCH: Under the recent amendment we shall provide for a woman who lives with a man in common-law relationship for seven years as though she were, in fact, his wife. The only requirement, however, is that a bar to legal marriage is established.

The CHAIRMAN: The key to the whole section is to be found in the last three lines of paragraph 72 which states:

> Owing to these broad powers and to apparent inconsistencies in the act, there is often room for doubt that the application given to the legislative provisions would commend itself to parliament.

The following paragraphs are illustrations of that. I have made a few notes here, Mr. Deputy Chairman, on paragraph 2 on page 32. Have you the Auditor General's report before you?

Mr. MUTCH: Yes.

The CHAIRMAN: Then, may I ask this question? When an applicant in a dependent condition is paid a pension based on the additional income required for maintenance and it is subsequently discovered he failed to disclose all of his income, does the Commission consider that it has authority under section 5 not to record an overpayment in the accounts, as well as to deal with all matters relating to the recovery of an overpayment?

Mr. MUTCH: The commission regards section 5 as an overriding authority in the field of interpretation and application of the legislation. The commission does not, however, conceive itself to have power under any section to amend legislation but, extended to the field of interpretation, I would have to say "yes". The commission has full and unrestricted authority to adjudicate on matters and questions relating to all cases of awards.

Some Hon. MEMBERS: We cannot hear you.

Mr. MUTCH: When doubts are sustained the commission can decrease or cancel any pension under this act and seek the recovery of any overpayment.

The CHAIRMAN: Under the Financial Administration Act, section 23, authority is given to write off amounts less than $1,000.

Mr. MUTCH: Yes.

The CHAIRMAN: And any amount above $1,000 requires sanction from parliament?

Mr. MUTCH: I believe that is correct.

The CHAIRMAN: But I understood the pension board has written off a great deal of money, certainly much more than one or two items of $1,000. Is that what you call interpretation?

M. MUTCH: I do not follow you. In what way do you mean "written off"—individual amounts in excess of $1,000?

Mr. BELL (*Carleton*): From other days, Mr. Mutch will realize that the acoustics of this room are not so good.

Mr. MUTCH: I am asking the chairman to illustrate his point, in those cases where amounts of $1,000 have been written off. Off-hand, I cannot recollect any.

The CHAIRMAN: I am not here to answer your question.

Mr. MUTCH: I cannot answer your question unless I understand it.

The CHAIRMAN: The question is a matter of principle, basically, more than a matter of fact. Authority to write off sums of less than $1,000 was given, generally speaking, under the Financial Administration Act; but I understand you have also outside authority, if I may put it that way, under the Pension Act, to write off various amounts, to interpret whether an amount shall be written off or not. I understand that considerable sums, several thousands of dollars, have been written off.

Mr. MUTCH: I am afraid, Mr. Chairman, that I could not comment on that intelligently without having a concrete example. If I have not learned anything else, I have learned not to relate generalization to particular cases, particularly in the field where discretion is so wide. Off-hand I do not think of an instance which would fit that description. I do not suggest that none exist.

The CHAIRMAN: The point of my questioning is to try and put some limit to this wide discretion. That is the general principle. We have received examples

under paragraph 72 of where, on the face of it, without an explanation—which, of course, you will no doubt give this morning—discretion is certainly very wide.

Mr. MUTCH: I think it is perhaps the widest discretion which exists in our legislation.

The CHAIRMAN: So that we are trying to find out this morning if you have a basis for reaching these judicial decisions, not to collect money which has been overpaid, to remit other sums which are open to question. It is this interpretation—how far do we go on the question of interpretation?

Let us go to paragraph 3 on page 32. These are practical instances, I hope. I have a question on paragraph 3. Should it not be considered that each child bears some responsibility for the maintenance of his dependent parents? Should it commonly be assumed that the child who died in action would have borne the full responsibility had he lived—that is, responsibility for the support of parents?

Mr. MUTCH: Perhaps I could answer that, if I may, by reading an observation made:

> A great many young men who lost their lives in both world war I and world war II were only school boys prior to their enlistment and were not in a position to render any support to their parents. An assignment of pay by such men evidences their desire and intention to do what they could to render support, and it is reasonable to suppose that if they had survived they would have continued such support after their discharge from the forces.
>
> Section 38(6) provides that where a parent or person in the place of a parent has unmarried children residing with him or her who should, in the opinion of the commission, be earning an amount sufficient to permit them to contribute, each such unmarried child shall be deemed to be contributing ten dollars a month towards such support.

I may add that since that was written, by the recent amendment of the act we are enjoined to draw "all reasonable inferences and presumptions in favor parent is deemed to be contributing not less than $10 per month, whether in fact that child does so or not. This is taken into consideration when determining the award and these contributions are taken into consideration in determining the parents' eligibility in the first place. The commission has, over the years —and when I say "over the years", that is, from the beginning, in my own experience—felt that we are enjoined not to draw presumptions against the applicant. We have accepted as prima facie evidence of the willingness of children to contribute to the support of the parents, the fact that they did make an assignment or paid their parent or parents during the time of their service, or that they did in fact, to the extent that they were capable of doing so, make a real contribution during their lifetime.

This belongs to the field of conjoncture, we know; but on the basis that we are enjoined to draw "all reasonable inferences and presumptions in favor of the applicant"—I think that is the only explanation that can be given. Over the years—inferences against the applicant, have not be drawn under this section.

Mr. DRYSDALE: In the concrete explanation of the 12 surviving children, were they married or living with the family?

Mr. MUTCH: I do not know this particular case. It is not an exceptional thing. For instance, a familiy of 12 children is not usually found in the upper economic bracket, and many of these children, particularly the married ones, are themselves away from home, raising families of their own, probably in the lower brackets of earnings. Having assumed other responsibilities, they are considered not to be able to help their parents and there is no way

that we could enforce support. The Commission cannot enforce any contribution against those children. I have no doubt as an individual that in some of these instances some of these people do contribute, but that is outside the scope of our knowledge. This is an interpretation which is almost as old as the act.

The CHAIRMAN: Well, of course, that should not hog-tie us, should it? Conditions change and some of the practices need to be investigated.

Mr. MUTCH: Well, there is no change in our power. The commission is not a legislative body, it is an administrative body, an interpretative body, and the practices of the commission and the interpretations of the commission are, of course, subject to review by parliament, and subject to restriction by legislation. This the commission has experienced. As a matter of fact, it takes a load, from my colleagues when Parliament does interpret. Of course, it also limits our powers to extend benefits under the legislation which is our primary function.

The CHAIRMAN: Are there any questions, gentlemen? If not, I have another question. Paragraph 4 on page 32. When a person awarded a pension under Section 38 (3) is found to be regularly employed, and a pension is continued by invoking section 38 (7), is there not a conflict with the basic requirement of section 38 (3), that is to say, that she be incapacitated from earning a livelihood? In other words, here you give a pension in the first place because the woman is incapacitated, then she finds a fulltime job and the pension is continued. Is not that inconsistent?

Mr. MUTCH: Subsection (7) is restricted in its application to a widowed mother. Section 38 (3) in its beginnings allows the commission to make an award to a parent, or person in place of the parent, on potential dependency if the applicant is incapacitated, by mental or physical infirmity. In such cases we do require a medical certificate in connection with the first award. But subsection (7) I suggest to you is restricted to widowed mothers; and it has been from the beginning of this legislation the policy of successive governments, and of successsive members of the commission, to do all that can be done to encourage and induce widowed mothers—many of whom you will realize were very young at the time of their widowhood—to find a place for themselves in the economic life of the country and to build a life for themselves.

Now, this has been reviewed to my knowledge, Mr. Chairman and gentlemen, by successive governments, for now nearly 30 years, and it has been the subject of observations for whatever part of that time I have been reading the Auditor General's report, and it has not been changed by legislative amendment. As was pointed out three years ago, opportunities for a young widow to re-establish herself financially in the Canada of today are infinitely greater than they were at the time this legislation was introduced. Despite that, one has to remember that this is in part social legislation, at least it has been considered that the effect of this was good both as far as the individual was concerned and for society—and the Commission continues to interpret it in that fashion. Subsection (7) we consider to be a flat prohibition against reducing the pension to a widowed mother on account of her earnings. I must emphasize it is "widowed mother".

Mr. BENIDICKSON: That is, the mother of a service man.

Mr. MUTCH: Consequently—

Mr. BENIDICKSON: It is not the widow of a service man who has children.

Mr. MUTCH: Widows are dealt with differently. This is a widowed mother. Subsection (7) applies only to a widowed mother.

The CHAIRMAN: We take now paragraph 5 on page 32.

Mr. MORTON: There is one comment, I would suggest, at the bottom of the page—"not recognized under Canadian law". The only comment I would make there is that it sometimes goes to the other extreme, where they take a power to decide on a marriage certificate, it may not be questioned by our courts, as not to be a valid marriage and deprive the widow of a pension. To that extent they violate a basic principle of law. They deprive people who should have the pension, whereas they have gone to the extent of giving legislative exemption to allow commonlaw wives to get a pension. To the person who had been married and living, with the certificate, on the basis that they may be legally married, the commission comes along and says: "Your prior divorce has not been recognized by the courts of Canada and therefore your second marriage is not valid", and they deprive the surviving spouse of a pension. I have run into two cases of that which have been almost autocratic in denying the pension.

Mr. MUTCH: Mr. Chairman and gentlemen, members of the pension commission are, I suppose, subject to error like everyone else, and sometimes in the writing of decisions errors may occur which might lend some colour to the suggestion. But I assure you quite solemnly that the Canadian pension commission does not consider itself a court competent to decide the issue of the validity of marriage, as such. Under the wide powers given to the Canadian pension commission, however, they do have the power to say that for the purposes of this act the commission is unable to accept a marriage which at the moment purports to be a subsisting marriage. We do not consider ourselves to be a court capable of assessing the validity of the marriage relationship except as it involves the legislation which we administer.

Mr. MORTON: It seems a little inconsisent. The chairman said they lean towards presumption to give a pension to a dependent of a veteran or to a veteran, and here they use presumption the other way, to deprive them of pension.

Mr. MUTCH: May I suggest it, not for debate but to defend the commission, that we are not permitted to use our discretion to place an interpretation on legislation which we are not empowered to administer. I would suggest that we do not draw the inference against the applicant, but that we obey the limitation which is imposed on us by law.

Mr. BENEDICKSON: Apparently the matter referred to at the bottom of the paragraph is taken care of by the amendments now before us, but the earlier part of the paragraph indicates that there has been a departure in the award of a compassionate pension, and it is suggested that contrary to what used to be the practice it is now in some cases awarded without any military connotation, such as outstanding war service. Has the Auditor General some illustrations of that?

Mr. HENDERSON: Mr. Douglas, have you an illustration of those cases?

Mr. J. R. DOUGLAS (*Audit supervisor*): I have not any specific example with me, but we have come across a number of such cases.

Mr. HENDERSON: Perhaps Mr. Mutch is familiar with some such cases.

Mr. MUTCH: Perhaps I could read a note which the chairman left me recently.

> Whilst it is true that in the past outstanding war service may have been the dominant factor underlying compassionate awards under section 25, the personnel of the commission changes from time to time and subsequent personnel do not necessarily place the same interpretation on a section as that which their predecessors did. The section itself makes no mention of outstanding war service, and the present commission does not consider such service as the dominant factor.

In this connection, it might be pointed out that as far back as 1918 it was held that in special cases of hardship not caused by pension regulations, and the cases in which special relief should be given, the commission shall have exclusive authority to award a pension or to afford relief in these specific cases. Then, in 1931 this is reiterated, and in the words of the then committee presided over by the then Minister, consideration was given that any case in which consideration under other clauses of the statute has been exhausted may be considered under this section. It cannot be said that any case does not come within the purview of section 25. That was reiterated again in 1939.

> The present commission does not accept the suggestion that its present interpretation of "specially meritorious" can be defined as "well deserving". The criteria is and in general has been that the "case" merits a "compassionate award". It is the circumstances "in any case", including service but not exclusively, that are weighed to determine if the case is specially meritorious.
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> The recent amendments have dealt with the situation in respect of "common-law" unions.

The CHAIRMAN: Any other questions?

Mr. BENIDICKSON: You have not dealt with the paragraph at the top of page 33. The only comment I make there is that it would appear here that the Auditor General is not suggesting that the Pension Commission is misconstruing the language of the Pension Act. It seems to me it is a suggestion that the act itself is inconsistent, in that two sections conflict with each other.

Mr. HENDERSON: That is right, Mr. Benidickson. I think this exchange this morning has been helpful in bringing some of these inconsistencies out, and to that extent I feel that it has served a useful purpose.

The CHAIRMAN: Anything else?

Mr. Mutch, thank you very much for attending this morning.

Mr. MUTCH: Thank you Mr. Chairman. There are certain nostalgic associations, I admit.

The CHAIRMAN: Paragraph 73.

> 73. *Revolving fund maximum balance exceeded.* Vote 517 of Appropriation Act No. 5, 1958, authorized the operation of a revolving fund for the purpose of financing the manufacture of Remembrance Day poppies and wreaths, with the proviso that the amount to be charged to the revolving fund at any time was not to exceed $350,000. When this limit was reached in September 1959, an advance of $50,000 from the vote for "Miscellaneous minor or unforeseen expenses" (Vote 116) was authorized by the Treasury Board to supplement the Fund, with the proviso that the amount be "subject to recoupment from the first proceeds of the 1959 Campaign for sales of poppies and wreaths".

We have with us Mr. Lucien Lalonde, Deputy Minister of Veterans Affairs.

Mr. HENDERSON: Mr. Chairman, this paragraph 73 points out that to increase a revolving fund fixed by Parliament beyond the maximum authorized, by means of an advance from the vote for miscellaneous, minor or unforeseen expenses, is open to question. I might mention here that the maximum of this particular revolving fund has, under vote 495, 1960-61, actually been increased from $350,000 to $400,000. However, that was not the situation, of course, in 1959-60.

Mr. BENIDICKSON: Mr. Chairman, I think this is the kind of thing that has happened before. It is the kind of thing that I think this committee should deplore. If there is, as this paragraph says, a proviso that the amount to be

charged the revolving fund was "not to exceed",—if parliament has passed an appropriation with the words "not to exceed",—then I do not think utilization under those circumstances should be made of another fund that is in the Department of Finance for miscellaneous, minor and unforeseen expenses. I think that is a complete negation of what parliament did in effect by statute, because when it passes an item in the estimates, it has legislated. I do not think the executive treasury board or anyone else, with language that plain, should use another vote to defeat in effect the specific limitation that was in the language of the appropriation bill.

Mr. DRYSDALE: I would disagree.

Mr. BENIDICKSON: The cause is perhaps a good one, but I think the department should come back the following year and say that this revolving fund is not large enough and that the limitation should be removed.

Mr. DRYSDALE: I disagree very strongly with Mr. Benidickson. I would say that the fact there is a fund for miscellaneous, minor or unforeseen expenses would have to be taken into consideration with this specific vote. What is the purpose of such a fund if not to meet an unexpected contingency which cannot be voted temporarily for the amount of $50,000? I think the procedure followed under these circumstances is quite proper and was contemplated by the very fact that there was such a fund created. Otherwise, if Mr. Benidickson is correct, there should not be such a fund for miscellaneous, minor or unforeseen expenses because in each case there should be an absolute amount set for each vote, and the very fact that this vote was created for unforeseen expenses was a direct authorization for the $50,000 as a temporary loan.

The CHAIRMAN: There is one question we should ask the Deputy Minister. I presume you were authorized to expend the difference?

Mr. Lucien LALONDE (*Deputy Minister of Veterans Affairs*): Whether this particular arrangement was correct or not, I think the members of the committee would be interested to know what the background was. Prior to 1958 we had to go to Parliament each year to have the money voted to permit us to operate our vetcraft shops in order to produce poppies for the Remembrance Day drive for the Canadian Legion. In 1958 it was decided that the best procedure was to have Parliament approve a revolving fund and eliminate the necessity for voting that amount each year. The amount of $350,000 was voted in 1958 and we operated that year on the basis of the money voted by parliament.

At the beginning of the 1959 fiscal year we were told by the treasury officials that we had made a mistake, that we had not charged the inventory which was available at the beginning of 1958 against the revolving fund, and that we must do so in 1959. This the department did; but some time during 1959 we ran out of funds to pay our vetcraft employees. Then we went to the Treasury Board and asked for authority to secure a loan which would permit us to pay the salaries of these people who, incidentally, depended on us to get enough money to live on, and then next year in order to obviate the situation in which we found ourselves in 1959, we asked Parliament to increase the revolving fund to $400,000 including inventory.

Mr. BENIDICKSON: There were, perhaps, some four times during the parliamentary session of 1959-60 that the administration came to parliament and asked for supplementary estimates when it was found that further funds were required. If you are going to run out of money, and you have this strict limitation in the language of your basic vote, then you should come to parliament with supplementary estimates. Did you think about getting this money by supplementary estimates?

Mr. LALONDE: It depends on the time of the year when we run short of money.

Mr. BELL (*Carleton*): There is an important principle involved, and I should like to ask the Auditor General if it is his view that the miscellaneous, minor and unforeseen expenses item of the Department of Finance cannot be used in respect of any matter in relation to which parliament has already paid money? In other words, is it confined to matters in respect of which there has been no vote?

Mr. HENDERSON: Mr. Bell, I assume it would be confined to matters which might come up within the Department of Finance as such, rather than of the government as a whole.

Mr. BELL (*Carleton*): Oh no.

Mr. DRYSDALE: What is the total amount of the fund?

Mr. BELL (*Carleton*): The clear intention with respect to this is that it shall apply to all departments of government. It is only a matter of convenience and this is voted as part of the estimates.

Mr. BENIDICKSON: I would agree with Mr. Bell.

Mr. HENDERSON: In the approval letter of October 8, 1959, written by the treasury board to Colonel Lalonde, there was approval for an advance of $50,000 to the revolving fund from Vote 116, which was the miscellaneous, minor and unforeseen expenses vote of 1959-60.

Mr. BENIDICKSON: I do not want to press this point and I am not trying to belabour the present administration on it. It is something which has happened before, but I should like the Auditor General to reflect on Mr. Bell's comment and deal with it at a later meeting when he has reviewed the utilization in practice of this fund, and then tell us what he thinks should be the interpretation of "unforeseen expenses". Must it be an expense that has not been foreseen to the extent of already appearing as an item in the estimates?

Mr. BELL (*Carleton*): And if parliament has voted an inadequate sum of money for one purpose, may it not be supplemented by the use of this fund? I think this is a very crucial issue upon which we ought to have a considered opinion.

Mr. HENDERSON: I should be glad to do that.

Mr. BENIDICKSON: My impression of supplementary estimates is that frequently we are replacing the funds in this miscellaneous, minor and unforeseen expenses vote. For one reason or another I think it is becoming a common thing in the current year's supplementary estimates.

Mr. HENDERSON: Mr. Chairman, I should like to have the opportunity of looking into this and then replying to the point later.

Mr. DRYSDALE: There was some indication given that the fund was as high as $1,500,000, and I think the committee should be given some indication as to where the money is going from that particular fund.

Mr. HENDERSON: The details of where the money has gone are of course contained in the public accounts.

Mr. DRYSDALE: But if it is used in other situations to increase a specific fund that has been set at a specific amount, that would back up the procedure that was taken at this particular time.

The CHAIRMAN: We shall now go on to paragraph 74.

74. *Interpretation of the term "casual earnings" under the War Veterans Allowance Act.* Section 6 of the War Veterans Allowance Act, 1952, provides that certain classes of receipts are not to be treated as income in determining eligibility for allowance payments, and the exempted classes include "any casual earnings of the recipient". The Act does not define the term "casual earnings" but the War Veterans Allowance Board has directed that earnings from part-time employment,

even though of a continuing nature, be exempt to the extent of $50 a month, and that earnings from full-time temporary employment be exempt for the first twelve weeks of such employment in a year.

This interpretation seems to go beyond what would ordinarily be accepted as a reasonable definition of the term "casual earnings".

Mr. HENDERSON: This paragraph notes that the term "casual earnings" is not defined in the War Veterans Allowance Act, and it suggests the practice of treating as casual earnings money from part-time employment of a continuing nature and earnings from full-time temporary employment, goes beyond what would be ordinarily accepted as a reasonable definition of casual earnings.

In this connection, Mr. Chairman, I want to draw attention to bill C-101, the first reading of which was given in the house on May 30 last. In clause 9, on page 7, it is proposed to authorize the minister, on the advice of the board and with the approval of the governor in council, to define casual earnings for the purposes of the act. Perhaps Colonel Lalonde may care to add something to this.

Mr. DRYSDALE: You say this would ordinarily be accepted as a reasonable definition of the term "casual earnings". Since the term has not been defined, where do you get your definition?

Mr. HENDERSON: We look up the concise Oxford dictionary which states that a casual labourer is one who works when the chance comes.

Mr. DRYSDALE: In relation to determining a specific amount, I agree with it being set at $50 per month. Perhaps in a lot of cases that may be a little low, but it is permitted under this definition of casual earnings and I think it has a psychological value to the recipients.

Mr. HENDERSON: That is one of the reasons we put this in, but I should like to hear what Colonel Lalonde has to say, as I gather the matter has never been referred to the Department of Justice for an opinion.

Mr. DRYSDALE: I want to get your point of view first.

Mr. HENDERSON: The departmental instructions were amended on January 17, 1961, to provide that exemption for casual earnings be $600 per annum for a single person and $900 per annum for a married person. Previously it was $50 a month, whether a man was single or married. The question is whether that is casual earnings or not.

Mr. DRYSDALE: You are the one who is raising the issue. You say $50 a month is not casual earnings; and then I must ask, how much is?

Mr. HENDERSON: I proposed the question that the interpretation seems to go beyond what would ordinarily be accepted as a reasonable definition.

Mr. DRYSDALE: Then you have got to reach a figure, whether it be $50 a month for casual earnings or $30.

Mr. BENIDICKSON: The Auditor General has indicated that this bothers him and he thinks it is a loose arrangement. May I ask the Deputy Minister if the amendment which has been made in the war veterans allowance amendment bill, which has not yet passed through all stages in the House, was prompted by this paragraph in the Auditor General's report?

Mr. LALONDE: Partly, Mr. Benidickson, and also because of the fact that the members of this committee realize that to define casual earnings in very precise and concise terms is impossible.

Mr. BENIDICKSON: But we got two illustrations this morning where comments by the Auditor General relating to uncertainties and looseness of language have resulted in statutory amendments, just as soon as the acts concerned were open to amendment, and I think this shows the Auditor General is making another report of that nature.

Mr. LALONDE: Yes. A moment ago the Auditor General referred to our seeking an opinion from the Department of Justice. We did, and the Department of Justice was unable to give us a definition of casual earnings. The definition of casual earnings has been connected with the War Veterans Allowance Act ever since 1930, and it has varied a great deal, depending on two things, one the fact that the value of casual earnings has changed since 1930, and the other the fact that every time we have attempted to define casual earnings in a very precise manner we have either cut off deserving cases or we have opened the door for cases whereby some veteran, who perhaps used to be a barrack-room lawyer, has found a way of beating the interpretation.

After all those years of experience we have come to the conclusion there is only one way to limit casual earnings to a reasonable level, and that is to do what we did recently, that is for the board, under the powers it used to have before this bill came before the house, to determine the amount that could be earned casually in a year. The $50 a month definition which we had previously was unjust in some cases because we had some veterans who were not able to secure casual employment over a period of a year, but they were able to do so over a period of two or three months, and in those two or three months they earned more than $50 a month but less than $600 a year. In other words, they earned less than other veterans who were fortunate enough to have regular part-time work; and we came to the conclusion that, without changing the value of the amount of casual earnings, we should just change the method of appraising them.

The reason for having the $900 for a married couple is that the War Veterans Allowance Board takes into account the income of the wife, and the difference of $300 between a single person and a married recipient is to cover whatever casual earnings the wife might have on her own. By that we make it possible for her to earn up to $300. This may not be perfect. In fact, I do not think it is, but I doubt if we shall ever have a perfect definition of casual earnings under the Act and I doubt if anyone can give us a concise definition of casual earnings to the point that it can be applied uniformly.

The CHAIRMAN: We shall move on to paragraph 75.

> 75. *Extinguishment of debt due to the Crown for overpayment of allowance.* An order in council authorized the Department of Veterans Affairs to accept $3,000 in cash in full settlement of a debt of $12,469, and approved "non-enforcement of payment of the balance of $9,469". The debt arose because a recipient of war veteran's allowance concealed his income from a business during a period of over 20 years and thus received allowances to which he was not entitled. The overpayment was discovered after his death when his widow was awarded a widow's allowance. An investigation of her financial position disclosed that the estate of the deceased included approximately $11,000 in seven bank accounts, together with a house and a car. When the widow offered a compromise settlement of $3,000 in return for a "full and unequivocal discharge of the widow, her heirs, executors and administrators and the estate of the deceased veteran", the department accepted the offer and gave the discharge in the terms requested.
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> To give a "full and unequivocal discharge" not only to the widow but also to her heirs is tantamount to extinguishing the debt, which is the sole prerogative of Parliament.

Mr. HENDERSON: This paragraph reports a case where a full and unequivocal discharge was given by the Department of Veterans Affairs in

accepting a compromise settlement offer of $3,000 in respect of a debt due to the crown of $12,469. So far as I am aware, the Department of Justice was not consulted by the Department of Veterans Affairs before this release was given and the debt extinguished.

Mr. HALES: What were the circumstances for accepting $3,000 in full settlement of a debt of $12,469?

Mr. LALONDE: Briefly, Mr. Chairman, the circumstances are these. The veteran concerned was adjudged to be permanently unemployable in 1935 and was granted the War Veterans Allowance, which was paid continually from 1935 until his death in 1958. The case was investigated regularly between 1935 and 1945, and at that time it was found that the veteran was conducting some insurance business on a casual basis. During those years his commissions amounted to an average of $75 to $100 a year. Then, after the second world war, because of increased volume and in order to save personnel, the system of investigation was changed and each year recipients were asked to complete a form, called a declaration of income and assets. The veteran concerned completed those forms in 1947, 1948 and 1950, and in those years he declared income below the casual earnings level.

Unfortunately in 1950 the administration of war veterans allowance was decentralized to the districts and this case, along with some others which fortunately were few in number, fell between two stools. The War Veterans Allowance Board thought the district authority was continuing to follow it up and the district authority, not having made the original decision, lost the files somewhere and the case was not checked from 1950 to 1958. When the veteran died it was found he had accumulated a better business during that period than the Department thought he had, and as a result there was overpayment of War Veterans Allowances. When he died he left an estate which in 1958 was supposed to be in the neighbourhood of $10,000 cash and an equity in the home in which he and his wife lived.

Mr. BENIDICKSON: Was the equity valued?

Mr. LALONDE: No, I do not know how much it was, but it was within the permissible equity under the Act; the house itself was worth, I think, about $11,000. In any event, after he died the widow, through her solicitors, was asked to remit the amount of overpayment. The discussions went on for about a year, and we were informed that in 1959, having paid some funeral expenses and having lived on that estate, there was $5,000 cash left, plus the equity in the home. We were offered $3,000 cash settlement. Perhaps we made an error of judgment, but if we had taken the $5,000 that would have reduced her assets considerably and she would have become eligible for War Veterans Allowance. So we took a long-range view and said: "Perhaps we had better take this money and keep her off the allowance as well as we can, and in that way at least the Crown will not lose any more than if we were getting more cash." The widow has not come back on the allowance since. This was two years ago. We think that perhaps we made the right decision.

Where we erred is on a technicality. It is quite true that the department did not go through the Department of Justice, because we made a submission to the Cabinet to approve the settlement of $3,000 in full settlement of the debt. This submission was approved and this was a condition imposed upon us that in order to get the $3,000 cash we would have to give a release for the whole amount. Whether we made a mistake or not, as I say, it is possible, but I think we did it in good faith.

Mr. BENIDICKSON: I do not think it is a question of merit, or whether a mistake was made. I think the last sentence of the paragraph is the important part of the Auditor General's comment. Again we are just dealing with this particular thing in parliament. We are amending the financial Adminis-

tration Act. It is not a matter of whether the Department of Veterans Affairs used its good judgment. It is not a question of whether they were released by getting an order in council from the cabinet. The point is that even the cabinet did not have the right to forsake a debt in this manner. The Financial Administration Act says that, as the Auditor General pointed out, if it is over $1,000 it must be dealt with by Parliament. If we think that is still unsatisfactory, we should be amending this bill this afternoon.

Mr. LALONDE: I do not want to leave the impression, Mr. Benidickson, that we secured authority from the Cabinet to give that release. We asked the Cabinet for authority to settle the debt for $3,000. This was our interpretation of the method which should have been followed.

Mr. BENIDICKSON: In effect, if the amount was not mentioned in the order in council, you would have to have a preamble reciting the facts to the cabinet and surely it would state that $3,000 was offered, and the cabinet would question as to what the claim was?

Mr. HENDERSON: I could answer that, Mr. Benidickson. The release was signed by the Minister of Veterans' Affairs and their own document, in the pertinent paragraph, after various Whereases, states:

> Now therefore, Her Majesty the Queen in right of Canada, represented by the Minister of Veterans' Affairs, doth accept the sum of $3,000 in full and complete satisfaction of Her claim against the estate of the late (man) and doth remise, release and forever discharge (blank), her heirs, executors and administrators, and the estate of the late (man) from all manner of actions, suits, claims or demands, which Her Majesty may now have or in the future shall or may have with respect thereto.
>
> *(Signed)* A. J. Brooks,
> *Minister of Veterans' Affairs.*

Mr. LALONDE: I must admit that this was our mistake.

Mr. DRYSDALE: What should have been the correct procedure in this matter?

Mr. HENDERSON: As I said in the paragraph, the giving of a discharge like this is the sole prerogative of parliament; and in the circumstances set out in the paragraph it would seem that a parliamentary appropriation should have been sought.

Mr. BENIDICKSON: What would be the proper policy to follow now?

Mr. HENDERSON: Actually, it has been deleted by the 1960-61 supplementaries, by means of a dollar vote, number 681.

Mr. BENIDICKSON: Then it has been corrected?

Mr. HENDERSON: Yes. This is in the 1960-61 supplementary.

Mr. BENIDICKSON: It has already been done. The Cabinet should have received authority, but they are coming to Parliament and getting the authority which should have been obtained in the first instance.

Mr. DRYSDALE: But it is a dollar vote.

Mr. LALONDE: If we were to be justified, we can say we felt that if we waited for a year it was possible that there would not be $3,000 available.

Mr. BENIDICKSON: But the occasion of the estimates is not the only opportunity of getting before Parliament; two or three times during the year there were supplementaries.

Mr. HALES: In view of the fact that these documents were falsified and misrepresentations were made by this widow's husband, what would be the department's view if she should apply for a widow's pension?

Mr. LALONDE: Where a recipient commits a fraud he is liable to criminal prosecution, and of course civil action to recover the amount that he has obtained through his fraud. If his wife was a party to the fraud, while he was alive, then we feel she is also liable to prosecution, but if she was not an active party to the fraud we never prosecute the widow for the fraud committed by her husband. In this case, if in the future she met the conditions of eligibility under the War Veterans Allowance Act, she could get the allowance.

The CHAIRMAN: I think that is all, gentlemen. Thank you, Colonel Lalonde.

We now have the civil service commission, Miss Addison and Mr. Pelletier.

On paragraph 76:

76. *Payments to civil servants additional to salary.* Subsection (1) of Section 16 of the Civil Service Act reads:

"In the absence of special authority of Parliament, no payment additional to the salary authorized by law shall be made to any deputy head, officer, clerk or employee permanently employed in the Civil Service in respect of any service rendered by him, whether in the discharge of his ordinary duties of office or of any other duties that may be imposed upon him, or that he may undertake or volunteer to discharge or otherwise perform."

Instances were noted during the year under review where honoraria, terminable allowances, etc., were authorized by the Executive, as charges to general votes, by relying on Section 60 of the Civil Service Act to permit the exemption of the positions from operation of Section 16 in order that the extra payments might be made. Section 60 reads as follows:

"60. (1) In any case where the Commission decides that it is not practicable nor in the public interest to apply this Act to any position or positions, the Commission may, with the approval of the Governor in Council, exclude such position or positions in whole or in part from the operation of the Act, and make such regulations as are deemed advisable prescribing how such position or positions are to be dealt with."

An example was the case of an honorarium of $1,000 paid to an officer of the Department of Finance and charged to the appropriation for "Departmental Administration" (Vote 106).

It has long been the Audit Office view that the phrase "special authority of Parliament" in subsection (1) of Section 16 means that a special parliamentary appropriation or specific mention in the text of a general vote is a condition precedent to a payment being made to a public officer additional to his salary. This has been the practice followed when civil servants have been called upon to render services to Royal Commissions.

The CHAIRMAN: Miss Addison and Mr. Pelletier, we welcome you this morning. I am sorry Mr. Hughes is not here. We hope perhaps to see him later as we have a few things to discuss with him. With your permission we will go right through paragraph 76.

Mr. HENDERSON: The purpose of this paragraph is to direct attention to the question of whether it is permissible to rely on section 60 of the Civil Service Act to exempt a position from the operation of section 16 of the act, so as to make a payment to a public officer additional to his salary. It is noted as having long been the audit office view that the phrase "special authority of parliament" in section 16 means that a special parliamentary appropriation,

or specific mention in the text of a general vote, is required for such a payment. This has been done, for example, in the case of special work on royal commissions. I think that is about the only observation I can make at the moment.

Miss RUTH ADDISON (*Commissioner, Civil Service Commission*): Mr. Chairman, may I make a statement. As Mr. Henderson has pointed out, this is a legal matter. It is an interpretation of the Civil Service Act, and when there is a question of interpretation it is customary to go to the Department of Justice for an opinion. This was done in 1948 and the Department of Justice ruled that it was permissible to exempt from section 16, under section 60. With your permission I should like to read the opinion which was given at that time. It was in a letter dated March 23, 1948, signed by Mr. F. P. Varcoe Deputy Minister of Justice.

I should point out that in 1948, the section of the Civil Service Act which is now section 60 was then number 59; and section 17 is now section 16 of the present act; but both sections are identical in wording with those in the present act. The opinion reads:

> In accordance with your request, I have considered the question as to whether section 59 of the Civil Service Act authorizes the commission, with the approval of the governor in council, in cases falling within the provisions of that section, to exclude from the operation of section 17 of that act positions of permanent employees who are temporarily required to perform extra duties or temporary positions occupied by permanent employees who are on leave of absence from their permanent positions. Your inquiry arises out of a proposal that payments by way of extra salary be made in proper cases in respect of the additional duties of the employee.
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> I am of the opinion that it is within the authority of the civil service commission, with the approval of the governor in council, to exclude these positions from the application of section 17, if it reaches the decision required by section 59. It would be necessary, of course, that moneys be available under a vote by parliament for payment of additional remuneration before it could be paid.

It is on the strength of this opinion that exemption is sought under section 60, provided there is enough money in the departmental vote to pay the additional sum of money. But, as I say, it is under an opinion of Justice that we seek this exemption.

Mr. PELLETIER: Could I add a word? I agree entirely with what Miss Addison said, and we do operate under that opinion and have for quite a number of years. I should add, however, that there have been unofficial opinions on this. Section 16(1) of the Civil Service Act, to which the Auditor General has referred in his report, in its very first phrase says:

> In the absence of special authority of parliament—

—thus and so could not be done. Then if you go to section 60, it says, and it is all-inclusive, that the commission, with the approval of the Governor in Council, may exclude any position from all or any provisions of the Act from under certain conditions.

The opinion has been expressed that if this section read:

> —notwithstanding anything in this act—

or, indeed, "any other act", thus and so shall not be done, then the commission's hands would be tied. However, in view of the phrasing of section 16 (1), this does not invalidate in any way the powers granted to the commission and the governor in council under section 60.

Mr. DRYSDALE: Mr. Pelletier, you speak of unofficial opinions. By whom?

Mr. PELLETIER: They are unofficial, Mr. Drysdale, and therefore I would not like to mention names.

Mr. DRYSDALE: You have not re-submitted this to the Department of Justice, in view of these unofficial opinions, to see if there has been any change in Justice's opinion in the intervening years since 1948?

Mr. PELLETIER: Not recently.

Mr. DRYSDALE: Not since 1948?

Mr. PELLETIER: That is correct.

The CHAIRMAN: I think the idea is that you should just put in a special item in the estimates rather than have a broad interpretation of section 60, to set aside the provisions of section 16.

Miss ADDISON: This would be rather difficult administratively because there are a number of cases and you never know when they are going to arise. In other words, it is not possible to know ahead of time when such cases are going to occur nor in what department.

The CHAIRMAN: I assume it is difficult to deal with by means of administration, but that is the way the law stands, and it is our duty to say that the law is faulty and not leave it to be a source of difficulty.

Mr. BELL (*Carleton*): In any event, you got a clear opinion from the Department of Justice that the law is faulty.

Mr. DRYSDALE: Have you a different opinion, Mr. Chairman?

The CHAIRMAN: I could give you an opinion, but I do not think it would be very legal. What I am trying to find out is, who takes advantages of section 60 of the Civil Service Act? Does it not open the door wide to abuses?

Mr. PELLETIER: Mr Chairman, on that question certainly in recent years these terminable allowances—and this is what this section really addresses itself to in the Auditor General's report—the vast majority of them have been paid to civil servants who have been loaned to Royal Commissions to do a special job as Secretary or Economic Adviser or in some other capacity. The others are very few indeed and far between. In all, there were 25 cases in 1960. The vast majority have been paid civil servants who have been loaned to Royal Commissions.

The CHAIRMAN: There is no objection to civil servants being paid extra for extra work. It is just the method of payment; that is what we are inquiring into.

Mr. DRYSDALE: Referring to the words "it has long been the audit office view that the phrase" and so on—do you disagree with Mr. Varcoe's opinion, or what is the basis for the audit office having a different view?

Mr. HENDERSON: This was the view of my predecessor, and I would be less than frank if I did not say that if you were in possession of an official opinion to the contrary, I would not want to go back to something delivered by the Deputy Minister thirteen years ago. It seems to me that if there is any question at all, it is not too difficult to make a specific mention in the text of a general vote, particularly if there are only 25 cases in a year. The words "Special authority of parliament" do seem very clear.

Mr. DRYSDALE: You are saying in effect that you disagree with Mr. Varcoe's opinion? Do you as Auditor General, in a case like this, since there has been no opinion in the last thirteen years, request opinion on this particular section?

Mr. HENDERSON: Most certainly I would wish to do that.

Mr. DRYSDALE: It seems strange, if there is an opinion by the Department of Justice, on which I think the commission is quite entitled to rely, for you to come along and say that they have got that opinion, but the audit office has a different view.

Mr. HENDERSON: Mr Long, have you anything to add to this note, particularly with reference to the Justice opinion?

Mr. G. R. LONG (*Auditor Supervisor*): This opinion is quite an old one and I am afraid I do not have at my fingertips what has transpired since then. In each case, as far as we know, where a civil servant received additional compensation for services performed for a Royal Commissions, there was special authority contained in a vote heading. The most recent one we have noticed is in vote 700 of the further supplementary estimates of 1960-61 which deals with the sum of $1,000 to Dr. R. Warren James for services rendered by him to the Senate special committee on manpower and unemployment. We have always had reservations about terminable allowances from any special claimants and we are afraid the new act, which is being considered, from what we know of it so far, is not going to cover this.

Mr. DRYSDALE: Mr. Chairman, perhaps Mr. Henderson or a member of the commission could get a further opinion from Justice on this particular section as to whether there should be some legislative clarification to give the correct intent to the legislation.

Miss ADDISON: I would also like to point out that every time we have sought exemption from the governor in council in these cases. The commission has not acted on its own. We have always sought approval of the governor in Council, as is required in the act.

Mr. SPENCER: It seems to me that if you use the words "in the absence of special authority of parliament", it is a little unusual. I think it is more usual to use the words "except as otherwise provided in this act" or something of that kind. I do not think those two terms are necessarily synonymous, and I would think it would be advisable to obtain a more recent opinion from the Department of Justice.

Mr. PELLETIER: I do not know if it is relevant, Mr. Chairman, but in the present bill I think the point raised by the hon. member has been met because it reads:

> —unless authorized by or under this act or any other Act of Parliament.

That appears in section 14(1) of bill C-71 which is currently under review by another parliamentary committee.

Mr. MORTON: Does the Auditor General feel that amendment to the new act covers the situation sufficiently?

Mr. HENDERSON: As Mr. Long mentioned, we do not think the new act is going to take care of it so far as we know.

The CHAIRMAN: Anything else on that paragraph?

Paragraph 77.

> 77. *Civil servant working for two departments.* Additional payments to civil servants who perform duties for more than one department are prohibited by subsection (1) of Section 16 of the Civil Service Act except where the Civil Service Commission, under subsection (2), authorizes a separate annual salary to be paid with respect to part-time services performed for each department. An instance was nevertheless observed where a doctor employed on a full-time basis at a Veterans Affairs hospital was also engaged in his spare time by the Department of National Defence as a consultant pathologist at a Naval hospital, and in 1959-60 he was paid about $1,700 for this service.
>
> In addition to being contrary to the Civil Service Act, the arrangement also lacked conformity with the Naval regulations because,

in order to comply in form with the regulations, the doctor's claims were submitted in such a way as to indicate attendance on specific duty days although, in fact, he gave service when required at week-ends and other off-duty times.

Mr. HENDERSON: This paragraph reports an instance where a civil servant employed on a full-time basis with one department was also engaged in his spare time by another department—a situation not permissive under subsection (1) of section 16 of the Civil Service Act.

On the matter being directed to the attention of the department, the arrangement was terminated and no further payments were made, so far as we have been able to ascertain.

However, the approval of the civil service commission has now been obtained by the department to the employment of the officer in question on a part-time basis under subsection (2) of section 16 of the Civil Service Act. So, under the circumstances, it would seem that it has been regularized.

The CHAIRMAN: Paragraph 78.

78. *Unauthorized salary payments beyond retirement age.* The practice of setting up, as receivable, amounts equivalent to the salaries earned by employees during periods when they had been employed beyond retirement age without due authority, and later deleting the balances from the accounts as "uncollectible", was referred to in the 1956-57 report and described as a "clumsy practice".

In the year under review, 11 cases were noted where civil servants had been paid salaries in amounts totalling $80,000 during such periods, due, in most cases, to a lack of authentic information concerning the dates of birth of the recipients.

Inasmuch as the problem of civil servants working beyond retirement age without the requisite prior approval appears to be a continuing one, it would be more realistic were

(*a*) departments required to verify the age of employees before they are near retirement age in those cases where birth certificates had not been provided at the commencement of employment; and

(*b*) employees who deliberately conceal their age penalized by withholding retirement leave, or by some other means.

Consideration might also be given to providing the Governor in Council with authority to recognize work performed after retirement age and approve the employment beyond that age retroactively, when necessary.

Mr. HENDERSON: This paragraph draws attention again to the unusual bookkeeping practice of setting up as receivable, amounts equivalent to the salaries earned by employees during periods when they had been employed beyond the retirement age without due authority, and later deleting the balances from the accounts as "uncollectible"—and a suggestion is made that the governor in council be provided with authority to recognize work performed after retirement age and to approve the employment beyond that age retroactively, when necessary.

Since that time this authority has been provided by means of a dollar vote in the further supplementary estimates (5) of 1960-61, to be specific vote 686. So that it has been legislated by means of a dollar vote.

The CHAIRMAN: Any questions on that paragraph?

Paragraph 79.

79. *Overpayments of pension to former civil servants.* Recovery of overpayments was noted as having been waived by the Governor in Council in three cases during the year under review, where pensions

of retired civil servants had not been suspended during periods of re-employment. The resultant loss to the Superannuation Account amounted to $7,404.

We are of the opinion that the waiving of recovery of overpayments of pension in such cases requires an appropriation by Parliament to replenish the Superannuation Account because this account should not be permanently charged with payments not authorized by the Public Service Superannuation Act. Moreover, recovery of the overpayments is possible.

Mr. HENDERSON: This paragraph makes reference to three cases...

Mr. BELL (*Carleton*): I see we have one more witness here, Mr. Bryce. We have only five minutes left. Perhaps we could go immediately to the paragraph in respect of which he is called.

The CHAIRMAN: It is paragraph 80, subsection 3.

80. *Unpaid accounts charged to new fiscal year.* In the following instances the departments concerned had incurred expenditures beyond what had been provided by parliamentary appropriations for the year, and had avoided recording over-expenditure of the appropriations simply by carrying unpaid accounts forward to the 1960-61 fiscal year:

3. Vote 623 provided $25,000 for expenses of the Royal Commission on Coal. $24,975 was charged to the appropriation but additional accounts totalling $20,945 for services rendered prior to March 31, 1960 were carried forward as charges to 1960-61.

Mr. HENDERSON: We disposed of subsection 1 when Mr. Baldwin from the Department of Transport was here last week. We will now deal with subsection 3, vote 623. This was the case of the Royal Commission on Coal. I do not think I have anything to say, Mr. Chairman. Perhaps you would like to hear from Mr. Bryce.

Mr. R. B. BRYCE (*Clerk of the Privy Council and Secretary to the Cabinet*): Well, Mr. Chairman, I think the facts on this are reasonably clear. Costs were incurred in this fiscal year 1959-60 and were paid out of the vote for the subsequent year because we did not secure a supplementary estimate to meet costs that were incurred over and above what was expected. I do not believe there is any legal requirement to come back for supplementary estimates. This is a matter for the government to decide and request of parliament. I believe it is quite legal to pay the moneys in subsequent years. I think the question is whether it is desirable and proper for the government always to come back for a supplementary estimate in circumstances of this kind. With Royal Commissions there is a special difficulty in forecasting what in fact they are going to spend and when they spend it. These do not operate under very direct control of the government, as you can imagine. We are never able to anticipate just how soon they will get operating, and how much expense they will incur when they do get operating. In this case we guessed badly early in the year. When it came time to ask for supplementary estimates, we knew that the Commission was going to incur more cost than was provided in the estimates to which the cost was being attributed, but we thought there would be enough the following year to meet that excess.

It turned out we were wrong on both scores. There was not enough the following year to meet the excess and we had to seek supplementary estimates in the following year.

Those are the facts. I do not believe there is any established direction from the treasury or from Parliament to the government that it shall always seek supplementary estimates. Naturally, that produces better accounts, from the point of view of reflecting when expenses were borne, if they are paid in the year in which the obligation is incurred.

The CHAIRMAN: Any questions?

Mr. HENDERSON: I have one short question to ask Mr. Bryce, if I may. You mentioned the difficulties with royal commissions, and I notice that in the case of this particular one instead of individual certificates of availability of funds, a blanket encumbrance was issued for the full amount of the allotment when the funds became available, and expenditures were charged until the allotment was exhausted. Would the former technique apply better to Royal Commissions?

Mr. BRYCE: I do not believe the manner in which you encumber the funds would overcome the problem. Our problem is anticipating in advance when the commissioners will hold their hearings, how long those hearings will continue, what expenses they will incur for consultants and things of that sort. If commissioners are going to do what is expected of them, they have to exercise a certain amount of discretion as they go along as to what is required. The problem of forecasting is a real one. I do not believe the techniques of encumbering the funds would really alter it very substantially.

The CHAIRMAN: Any questions?

Mr. BENIDICKSON: These accounts are not particularly important, but again if it became a general practice and involved large amounts, it would be of some interest, I think. For instance, we know just how close the Minister of Finance was in his estimate as to whether he would have a surplus or a deficit in his budget of a year ago. His surplus was predicted as only going to be $6 million. This, if it were utilized to a large extent, would make it impossible adequately to criticize the estimates and revenues of expendtures, and I think members of the committee should caution any administration against holding accounts to the subsequent year rather than asking at the end of a year for supplementary estimates.

Mr McGEE: Regarding Mr. Benidickson's statement, the Minister was a lot closer in his estimate than the Liberals were.

The CHAIRMAN: Thank you, Mr. Bryce, for appearing before the committee.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

Report of the Auditor General to the House of Commons—1960

WEDNESDAY, JUNE 14, 1961

WITNESSES:

Mr. S. C. Barry, Deputy Minister of Agriculture; Mr. G. G. E. Steele, Secretary of the Treasury Board; Mr. J. A. MacDonald, Assistant Secretary, Treasury Board; Mr. J. A. MacDonald, Director, Financial Branch, Post Office Department; Honourable S. H. S. Hughes, Q.C., Chairman, Civil Service Commission; Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; Mr. G. A. Morrison and Mr. G. R. Long.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25381-5—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech	Fisher	Pigeon
Bell (*Carleton*)	Grenier	Pratt
Benidickson	Hanbidge	Robichaud
Bissonnette	Hellyer	Rouleau
Bourbonnais	Keays	Smith (*Lincoln*)
Bourget	Lahaye	Smith (*Simcoe North*)
Brassard (*Chicoutimi*)	Macdonnell	Smith (*Winnipeg North*)
Broome	McGee	Spencer
Bruchési	McGrath	Stefanson
Campeau	McGregor	Stewart
*Chown	McMillan	Tucker
Danforth	Morissette	Valade
Denis	Morton	Villeneuve
Deschatelets	Murphy	Winch
Drysdale	Noble	Woolliams
Dupuis	Nugent	Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

*Replaced Wednesday, June 14, 1961 by Mr. Muir (*Lisgar*).

ORDER OF REFERENCE

WEDNESDAY, June 14, 1961.

Ordered,—That the name of Mr. Muir (*Lisgar*), be substituted for that of Mr. Chown on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

25381-5—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, June 14, 1961.
(20)

The Standing Committee on Public Accounts met at 2.37 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Benidickson, Bissonnette, Broome, Drysdale, Hales, Keays, Macnaughton, Morton, Muir (*Lisgar*), Smith (*Simcoe North*), Spencer, Stefanson, Stewart, Tucker and Winch—15.

In attendance: From the Department of Agriculture: Mr. S. C. Barry, Deputy Minister, Mr. T. R. C. Anderson, Chief Treasury Officer; and Mr. C. B. Grier, Director of Property and Finance; Mr. G. G. E. Steele, Secretary of the Treasury Board; and Mr. J. A. MacDonald, Assistant Secretary, Treasury Board; Mr. J. A. MacDonald, Director, Financial Branch, Post Office Department; Honourable S. H. S. Hughes, Q.C., Chairman, Civil Service Commission; Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; Mr. G. A. Morrison; and Mr. G. R. Long.

On Paragraph 84 of the Report of the Auditor General

Messrs. Henderson and Barry commented on the procedure followed in the payment by the Canadian Wheat Board for part of the losses suffered as a result of the collapse of the annex to a terminal elevator at Port Arthur, Ontario.

On Paragraph 80, sub-section (2)

Mr. Barry provided the Committee with the background of the operations of the Department of Agriculture in the payment of quality premiums on high grade hog carcasses; and was questioned.

Mr. Smith (*Simcoe North*), tabled and explained the Report of the Sub-Committee on the Form and Content of Estimates. Following the questioning of Messrs. Smith, Steele and Henderson, the report was allowed to stand.

On Paragraph 73

Messrs. Henderson and Steele supplied additional information concerning the use of a Department of Finance vote to supplement the revolving fund established in relation to the manufacture of Remembrance Day poppies and wreaths.

On Paragraph 79

Messrs. Henderson, Steele and Long commented upon and were questioned concerning overpayment of Pensions to former Civil Servants.

On Paragraph 81, sub-sections (2) and (3)

In relation to non-productive payments, were commented upon by Mr. Henderson and it was agreed that he consider the inclusion in future reports to the House of Commons of a listing of all non-productive payments.

On Paragraph 82

Messrs. Henderson, Long and MacDonald (*Post Office Department*), were questioned concerning losses suffered by the Post Office Department. It was suggested by Members of the Committee that certain improvements could be made in the detailing of those losses in the Public Accounts.

On Paragraph 83

Messrs. Henderson and Morrison commented upon the responsibility of Members of the Forces for losses of public funds.

Mr. Hughes was questioned concerning suggestions made by the Public Accounts Committee in its Third Report to the House during 1960, with regard to the need for provision of increased authority to the Auditor General in connection with the recruitment of his staff.

On Paragraphs 110 to 137 inclusive, relating to Crown Corporations, Mr. Henderson reviewed the situation and was questioned.

On Paragraphs 85 to 105 inclusive, under the heading of "Summary of Assets and Liabilities" and Paragraphs 106 to 108 inclusive under the heading of "Comments on Asset and Liability Items", Mr. Henderson commented and was questioned thereon.

In Camera

The Committee considered a Draft Report related to the form and contents of Estimates, approved it, and instructed the Chairman to present it to the House as its Fourth Report.

At 5.45 p.m. the Committee adjourned to meet again at 2.30 p.m., Monday, June 19, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, June 14, 1961.

The CHAIRMAN: Gentlemen, we have a quorum, in these rather unusual circumstances. We have some very pressing business and that is the main reason for getting you here this afternoon. Have you all copies of the proposed agenda?

Mr. S. C. Barry, the Deputy Minister of Agriculture, has a pressing engagement at 3 o'clock and he has asked that we start with paragraph 84.

> 84. *Unusual payment from a special account of Canadian Wheat Board.* Although the Auditor General is not the auditor of the Canadian Wheat Board, the unusual nature of a payment approved by an Order in Council out of a special account provided for by statute is regarded as bringing it within the scope of Section 70 of the Financial Administration Act, which requires the Auditor General to call attention, among other things, to any other case that he "considers should be brought to the notice of the House of Commons".
>
> Section 29A of the Canadian Wheat Board Act, as amended by c. 26, 1952-53, provides for the transfer to a "separate account", after the payment of certain costs, of undistributed balances that have been held by the Board for six years or more. Subsection (2) of the section reads, in part:
>
> > "Any balance transferred to the separate account...shall be used for such purposes as the Governor in Council, upon the recommendation of the Board, may deem to be for the benefit of producers."
>
> On September 23, 1959, an annex of one of the terminal elevators at Port Arthur collapsed, dumping into Lake Superior substantial quantities of wheat, oats and barley. Included in the loss was grain owned by the Canadian Wheat Board, to a value of $2,406,175, as evidenced by warehouse receipts. The company that operates the terminal took the position that the Board as holder of the warehouse receipts, sustained the loss occasioned by the destruction of the grain to the extent of the warehouse receipts it held (although information on file indicates that the company did not take this position with respect to relatively small quantities of flaxseed and rye which were also lost, and with respect to which it honoured all outstanding warehouse receipts thereby absorbing the loss incurred). On the other hand, the Canadian Wheat Board took the position that its right against the company to deliver wheat, oats and barley in accordance with the terms of the warehouse receipts was unaffected by the destruction of the grain in the annex.
>
> The dispute was referred to the Minister of Trade and Commerce who, after discussing the matter with the Chief Commissioner and other officials of the Board and with representatives of the company, recommended to the Governor in Council that a sum of $775,000 be paid out of the Separate Account in settlement of the balance of the loss, following payment by the company of $1,631,175. Having regard

for the requirement of subsection (2) of Section 29A, quoted above, the Order in Council approving the payment recited that:

> "the Canadian Wheat Board recommends that if the Governor in Council considers such payment to be for the benefit of producers, a sum of $775,000 of the monies in the said Separate Account be used to pay the balance of the purchase price in the sum of $775,000..."

Perhaps the Auditor General would like to make some remarks.

Mr. A. M. HENDERSON (*Auditor General of Canada*): This paragraph draws attention to a payment of an unusual nature during the year, from the special account provided for by section 29A of the Canadian Wheat Board Act. This section provides that the special account be used for such purposes as the governor in council upon the recommendation of the Canadian Wheat Board "may deem to be for the benefit of producers". The payment described in the paragraph is referred to as being of an unusual nature because it differs significantly from payments previously made from the account, for example, first, to advertise the sale of wheat and flour in overseas countries, and secondly, to pay the expenses of representatives of countries which are purchasers or potential purchasers of Canadian wheat or flour incurred in coming to Canada to inspect and evaluate the methods of production, handling and marketing of wheat and wheat products. The facts as set out in paragraph 84 seem to speak for themselves.

The CHAIRMAN: Are you the auditor of the wheat board?

Mr. HENDERSON: No, I am not.

The CHAIRMAN: There are certain items, I understand, which were not included in this paragraph, which you found. What were those items?

Mr. HENDERSON: Certain items which were not included?

The CHAIRMAN: Yes, I understand that when your auditors went through the accounts you found one or two items that the official auditor of the wheat board had not mentioned.

Mr. HENDERSON: Oh no, sir. The auditors of the Canadian Wheat Board are Millar, Macdonald & Company, chartered accountants, of Winnipeg. They did not include any reference to this special payment in their certification of the accounts of the Canadian Wheat Board for the past year. We ourselves encountered the circumstances described here when we saw a copy of the order in council and drew the files to inform ourselves on the background.

The CHAIRMAN: Perhaps Mr. Barry would comment on this.

Mr. S. C. BARRY (*Deputy Minister of Agriculture*): Mr. Chairman and gentlemen, I should first ask your indulgence on this item. As you know, the Canadian Wheat Board was transferred to the authority of the Minister of Agriculture in October, 1960, and this particular event to which this item refers occurred prior to that time. Therefore, I have to make it clear to yourself and the committee that at the time of this event my department was not, nor was I personally, associated with it. I do however have an understanding of the circumstances which I would like to deal with briefly, if I may.

As the committee knows, the annex to this particular elevator collapsed in September, 1959, and the grain in it fell into the harbour of Port Arthur with a considerable loss of grain. It so happened that this particular type of catastrophe or risk was not covered under the insurance carried by elevators. Under the Canada Grain Act licensed elevators are required to carry insurance against fire and inherent explosion, but not against this particular eventuality, which was unique as it was the first occasion on which it happened. Therefore,

there was no insurance coverage. I may say for the information of the committee that the board of grain commissioners is now moving to have all elevators carry all-risk insurance which would include this eventuality, should it occur in the future. Therefore, the circumstances were that this loss occurred without insurance coverage.

The issue then arose as to responsibility for the loss. The Canadian Wheat Board held warehouse receipts for the grain which was stored to its account in the elevator. This, from one legal side, would seem to infer that the elevator company was responsible for the loss. The elevator company on legal opinion and legal advice took a different view, that they under their handling agreement were acting as agent for the wheat board and therefore liability did not devolve on them. There was this legal issue involved, with the possibility that had the matter gone to litigation the ruling might have been either one way or the other. This was uncertain because there was substantial legal opinion on both sides of the case.

This particular elevator was the property of one of the four large western cooperative pools, and obviously any loss involved in this would devolve on the farmer membership of that organization.

I can simply report to you, sir, that in dealing with this matter the opinion was reached that in view of the legal uncertainty involved in the position, in view of the fact that a loss to the elevator company would involve a loss to some 50,000 farm members of the organization, in view of the fact that if the matter had gone to litigation there may have been a judgment which might have had a serious effect on the whole system of grain handling, and the mechanics of grain handling in western Canada, it was decided that there would be an adjustment and that each party would take some responsibility for the loss.

Several side issues were involved. How was the grain to be valued—at the carlot price, the farm price, which would include the cost of storage; or at the current selling market price, which, of course, was a higher figure. In the event, the decision was taken that of the total of some $2 million involved in the total loss, the wheat board would assume liability for $775,000, and that the elevator company would reimburse the wheat board for the balance.

This leads me then to the question of the special account to which the wheat board's share of the loss was charged. This special account, as members may know, is an account set up within the wheat board financial operations and in which are placed outstanding amounts which have not been claimed by the producers for six years or more after the close of the pool period. That is to say, after the close of the pool period, the farmer grain grower is entitled to a certain final payment for his grain, and if it is not in a position to reach him and make that payment to him, that amount is placed into the special account after the lapse of six years or more. It was from this account that the payment in this case was made.

As the Auditor General has pointed out, this was not a usual use of this particular account. Indeed, as the committee will appreciate, this is the first occasion on which these circumstances had arisen, and on which this use was made of it. That special account is used, as the Auditor General has said, primarily for the promotion of the sale of Canadian wheat and grains. However, the judgment was that the use of this account, or its funds to this extent, did represent action in the general interest of the western grain producers. It was for that reason that the decision was taken to authorize the wheat board to meet the $775,000 share of the total obligation and pay it from that account. These, in essence, Mr. Chairman, are the circumstances.

Mr. WINCH: Could I ask whether or not an interpretation was asked from the Department of Justice as to the legality of this being done; and further was it taken up with the treasury board as regards the interpretation that this fund could be used in this manner?

Mr. BARRY: I am sorry, Mr. Winch, I cannot say with respect to the treasury board. There was a Department of Justice opinion with respect to the total legal issue. I am not aware and I cannot say that there was a Department of Justice opinion with respect to the legality of using this particular account.

Mr. WINCH: What was the decision of the Department of Justice?

Mr. BARRY: It pointed out the two sides of the case.

Mr. DRYSDALE: Did they reach a conclusion?

Mr. BARRY: My recollection is that the opinion of the Department of Justice pointed out that there was an argument on one side—

Mr. DRYSDALE: In every law case there are two sides, and they come to a decision. Did you get an opinion from the Department of Justice? What was their opinion?

Mr. BARRY: Their opinion was that—

Mr. DRYSDALE: That there are two sides?

Mr. BARRY: Their opinion was that quite possibly an opposite view, that the elevator company was acting as agent of the board, might be upheld in the courts.

Mr. DRYSDALE: You mentioned, also, which I think appeared to be a matter of concern, that if it went to litigation you felt it might change the method of handling wheat. Could you develop that statement a little more?

Mr. BARRY: I think in this sense, sir, that the whole wheat operation is based on elevator warehouse receipts, on the legality of these and the validity of these. If, of course, these had been changed and rejected, then the whole principle of wheat handling would have been seriously affected.

Mr. DRYSDALE: Would you say that that is a main reason for not litigating?

Mr. BARRY: No, I think there was substantial doubt as to the legal portion and also the other point which I mentioned, that should the judgment have been against the company there would have been serious financial loss, or greater financial loss than there was to the producers' organization representing some 50,000 producers.

Mr. DRYSDALE: What recommendation did the Department of Justice make?

Mr. BARRY: I am sorry, I cannot tell you specifically.

Mr. DRYSDALE: Was it that you should settle?

Mr. BARRY: I am sorry, sir, I cannot tell you specifically. As I say, this occurred prior to the transfer of the Canadian wheat board to the authority of the Minister of Agriculture. I was not personally involved, and my department was not involved.

Mr. DRYSDALE: So nobody here really knows?

Mr. BARRY: I am sorry, I cannot tell you that.

Mr. MUIR (*Lisgar*): I wonder if I may ask this question—was this a United Grain Growers elevator?

Mr. BARRY: It was a United Grain Growers elevator, yes.

Mr. MUIR (*Lisgar*): Do you know whether they pay their earnings out on a patronage basis to the farmer who delivers that grain to the elevator, or to their shareholders?

Mr. BARRY: I am sorry, I cannot answer that specifically.

Mr. MUIR (*Lisgar*): The reason I ask this question is that you stress the fact that it is done for the benefit of the producer. This company I believe is regarded as a cooperative in the sense that the farmer member does come into the profit picture, but in another sense the other cooperative elevator associations pay their patronage to the people who deliver the grain there. In this instance I am just wondering if there is any difference.

Mr. BARRY: I am sorry, Mr. Muir, I cannot tell you precisely the way in which U.G.G. distributes its earnings.

Mr. MUIR (*Lisgar*): Could you give us any information on that, Mr. Henderson?

Mr. HENDERSON: No, I am afraid I cannot, though I appreciate the point you bring forward.

The CHAIRMAN: Perhaps, Mr. Barry, you could write us a short note which we could read at the next meeting.

Are there any other questions? If not, I suggest we revert to paragraph 80, subsection (2). Mr. Barry, perhaps you could deal with that also.

> 80. *Unpaid accounts charged to new fiscal year.* In the following instances the departments concerned had incurred expenditures beyond what had been provided by parliamentary appropriations for the year, and had avoided recording over-expenditure of the appropriations simply by carrying unpaid accounts forward to the 1960-61 fiscal year:
>
> 2. Vote 25, as supplemented by Votes 496 and 635, provided $8,187,000 for the payment of quality premiums on high grade hog carcasses by the Department of Agriculture. Payments to producers are made through the issue, at inspection points, of warrants negotiable at chartered banks. The banks are subsequently reimbursed for redeemed warrants by payments charged to appropriations provided annually for the purpose. Because the warrant is a negotiable instrument, the practice has been to charge the annual appropriations with the value of warrants outstanding at the close of each fiscal year and to credit a liability account, "Hog Premiums—Outstanding Warrants", with a like amount. However, the amount available in the appropriation as at March 31, 1960 was inadequate for the purpose, with the result that $547,770 was carried forward as a charge to the 1960-61 appropriation.

Mr. Barry, perhaps you could deal with that also?

Mr. BARRY: Mr. Chairman, this item has to do with hog premium warrants.

Mr. DRYSDALE: Just before we go on, I wonder if Mr. Barry could find out what was the recommendation of the Department of Justice, because we have people before us on this item and they do not know anything about the background—I am not criticizing them.

The CHAIRMAN: The witness says he will write us, and I presume he took notes of all the questions.

Mr. DRYSDALE: He would give us the specific information?

Mr. BARRY: Yes, I will do so.

Item 80 has to do with what we refer to as hog premium warrants. This is an arrangement under which a premium, which is now $3 per head, is paid for each grade A hog marketed by producers. The point raised by the Auditor General has to do, in a sense I think, with an underestimate of the moneys required for this item in the 1959-60 estimates.

May I explain first that under the arrangement obviously every grade A hog marketed by a producer must receive the full premium payment, and

that at the beginning of each fiscal year it has been necessary for us to estimate the number of hogs which would be marketed and against which this this premium would apply. So that while there is an obligation in effect to pay the premium on each hog, the question of estimating the number of hogs to be marketed and the amount of premiums required in total, does present some difficulty. This, of course, is normally caught up in supplementary estimates.

Now, may I very briefly explain this item to the committee and make this reference. These hog premium warrants are issued to producers at the time when the hogs are marketed. This is a negotiable instrument which they can take and cash at the bank. There is alway some carryover of unredeemed warrants, and the practice has been that the amount involved in unredeemed warrants is charged against the vote for the current fiscal year and put into a special account to be held over to meet the amounts of those warrants when they are eventually redeemed.

As the report of the Auditor General points out, at the end of 1959-60 the total vote was insufficient by $547,770 to meet the requirements of the special reserve fund to take care of unredeemed warrants. This was quite simply an error in estimating and in providing funds in the estimates for this purpose.

I think I may perhaps, Mr. Chairman, for the information of the committee, indicate what has been done subsequently to overcome the very difficult situation involved in estimating the total funds required for this purpose. The vote title in this item has been changed in the current estimates for 1961-62, and instead of providing simply a total specific amount and the vote being limited to that amount, the item now reads—and this is vote No. 23 of our department's estimates for 1961-62:

> 23. To authorize, notwithstanding section 33 and 35 of the Financial Administration Act, the issue by the Minister of Agriculture, in accordance with terms and conditions prescribed by the Governor in Council, of Premium Warrants for High Grade Hog Carcasses, and to authorize the charging to this Vote of the value of Premium Warrants at the time they are issued and the value of any unredeemed Premium Warrants issued in previous fiscal years, notwithstanding that the total value of all Premium Warrants to be charged may exceed the estimated cost of the program which is $6,865,000

The wording of this vote title now permits charging to the public accounts of hog premium warrants in any given fiscal year even though the total amount exceeds the amount provided for in the estimates. This mechanism will of course prevent a recurrence of the situation which occurred in the 1959-60 fiscal year and to which the Auditor General's report refers.

Mr. DRYSDALE: Dr. Barry, as a point of information, what is the premium payment for each carcass?

Mr. BARRY: Three dollars for each grade A carcass. Until October of last year it was $2 for each grade A carcass and $1 for grade B.

Mr. DRYSDALE: What has happened in this particular situation, that your estimates were so far out?

Mr. BARRY: This was a year of very heavy hog production and we simply erred in not providing sufficient funds. The marketings exceeded our expectations.

Mr. DRYSDALE: Is it in relation to previous years, or was it an exceptional trend?

Mr. BARRY: Oh yes, the total marketings in that year—I am sorry, I have not got the actual hog marketings, but the figures for expenditures reflected in the total of 1959-60—

Mr. DRYSDALE: Before you do that, was there any change in premium during that period?

Mr. BARRY: No.

Mr. DRYSDALE: Prior to 1959-60?

Mr. BARRY: The change of premium was subsequent to this. In 1959-60 the total payments were $8.2 million compared to $6.8 million the year before, and a forecast of $6.8 million this year. They are about a million and a quarter heavier.

Mr. MUIR (*Lisgar*): Would you suggest it would be hard to estimate within, say, ten per cent the hog production of Canada, grade A?

Mr. BARRY: I would say within 5 per cent.

Mr. MUIR (*Lisgar*): The reason I asked is because Mr. Morton pointed out that it amounts to roughly 6½ per cent. When you start the year of course there is no way of telling how many hogs will be grade A hogs.

Mr. BARRY: Of courses we do have leeway to catch up in the supplementary estimates, but in this case we did not catch up adequately. That is the situation.

The CHAIRMAN: Any questions, gentlemen? No questions. Thank you very much, Mr. Barry.

Would you now revert to item No. 1 on the agenda which is consideration of the report of the subcommittee on form and contents of the estimates. Mr. Heber Smith was chairman of the subcommittee. Mr. Smith, would you care to take over? Would you care to lead the discussion on your own report?

Mr. HEBER SMITH (*Chairman of the Subcommittee on Form and Content of the Estimates*): The committee met and it dealt in some detail with the recommendations or suggestions by both Treasury Board and the Auditor General's office. The recommendations fell into two classes: on certain recommendations we seemed to be in complete agreement, and they were of a fairly mechanical nature. Other recommendations indicated by the subcommittee further study at another session, of the subcommittee, which we hope might be set up much earlier in the proceedings of the committee. We could deal with those at a later time, and the people concerned might wish to develop their ideas further. The items we did not deal with in the report are covered generally in paragraph 7 where we recommend that the matter be studied by the next year's committee or by a subcommittee of such committee.

The items, which we considered were quite important and ought to be dealt with at this session, are contained in paragraphs 3, 4 and 5 of the report. Those paragraphs are the gist and the meat of our positive recommendations to the committee at this time. I think everyone will have read them, and if there are any questions, I could attempt to answer them.

Mr. DRYSDALE: I wonder if there was any consideration given to providing, for the benefit of the members, a loose-leaf presentation—I mean specifically for the members—in order that the various items could be re-arranged to suit the convenience of the members in the event that there were supplementary estimates which could also be added to the loose-leaf.

Mr. SMITH (*Simcoe North*): That was not dealt with. It might be a suggestion that could be dealt with in a further committee. However, certain things are included in the report which would be to the substantial benefit of the members, and they are covered in paragraph 3, particularly. They relate to your suggestion, Mr. Drysdale for having the estimates on a "permanent numbers" vote system so that estimates from one year to another would carry the same number. Secondly, we propose a change in the arrangement of the book of estimates whereby the details would appear in the book immediately following the departmental summary. The third change will go part way toward answering your inquiry. We recommend a change in the system of numbering supplementary estimates, and that is that the first supplementary estimates will be estimates A, the second will be estimates B and so forth. For instance, a supplementary estimate relating to an estimate in the main estimates would be

20A, and so on; so there will be a relationship. It might very well be that a loose-leaf presentation, for members at least, might be a useful extension to that at another time.

I feel that at this particular time we would need to have some evidence as to the cost before we adopt it.

Mr. DRYSDALE: Mr. Smith, in the event that the present system is still maintained, is there any consideration being given to having the vote section, as it is now compiled with relatively few pages, and then providing in the detailed part the vote followed by the detail, as you suggested, but to have that double reference? To me that would appear perhaps more desirable, if you are not going to utilize a loose-leaf system, because you would then be able to skim through the votes very quickly and then go to the back part for the vote and the details.

Mr. SMITH (*Simcoe North*): That is something which I also hope for. We should always remember that the estimates ought to be something alive, as it were, and they should be subject to continuous scrutiny. Those suggestions seemed reasonable and I would hope that the subcommittee next year would give detailed consideration to your suggestions.

Mr. DRYSDALE: I would like to do it this year. I might not be able to get a chance next year.

Mr. SMITH (*Simcoe North*): Your suggestion would have a great deal of merit in normal times, but we must realize we are getting close to the end of the session. This committee is meeting very few more times and it has a very full agenda. It is unfortunate, perhaps, that you have not brought these matters to the attention of the subcommittee before.

Mr. DRYSDALE: On the matter of the loose-leaf submission, I get all the reports put out by the Queen's Printer and there are quite a few of the departmental ones on various items which I consider relatively less important, where I get the loose-leaf folder as well as periodic inserts. I do not think the cost would be out of the way, and I have thought of restricting the loose-leaf parts to members of parliament and perhaps a few additional people who were directly concerned with it. I think the value of the system is obvious, and I do not see why it would require additional study.

Mr. SMITH (*Simcoe North*): It may be Mr. Steele could add a few words on that.

Mr. ERNEST STEELE (*Secretary, Treasury Board*): I could not add anything else except to say that it is not a system which is normally used, but it is certainly one we should be prepared to study. I cannot think of any production problems that would face us in this, but it would be a matter of additional cost.

Mr. DRYSDALE: It is done in other departments. For example, take the Department of Transport which has various air services that are filed in a loose-leaf addition. I have also seen one or two others which have come across my desk which seem to be perhaps a little obscure as to their general use. Apparently there was no cost problem under those particular circumstances. I think it would be fairly easy to do the same thing in a limited edition for members.

Mr. SMITH (*Simcoe North*): Being a subscriber to a number of these, I think the costs of these loose-leaf insert texts are substantially higher than those for other texts.

Mr. DRYSDALE: Mr. Stefanson has drawn to my attention that the U.I.C. decisions have recently been put out in a loose-leaf booklet, and my idea has been that the basic cost of issuing the first loose-leaf would warrant the cost as the public accounts inserts would be retained for three or four years by the particular members.

Mr. SMITH (*Simcoe North*): Mr. Henderson, have you ever considered this suggestion?

Mr. HENDERSON: No, I have not considered the loose-leaf idea. I think Mr. Steele has best summed it up because he is of course concerned with the putting together of this material. I can see certain merit in it. I think it is a suggestion which might usefully be studied next year.

Mr. DRYSDALE: Why not this year?

Mr. STEELE: I was just going to suggest to Mr. Smith that I see no reason why we, treasury board staff, should not study this right away if there is a generally expressed view by the committee that this would be of help. We could certainly look at it before the estimates are due to come this fall.

Mr. DRYSDALE: As the public accounts estimates would still have to be published, there would only be the problem of selecting the right type of folder, and punching holes. I find it difficult to understand why there should be a great deal of thought given to that problem. It does not appear to me to be a big decision.

Mr. STEELE: I think you are right as far as the mechanics are concerned. I do think, however, that it would be a much more costly business. It will be a hand-assembly job.

Mr. DRYSDALE: I would suggest the Auditor General check with the various departments that are using this particular method and find out how they are able to justify the cost of what I would suggest are relatively minor publications, such as the air transport regulations or the U.I.C. regulations. If they are good for these other departments, surely they are good for members of parliament.

Mr. SMITH (*Simcoe North*): A lot of the publications issued by the Queen's Printer are on a subscription service, and the subscription is substantial.

The CHAIRMAN: Mr. Smith, I understand you have held long discussions and that this report is in effect a compromise between the views of the Auditor General on the one hand—the word "compromise" is unfortunate; it is an agreement between the Auditor General on the one hand and the Department of Finance on the other.

Mr. SMITH (*Simcoe North*): I would not go quite as far as that, Mr. Chairman. This report represents the areas that we studied where there is a complete agreement in the matters we have included in our report. There is a complete agreement, and I think that is probably a better use of words.

The CHAIRMAN: Is it correct to say that the Department of Finance is quite anxious that something be done on this report so that if it is acceptable they can start soon?

Mr. SMITH (*Simcoe North*): That is so particularly in regard to paragraph 3.

The CHAIRMAN: Gentlemen, could I suggest that when the discussion is completed the report stand over until the end of the meeting and then we can discuss it in detail in camera?

Mr. DRYSDALE: Just one question; is there any conflict between paragraphs 3 and 6? In paragraph 3 you refer to the new permanent numbers votes system.

Mr. SMITH (*Simcoe North*): No, we refer to the numbers. There is no conflict at all. Paragraph 3 refers only to the mechanical method of numbering them. Paragraph 6 refers to a possible study where certain votes might be divided into two or might be regrouped in the future. It will not affect the numbering system at all, because it is proposed under paragraph 3 to leave in each sequence of digits a certain number of blank numbers to be inserted later.

The CHAIRMAN: Gentlemen, while we have Mr. Steele, Mr. Henderson and Mr. Macdonald here, are there any questions that you want to pose on this report? If not, could we release these gentlemen? Thank you Mr. Steele and Mr. Macdonald. Thank you Mr. Smith and all members of your subcommittee.

At the last meeting I believe the Auditor General was asked to make a statement with regard to paragraph 73. Certain details were requested.

Mr. HENDERSON: Mr. Chairman, this has to do with the vote for miscellaneous, minor or unforeseen expenses. I think Mr. Bell, Mr. Benidickson and Mr. Drysdale asked if I could give this matter some thought and express a view on it. In 1950-51 the amount of the annual appropriation for unforeseen expenses was increased from $80,000 to $1 million and each year since, with one exception when it reverted to $1 million, the amount voted has been $1,500,000. From 1943 to 1947 the vote heading provided that a detailed statement be laid before parliament within fifteen days of the next session—a requirement similar to that of section 28(3) of the Financial Administration Act in respect of governor general's special warrants.

Currently the treasury board when approving allotments from the unforeseen expenses vote requires departments to include in supplementary estimates items for which the board considers specific appropriations should be provided by parliament. When the funds are subsequently appropriated, repayment is made to the unforeseen expenses appropriation, and the expenditures which remain charged to that appropriation are detailed in the public accounts.

The audit office view with respect to the classes of expenditures which are permissible charges to the "unforeseen" appropriation may be summarized as follows:

(1) expenditures for which no appropriation has been provided;
(2) expenditures which were not anticipated when the amount estimated as being required for a service was determined.

In other words, this appropriation should be used only for expenditures which were genuinely unforeseen at the time of preparation of the estimates. However, if the proposed expenditure which had been unforeseen is of a major nature, then it should be the subject of a supplementary estimate.

The "unforeseen" appropriation should not be regarded as being automatically available to supplement another vote and under no circumstances should it be used to supplement a vote for a specific purpose for which parliament has set a specific amount. This is what was done when the limit of $350,000 set by parliament on September 6, 1958 on the revolving fund for the manufacture of remembrance day poppies was increased to $400,000 in September 1959 by the transfer of $50,000 from the "unforeseen" vote.

This was the statement I thought members would like to have today following yesterday's discussion.

Mr. DRYSDALE: Who made that last statement covering specific illustrations in section 73?

Mr. HENDERSON: It was the paragraph on remembrance day poppies.

Mr. DRYSDALE: Yes, but is this your opinion?

Mr. HENDERSON: Yes, sir, it is my opinion. I was asked to give further thought to it and I made this statement. I thought it might be convenient to make it today rather than on Monday or Tuesday. You asked me for the details and I said the details of this particular vote are set out every year in the annual accounts.

Mr. DRYSDALE: I think this does not answer the basic problem of whether you are entitled, when an unforeseen contingency arises in the fund such as the present one when parliament has set a level, to put the money into that

particular fund as was done in that situation. You say you were not backing up your own contention which appears in your report.

Mr. HENDERSON: This is my opinion. If you want another, then we can go to someone else. You asked what I thought about it, and this is it.

Mr. DRYSDALE: You have just reiterated what you said in your report, with which I did not expect you to disagree.

Mr. HENDERSON: I stated in my report what in effect ties in with this audit office view, which I might say is not by any means my own view exclusively. It has been the view of my predecessor as well.

Mr. DRYSDALE: The point I tried to raised described the fact that there was a specific limit set, as in this particular situation. The fact that you had such a fund was, in my interpretation, implicit authority when an unforeseen contingency arose, even though there was a level set, and that you could take advantage of this particular fund to increase it. In other words, this would substantiate the view that was taken under these circumstances.

Mr. HENDERSON: You are saying that the extra $50,000 was an unforeseen event?

Mr. DRYSDALE: That is right.

Mr. HENDERSON: As I stated in the report, that should have been the subject of an item in the supplementary estimates and not taken from the unforeseen vote. Perhaps Mr. Steele would care to comment on that? He is right here.

Mr. STEELE: The only point I would make is that there will be situations arising when the house is out of session where a true contingency emerges and there would have to be an exercise of judgment about whether or not it was sufficiently urgent to warrant making a temporary allotment from the vote.

Mr. DRYSDALE: That is what I wanted to be assured of, that the fund could be increased if a sudden contingency arose. It was the principle with which I was interested.

Mr. HENDERSON: You have to meet those problems when you come to them. There is a case for having a vote of this nature.

Mr. DRYSDALE: I was wondering if we were being asked to approve a principle, in effect, that when there is a fixed amount to a fund and a contingency arises, that you can never use this contingency fund to increase it above the set amount of the appropriation.

Mr. HENDERSON: It all depends on the circumstances. I am not asking you to bless this. It is just what I think.

Mr. DRYSDALE: On this particular set of facts.

Mr. MORTON: I think you should keep in mind in some of these things the practicality of the situation, that we should perhaps not be too rigid in our judgment. If, for example, people are going to be without services or without pay, we should consider those circumstances. The government is here for a certain specific purpose, and although we like to keep a reasonable control over expenditures, we also have to understand the practicality of it and allow sufficient discretion in those cases so that an alternative method for unforeseen circumstances can be used.

Mr. HENDERSON: I agree.

The CHAIRMAN: Let us go to paragraph 79.

79. *Overpayments of pension to former civil servants.* Recovery of overpayments was noted as having been waived by the Governor in Council in three cases during the year under review, where pensions of

retired civil servants had not been suspended during periods of re-employment. The resultant loss to the Superannuation Account amounted to $7,404.

We are of the opinion that the waiving of recovery of overpayments of pension in such cases requires an appropriation by Parliament to replenish the Superannuation Account because this account should not be permanently charged with payments not authorized by the Public Service Superannuation Act. Moreover, recovery of the overpayments is possible.

Mr. HENDERSON: This paragraph makes reference to three cases which came to notice during the audit where excess amounts of pension were continued to retired civil servants after their re-employment, with recovery of the resultant pension overpayments being waived. The view is expressed in the paragraph that the waiving of the overpayments should have been done only on the authority of a parliamentary appropriation, providing for replenishment of the superannuation account.

Vote 684, further supplementary estimates (5), 1960-61, a dollar vote, authorizes payments to be made from the superannuation account in cases, such as those referred to in the paragraph, where the overpayments would not have occurred had the less restrictive provisions of the amendment to the Public Service Superannuation Act, assented to on July 14, 1960, been in effect earlier.

I think that is about the extent of the comment I would have on this paragraph, Mr. Chairman.

The CHAIRMAN: Any questions on this?

Mr. BROOME: Why was it waived?

Mr. HENDERSON: I will ask Mr. Stevenson to answer the question.

Mr. IAN STEVENSON (*Assistant Auditor General*): Mr. Chairman, I think these overpayments could have been recovered, but they were waived, and then later on, by vote 684—as the Auditor General has mentioned—provision was made to authorize similar payments in cases where overpayments would not have occurred had the less restrictive provisions of the amendment to the Public Service Superannuation Act assented to in July 1960, been in effect earlier.

Mr. BROOME: I did not understand that clearly. They could have been recovered, but why were they not?

Mr. STEVENSON: I think it is for the department to say.

Mr. BROOME: Why not ask the department?

Mr. MUIR (*Lisgar*): Would legal action have been necessary to recover the money?

The CHAIRMAN: Mr. Steele, would you have any knowledge of this? This is sort of springing it on you.

Mr. HENDERSON: If I may say so, it could be a considerable hardship on a pensioner to pay it back. I am also concerned with the fact that there is certain violation here of what would seem to be elementary pension fund principles, that if you take something out of the fund you should put it back.

The CHAIRMAN: Which department is concerned?

Mr. HENDERSON: Perhaps Mr. Long could answer that.

Mr. LONG: I can explain what the decision was. You may recall that this involves re-employment of the superannuated civil servant. The Superannuation Act was changed last July on the basis of calculating any amount

to which they were not entitled. It was effective on July 1. These overpayments had resulted because their pension was stopped when they were being re-employed. A great part of this would not have occurred under the act as it presently exists.

These are only three cases which came to our attention. As a matter of fact, there are a great many more which are being dealt with now, and the dollar vote authorizes a refund of these overpayments in cases where they are being recovered. The fund is actually paying it back to the people in order to try and pay everybody concerned.

Mr. BROOME: When superannuated servants were hired by the post office department and make $50 by working at Christmas time, it was taken off them. We did everything we could to get that changed and it was changed over a three months basis; but this amounts to about $2,600 where three persons are involved. It seems that the department can collect back from the person who earns $50, but apparently cannot get it back from the person who earns $2,500. I am in quite a fog as to what this is all about, because if they could collect it from one case, why could they not collect it in these cases?

Mr. WINCH: I rather feel about this, in view of the statement made a moment ago by Mr. Henderson, that the situation is as dealt with by Mr. Broome a moment ago, just as a matter of incidental employment, a matter of a few dollars, that is diffrent.

Mr. BROOME: Oh.

Mr. WINCH: But here, according to the information we have, there are three persons and the overpayment is $7,404. We have just heard from a member of the audit branch that they were re-employed in the civil service. If they were re-employed, then they were on their full salary and in addition to their salary their pension had not been stopped. I cannot gather what Mr. Henderson meant when he said it would have been burdensome on these people to have got the money back. At the time they were overpaid they were on full employment, so I would just ask if he could explain that.

Mr. HENDERSON: Perhaps Mr. Steele would care to say a word on this. This is a problem of his department. I do not know whether he is briefed on it.

Mr. STEELE: I could say something about it. I think the administration of the superannuation act with respect to the limitation about re-employment is something which has been left to the departments concerned, that they must inquire of persons who come under their employ whether or not they are in receipt of pensions under the Public Service Superannuation Act or receiving pensions under any of the other pension acts in the federal service.

It happens in a large government service that instances arise where—not because of any attempt to defraud, but out of sheer insufficiency of knowledge —people do come back and do not know that they cannot now be re-employed without their pension being affected. Only in those cases where you are quite able to determine that it was through sheer administrative error, of the size of the operation, that the person did not know about this; or secondly, where hardship would be caused; that they would waive recovery of the overpayment. That is one point I want to make in regard to the administration of the law.

The law itself has been altered in this respect in the amendment of the superannuation act passed in the last session by parliament, in the direction of allowing a certain measure of remuneration for re-employment in accordance with a formula which, I think, reads something like this: that they cannot earn more than the pension which they would have received during the last three months of employment, or words to this effect. In other words, there is a condition in there, where it is termed re-employment of the type

which has been mentioned here, casual re-employment at Christamas time of quite a large number of people in the post office.

Mr. WINCH: These are not those kind of people, though.

Mr. STEELE: These things may have happened over a period of years. It might have been a period or successive periods of re-employment, accumulating potential recovery of these amounts. I cannot tell you what the circumstances were in these three cases.

Mr. BROOME: This may have taken place over a period of ten years, a month, a year, or something like this, perhaps?

Mr. STEELE: With respect to the point which has been made, however, I was of the view that there had been indeed an amendment, a consequential amendment, made which in effect backdated this amendment of last year, at least to 1954, I think it was, and therefore those people who had been caught up in this and who had had technical overpayments were having these sums refunded to them where recoveries had been made. This is actually going on right now. I know this to be a fact, that the superannuation branch is reviewing the files and making returns of these recoveries.

The point which the Auditor General has made, of course, is a different one, that is, the question of principle as to whether or not these recoveries—these amounts which are returned or even, in fact, the waivers of the overpayments—should be charged against the superannuation account. I would state that this point is a matter of judgment really, and is an accounting point rather than a law point. The superannuation account is a consolidated revenue fund. We do not have a funded pension plan, as you understand; we maintain the superannuation account in the consolidated revenue fund in which the contribution of the employees and the imaginary contribution of the employers are credited, and it is out of that account that the benefits are paid. It is never in point of time that this fund is actuarially balanced, it is a goal which is set; but it is a matter of judgment whether we may appropriate these funds to make minor payments. You are talking about $7,000 in a situation in which hundreds of millions of dollars are involved.

Mr. DRYSDALE: This is a point of information. Regarding the superannuation or the amount that the person is getting, would that stop if he took employment outside the government service?

Mr. STEELE: No, sir. This is the old principle of not drawing two salaries from the crown, having two sources of income from the crown.

Mr. BROOME: There is one thing I would like to find out, whether it is true that these payments were made to three people but spread over more than one year. The way I read the paragraph it appears as if this all occurred in one year.

Mr. STEELE: It could well be so. You might discover a situation which has existed for three or four years.

Mr. HENDERSON: Mr. Long could answer that point for you.

Mr. LONG: I have the details here. The largest one was an amount of $5,000 and the employment ranged from 1949 until 1959, about a ten year period. This was the case of a person who retired through ill health and subsequently became re-employed.

Mr. DRYSDALE: The only thing which concerns me is the particular principle. I think that if a person does become re-employed with the government, if they are entitled to pension, that pension should continue at full strength, because if the individual goes out into employment outside the government service, then that is the situation which prevails in a job which is paying the

same amount; so I do not see why, because he is re-employed with the government where they are getting the benefit of his background and experience, he should in essence be discriminated against.

Mr. WINCH: If that principle is correct it is interesting. One could think of an individual who would come to the superannuation age and then would get the pension and then get his job continued and payment from it without leaving the job.

Mr. DRYSDALE: I think that the principle is correct, too.

Mr. HALES: Concerning this $5,000 amount which went on for ten years, what department was that in?

Mr. LONG: The person retired from the Department of Public Printing and Stationary in 1948.

Mr. HALES: This went on for ten years?

Mr. LONG: She was re-employed in 1949, in one of the Consulates of the External Affairs Department in the United States.

Mr. HALES: And that went on for ten years and was never noticed by that department?

Mr. LONG: The lady in question reported it in 1954 when the department sent out questionnaires—they have to make a continual check, which they do periodically, although every pension cheque endorsement contains the certificate that you are not re-employed.

Mr. HALES: Is it the proper procedure that when she was rehired by the printing bureau department that her administrator should have said to her: "Are you drawing a pension, and if so, how much?" Would that be the normal course of events in bringing her back on the staff?

Mr. LONG: Yes, and if that did not happen she should return her pension cheque, because she could not sign the endorsement honestly saying that she was not employed in the public service.

Mr. BROOME: Is there an application form for employment which one would need to fill out, on which one question would be: "Are you in receipt of a government of Canada pension?" Do they fill out any form?

Mr. LONG: I am not sure of that. I think there might be one between departments.

Mr. HALES: This appeared to be pretty careless administration. You say that these are just three cases. How many more do you know about?

Mr. LONG: These are the three cases which have come to our attention in the year in which it was reported.

Mr. HALES: How did you find them out? How did they come to your attention?

Mr. LONG: Because, I would say, the governor in council suspended action on recovery. These amounts could have been recovered and without that action the pension or salary could have been stopped until recovery was made.

Mr. HALES: Is there any effort being made to find out how many more of these cases are in existence?

Mr. LONG: Well, this particular type of case is mixed in somewhat with the type which was referred to as casual employment, and I do not know how many of this particular type of case there are in fact, but I do know the policy has been to suspend recovery where this occurs. There are a great many of these casual employment cases. I think approximately 250 cases were suspended up until May of this year, involving quite a sum of money, but a lot of them, I think, are these casual cases.

Mr. STEELE: These cases occur in about 40,000 or 50,000 annuities, giving some measure of the likely percentage of cases of this type. In answer to your question as to what is being done I cannot say. Since the superannuation branch is one of the responsibilities of the treasury board, administrative instructions have gone out to all departments to review the administration thoroughly.

Mr. DRYSDALE: If it is relatively such a small problem, I wonder if you could extend on your thinking, because I am inclined to agree with Mr. Winch that the fact that somebody does reach retirement age and would be getting, in effect, the pension plus a regular salary if they are capable and working on the same job. I cannot see anything wrong with that in principle that the individual who reaches retirement age gets a pension and then goes into any other job with possibly the same salary, or better than they had, and still is entitled to the full pension. I do not quite understand the distinction which comes in there, just because they are staying with the same employer.

Mr. STEELE: I think this has been recognized in part in the amendment which has been put into the superannuation act in which an attempt has been made to measure how far you should go in permitting the additional sums beyond the pension. What I was groping for earlier in my incomplete knowledge, not having it before me, was as to how this appeared in legislation. It is the sum of your pension plus the amount you get from re-employment, is now measured against what the average salary was in the last three months of employment. That is set as a statutory ceiling in the act. Anything beyond that would be a question of mending the legislation. This is the law we are working on.

Mr. DRYSDALE: If you retire from the government service and go outside into any job it does not matter if you are getting twice as much, there is no ceiling at all on it.

Mr. BROOME: Then it is none of our concern.

Mr. DRYSDALE: I think it is because it seems to me that the principle discriminates against the person staying with the employer where he would be able to give the most value. If in the opinion of the employer, the government or whoever it is, they want to retain a person past the pension age, I still cannot see any reason for discriminating against that individual and taking away even a portion of his pension. This is purely a personal viewpoint. It may not be too popular with the government and may be more popular with the civil service, nevertheless I cannot see a distinction in the principle.

Mr. STEELE: It is not something I would care to comment upon today, as it is a matter of policy.

Mr. DRYSDALE: I do not want to put you in any awkward position. I am just anxious to see the logic behind it.

Mr. STEELE: The pension is a matter of benefit. Although it is a right under the act, as far as the employee is concerned, it carries with it a substantial employer contribution, and in this case you are going back to the same employer.

Mr. MUIR (*Lisgar*): Is it a recent development that your pensioners have to indicate that they are receiving a pension when they seek re-employment with the government? Has that been just a recent matter? Take a person who is receiving a pension and who seeks re-employment with the government. You mentioned that when signing their cheques they have to indicate that they are not receiving a pension. Is that just a recent development?

Mr. LONG: That has been in effect for some years.

The CHAIRMAN: Mr. Henderson, are you aware of this?

Mr. HENDERSON: Yes, Mr. Chairman, this is something on which we have been engaged in the past and in which we are currently engaged, as Mr. Long has mentioned.

> 81. *Non-productive payments.* A number of cases were observed in the course of our examinations where amounts were paid out for plans and designs and pre-production expenses although the projects never reached completion. The following cases illustrate:
>
> 2. Early in 1958 the treasury board authorized the Department of National Defence to undertake an extension to a wharf at Dartmouth at an estimated cost of $800,000, to accommodate vessels of the Royal Canadian Navy, the Hydrographic Fleet of the Department of Mines and Technical Surveys and the Royal Canadian Mounted Police. A contract was placed for the planning and preparation of plans and specifications which, when completed, cost $39,515. Tenders were then called for the construction but when treasury board approval was sought for acceptance of the lowest bid of $823,591, it was withheld on the grounds that it had been decided to accommodate the Hydrographic Fleet elsewhere, and that no final decision had been reached regarding the berthing of R.C.M.P. vessels.
>
> 3. A contract was placed for the Department of National Defence in May 1956 for the conversion of nine trucks into mobile workshops at a cost of $17,919. When the first truck was delivered to the contractor in July of that year it was found that it was considerably shorter than expected and unsuitable for the installation of the necessary equipment without a major rebuilding job. Notice of cancellation was given and during the year under review the contractor was paid $8,386 in settlement of pre-production expenses.

Mr. HENDERSON: This paragraph relates to non-productive payments and lists three of the cases observed in the course of the audit where—

Mr. HALES: Mr. Chairman, we had this before.

The CHAIRMAN: There are two subparagraphs, (2) and (3), and Mr. Henderson said he would deal with this.

Mr. HENDERSON: —amounts were paid out for plans and designs and pre-production expenses on projects which never reached completion. The three cases are examples of the most frequently found class of payments that might be described as non-productive. Several examples of non-productive payments were commented on in my predecessor's report in 1957-58. When the paragraphs in question were under study by the public accounts committee in the following year, my predecessor said: "the real reason for these paragraphs is to seek to obtain from this committee a direction whether, in its opinion, when an expenditure is legally made but from which no benefit results, it should be set out in the public accounts in such a way that you can identify it". That is to say, non-productive payments would be earmarked as such and clearly identified.

In its second report, 1959, the public accounts committee recommended that the Minister of Finance consider directing that payments of this sort be suitably detailed in the public accounts.

More recently, however, if I may say so, the subcommittee appointed by the committee, under Mr. Spencer's chairmanship this year, to study the form and content of the public accounts, considered whether it should include among its recommendations a proposal that non-productive payments be listed in the public accounts, but it decided against making such a proposal. One reason for this decision, I think, was the feeling that a decision to abandon

a project after preliminary expenditures had been incurred is quite frequently a wise decision, and one which it might have been more difficult for the responsible administrative officer to reach if he knew the resultant non productive payment would be reported.

I wanted to draw this to the attention of the members, Mr. Chairman, and hope there might be an expression of views as to the extent to which they would like to see such non-productive payments reported. They might care to consider whether they wish to see the subject raised in my report this year. I thought they would be interested to know the exchanges which took place in the subcommittee on this point.

Mr. SMITH (*Simcoe North*): One of the main considerations in the subcommittee was the matter of definition, as to how we could define non-productive payments. We ran into some wide difficulties in interpretation. It would seem to me that, whether or not a non-productive payment is reported, I think the best place for a non-productive payment to be shown is to be identified by the Auditor General in his report, because it is a matter he would deal with as investigating auditor, and I think he could use his judgment as to what should be done. That would be better than to try to classify all non-productive payments in another document. This is one of the things which the Auditor General is entitled to do and which he ought to bring to the attention of the committee.

Mr. DRYSDALE: I notice the wording says that a number of cases have been observed and then goes on to give the following cases. Under subsection 70 of the Financial Administration Act, as I understand it, the Auditor General is required to list all the cases. What happened to the other ones?

Mr. HENDERSON: What section of the Financial Administration Act is that where I am required to list all the cases?

Mr. DRYSDALE: Section 70 (*c*)—and I am looking at it very quickly—says:

> —any appropriation was exceeded or was applied to a purpose or in a manner not authorized by parliament.

Mr. HENDERSON: These may be authorized but just happen to be non-productive. They are perfectly legal in every respect. I think Mr. Smith has summed up the judgment which requires to be brought to presenting them fairly. To have listed all the cases that we would have seen here might have wrought an injustice. There are some situations which we might be very lucky to be out of—they might be non-productive but we might be money ahead. That is the particular point I would like to make.

Mr. DRYSDALE: Under section 67, I find:

> (*b*) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,

The point I am trying to get at is this—and this is not a criticism about you personally, sir—that this apparently under this section leaves a certain discretion; and if we do not get all of them, how do we know whether you have exercised your discretion or not?

Mr. HENDERSON: That is a very large area. I think they can be perfectly legal and that public money can be accounted for, but you might not have had all the value for your money that you thought you should have had.

Mr. DRYSDALE: Now many of these cases occurred and what would be the amounts?

Mr. HENDERSON: These were selected as being typical to illustrate the point.

Mr. DRYSDALE: I follow that, but how many outstanding cases were there and what were the amounts of the non-productive payments?

Mr. HENDERSON: I do not have such a record here with me, Mr. Drysdale, and in fact I do not think I have one. I went over a whole lot and I picked out those which I thought illustrated the point, the point being the suggestion that the previous committee had made, that the Minister of Finance be asked to list them in the public accounts, and as indicated here I took that actoin.

Mr. SMITH (*Simcoe North*): There is a further point I would like to mention. There is a suggestion of money wasted in non-productive payments. I am not saying it is money wasted but there is always that suggestion. Many people contribute to the public accounts and many people contribute to the work which goes on in the estimates. How could you, for example, ask the Department of Transport to list all the non-productive payments? That would mean putting them in the position of condemning their own judgment. I think it is a very clear indication of the basic function of the Auditor General as investigating auditor. It is a rather neat point and puts the whole field more clearly, in my opinion, that it is his job to report on money that he considers wasted.

Mr. HENDERSON: You are right, Mr. Smith, it is not an easy problem. You have cases such as non-productive ones, let us say, in the case of the R.C.A.F. house, where the authorized cost was greatly exceeded—nor did you get value for that money presumably. It boils down to a question of value for money.

Mr. DRYSDALE: With respect, taking these cases which you say illustrate the point, the three of them involved contracts for a specified amount of money to be paid. In each case there was an increased payment made, or an alteration in the terms of the contract. Surely it would be fairly easy to get from each department any case where there was a tender or contract for a specific amount and where there was a subsequent variation, regardless of the reason. Then we would be in a position to scrutinize and assess the situation and see whether it was a sound alteration that was made. As it is now, when the cases are not listed perhaps there are many which are fairly innocuous, but on the other hand if the departments are aware that there is going to be this scrutiny—and I think that is our only function, we are sort of putting the searchlight on these particular items—then I think there would be second thoughts as to some of the payments which have been made under these circumstances.

Mr. HALES: I would be inclined to take the view that we should have a section for non-productive moneys spent, and have those listed in our public accounts. Then, if there are any questions which arise as to whether it is or is not productive, the parties concerned could come before the public accounts committee and defend themselves as to whether it was productive or non-productive.

Mr. HENDERSON: Mr. Hales, are you suggesting that that section should be added, you say, to the public accounts?

Mr. HALES: Yes, I had thought of that.

Mr. HENDERSON: In fairness, I think that Mr. Balls or some of his associates should be invited to speak to that, because they prepare the public accounts and I do not. I deal with the accounts in my report in this fashion. The suggestion of this committee, as I stated before, was to the Minister of Finance, who is responsible for the public accounts, to give consideration to putting such non-production amounts in, and that is not being done because I think it proves to be a very difficult decision to take.

Mr. HALES: Would you suggest that we could have a section in the Auditor General's report under that heading? In that case, you would have to designate them, would you not?

Mr. HENDERSON: That is right. That is the point which I think Mr. Smith was suggesting, where I would exercise discretion in regard to the type of case or sample, pretty much as I have done here.

Mr. SMITH (*Simcoe North*): There is one thing in the previous subcommittee report which goes partly to meet Mr. Hales' objection, that is where they recommended that cost plus contracts be indicated in a special way in the public accounts.

Mr. HENDERSON: I cannot recollect whether that carried through to the final report. Did it?

Mr. SMITH (*Simcoe North*): I cannot remember.

Mr. BROOME: I think it did.

Mr. SMITH (*Simcoe North*): I think it did.

Mr. HENDERSON: Extra details would be given.

Mr. SMITH (*Simcoe North*): Yes.

Mr. DRYSDALE: Mr. Henderson, what is the value of these illustrations if we have no concept as to what the total overpayments were, or the total number of cases?

Mr. HENDERSON: Really, this is a question I asked myself, when I wrote the paragraph and listed these non-productive payments. You had expressed interest and a desire to see them. The question was how far should I go.

Mr. DRYSDALE: It is a non-productive paragraph.

Mr. HENDERSON: Exactly, but I think this discussion has helped me quite a bit in understanding what you are seeking, and I appreciate the confidence you have expressed in what little judgment I tried to bring to it.

Mr. DRYSDALE: It could be quite a serious problem involving a substantial amount of money.

Mr. HENDERSON: Bear in mind that a lot of the other paragraphs here have elements of non-productiveness in them. They may not be as non-productive as these are, but you are still not getting value for the money.

Mr. DRYSDALE: I realize that, but this is clearly a situation where there has been a contract entered into and for some reason or other I was not present when the details were discussed, but that one in paragraph 3 referring to the truck, where there was a specific contract and they found the truck was not to specifications—

Mr. HENDERSON: In point of fact, paragraphs 2 and 3 have not been discussed. Mr. Armstrong, the Deputy Minister of National Defence, was here, but we did not get to them. We did discuss No. 1 with Mr. Young.

Mr. DRYSDALE: This is what bothers me, where you have a contract for the conversion of nine trucks at a cost of $17,000 and when the first truck is delivered by the contractor they say it was considerably shorter than expected, and unsuitable. What they do then is to pay him for the preproduction expenses. On the information that is available, I do not think he should have received anything.

Mr. HENDERSON: You would have to discuss this with Mr. Armstrong, the Deputy Minister of National Defence, unless Mr. Morrison has anything to say to that.

Mr. MORRISON: I was wondering, Mr. Drysdale, if you read the paragraph correctly. The contractor was supplied with plans and specifications for trucks with a body of approximately 12 feet. He bought his material and he proceeded to fabricate. When the first truck reached him from the air force some three months later, it was found that that truck was 9½ feet in length, and so his preproduction work was valueless.

Mr. DRYSDALE: Who made the mistake?

Mr. MORRISON: The air force. They gave him a plan for a 12-foot long truck, but when the truck arrived it was only 9½ feet. This is a special type of truck for ground approach control work, with special installations. So they scrapped the contract rather than proceed with the smaller truck.

The CHAIRMAN: We have here the Auditor General and his officials. They have heard the discussion. Should we move on? We have two important witnesses waiting.

Mr. DRYSDALE: Could there be a recommendation that all this type of non-productive payments be listed in order that we could pin-point where the difficulties are?

Mr. HENDERSON: Listed by whom?

Mr. DRYSDALE: If you are going to list some, you should list all.

Mr. HENDERSON: In the public accounts by the Minister of Finance or in my report by me?

Mr. DRYSDALE: In your report.

Mr. WINCH: How is he going to get them?

Mr. HENDERSON: I can only report on what I see, whereas if you have it in the public accounts, you hand the judgment over for the whole thing to our friends in treasury board.

Mr. SMITH (*Simcoe North*): How can you expect the department to list its own shortcomings? We are asking some departments to list their own shortcomings, and it seems to me it is clearly the responsibility of the Auditor General to do this on such items as he comes across in his investigations. He has to bring some judgment to bear as to which should be reported and which should not. I feel the ones which have been reported have served as a very useful flag to the various departments to change their practices.

Mr. HENDERSON: Mr. Chairman, if it would assist in closing the discussion on this matter, would the committee be agreeable if in future I were to list under this headings the non-productive payments that come to my attention in the course of my audit?

Mr. DRYSDALE: That is the difficulty. You said there were a number of cases.

Mr. HENDERSON: They will not necessarily be all inclusive because my audit is based on test examinations, but to the extent to which they come to my attention. This could result in an enlargement of my report.

The CHAIRMAN: Paragraph 82.

> 82. *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 statement of losses included in the Public Accounts for 1959-60 was examined and it was ascertained that—except for losses suffered by the Post Office Department—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 is included in the listing.
>
> Following established practice, a listing is also included in the Public Accounts of those losses which were charged to the Post Office Guarantee Fund during the year ended March 31, 1960, but these charges were all with respect to losses that had been suffered in previous years.

Losses totalling $37,237 that had been suffered during the year under review and that were still under investigation or with respect to which collections were still being made, were not included in the listing. In the Audit Office view, it would be more in keeping with the statutory requirement were Post Office losses suffered during the year included in the statement of losses published in the Public Accounts.

We have with us Mr. MacDonald of the Post Office Department. Mr. Steele, if you would care to remain, you will be very welcome.

Mr. STEELE: Only if needed.

Mr. HENDERSON: Paragraph 82 refers to the statement of losses included in the public accounts for 1959-60—it appears on pages 11 to 14 of part II of volume I—and states that this statement was examined in the course of the audit.

Attention is drawn to the fact that—following established practice—the statement does not include losses that had been suffered by the Post Office Department during the year. A separate listing was given of the losses, suffered in previous years, which were charged to the Post Office guarantee fund during the year, but the closing sentence of the paragraph states that in the audit office view, it would be more in keeping with the statutory requirement were Post Office losses suffered during the year included in the main statement of losses published in the public accounts.

By way of illustration, in the public accounts losses are shown as written off in the year by charging the public officers guarantee fund in the total sum of approximately $12,000 whereas the actual post office losses were $37,000, and that is the additional figure which I think should have been included under section 98 of the Financial Administration Act as the losses required to be reported in the public accounts.

The CHAIRMAN: Are there any questions?

Mr. WINCH: Let us hear from the witness.

Mr. J. A. MACDONALD (*Director, Financial Branch, Post Office Department*): Mr. Chairman, when the regulations for the Financial Administration Act were drawn up in 1952 the Post Office was exempted from application to the post office guarantee fund. However, in spite of that, we have reported these annual losses to the Department of Finance and they have published them in the public accounts on page 11, the same as they are for other departments. I do not know to what amount the Auditor General is referring.

Mr. HENDERSON: Mr. Long, could you speak to this point, please?

Mr. LONG: The requirement of section 98 says:

> 98. (1) (c) amounts recovered by Her Majecty in respect of payments out of the said account or the government officers guarantee fund,
>
> and payment may be made out of the said account, in accordance with the regulations, by way of indemnity for losses suffered by Her Majesty or others by reason of defalcations or other fraudulent acts or omissions of public officers.

I do not think there is any exemption for any department. In section 70, subsection (e) of the Financial Administration Act it is also required that losses be reported. In order to avoid duplication the Auditor General has taken upon himself the policy of reporting losses which the departments do not themselves report. In the case of the Post Office the loss is only reported at the time it is recovered from the Post Office guarantee fund. In other words, it is only at the time of recovery that it is reported, it is not at the time when defalcation, or whatever happens to the case, occurs. The result is that as

of last March there is one loss which was to the amount of $6,000. It originally incurred in 1952-53, and there is still the amount of $2,930 unpaid. It may all be recovered, but it has not yet been reported to parliament and it may never be reported if in due course it is fully recovered. In other departments it would have been reported when it occurred and subsequent recoveries would also have been reported and parliament would have had the whole story.

Mr. HALES: Could we ask Mr. MacDonald why they do not report when it happens?

Mr. MACDONALD: In the public accounts for 1960 you will see on page 15 in part II all these amounts are included, and on page 16 the ones that have been charged to the Post Office guarantee fund are listed in detail.

Mr. STEVENSON: Mr. Chairman, it is explained in the second subparagraph of paragraph 82 of the Auditor General's report that a listing is given in the public accounts for the losses that were charged to the Post Office guarantee fund during the year ended March 31, 1960, but these charges were all with respect to losses that had been suffered in previous years. So it is a different type of statement that is given with respect to the Post Office losses—different from the statement which is given in accordance with section 98(3) of the Financial Administration Act.

Mr. MACDONALD: In addition to those losses I believe they are referring to the losses which appear on page 15 and I see no difference between them. The losses appear on page 15, and the ones for other departments appear on the previous pages.

Mr. HENDERSON: Could you speak on that, Mr. Long?

Mr. LONG: On page 15 it is of course only a summary, in other departments as long as the loss is not recovered the detail of the loss is given.

Mr. MACDONALD: You would like the report to be more detailed instead of just giving the summary?

Mr. LONG: I think it is our opinion that this is what the Financial Administration Act requires.

Mr. HENDERSON: What we are saying in effect is that the losses that have been incurred during the year by the Post Office should be charged up in the same pattern as in other departments. That is the most conservative accounting approach, rather than only those losses which were settled out of the Post Office guarantee fund. I agree it would have the effect of decreasing the Post Office guarantee fund at a more rapid rate and reimbursing the treasury if this were done, but it would seem to me to be more conservative from the standpoint of Post Office accounting and more in conformity with what is being done in other departments, also in accordance with the provisions of the Financial Administration Act.

Mr. HALES: In order to clear some confusion here could Mr. MacDonald tell the committee what steps are taken supposing a hundred dollar article is lost in the mail?

Mr. HENDERSON: These are defalcations in post offices.

Mr. MACDONALD: You are thinking of indemnity.

Mr. MUIR (*Lisgar*): Those are individual losses which are reported on page 16; they are ones that have been reimbursed from the fund.

Mr. MACDONALD: Yes, from the fund, sir.

Mr. MUIR (*Lisgar*): And they were not reported when the defalcation was originally made?

Mr. MACDONALD: No, not at that time. There is another clarification that might be made. There is a difference between writing them off and reporting

them in the public accounts. I would personally be perfectly agreeable to reporting them in detail in the public accounts, without having the local postmasters names listed in the public accounts. On the other hand, I would object to reimbursement from the guarantee fund immediately. If these accounts are reimbursed immediately, this bookkeeping is done by two or three of our clerks, the same people do the bookkeeping twice, that is, if you insist on them being withdrawn from the guarantee fund immediately. The two or three clerks could do this, but they would be doing the work twice. The treasury would be writing cheques unnecessarily. You would just be duplicating the bookkeeping.

Mr. DRYSDALE: Could I have an explanation of the note at the bottom of page 16 on the seventy-five cases involving $82,000 plus? What is the nature of those cases?

Mr. MACDONALD: They are the outstanding ones at the end of the year to which Mr. Long referred. It has not been clarified as to whether or not we are going to recover them.

Mr. DRYSDALE: Have they all been discovered during this particular year?

Mr. MACDONALD: They may extend back to 1952-53. I can think of one case of a very large shortage in 1952 or 1953 involving the amount of $7,000 or $8,000. We are collecting $50 a month as regularly as clockwork.

The CHAIRMAN: Mr. MacDonald, is it not better to have the Receiver General of Canada hold these funds? That is where they should be, rather than to leave them out.

Mr. MACDONALD: I see no difference as to whether or not they are in the Receiver General's funds. I should have explained at the beginning that this guarantee fund was an alternative to fidelity bonds and it was assessment on the postal employees to set it up. It was started in 1898 and assessments were discontinued, I think, in 1915 or 1918. They had this fund built up to around $400,000. The Postmaster General is the trustee under the regulations and this money is used as a guarantee, as a fidelity bond to the government, that any losses by defalcations would be made good to the Receiver General of Canada. It is in the form of an insuror. It is true that with a fidelity bond company both the insuror and insurer would act to recover money. Do you want these people to do the bookkeeping two or three times? The money is invested in government bonds and bonds guaranteed by the government.

Mr. MUIR (*Lisgar*): It would seem to me that it would be a matter of bookkeeping, and I would like to ask Mr. Henderson if perhaps it would be more proper to have the bookkeeping done by showing the losses at the time of the loss rather than as Mr. MacDonald has indicated. Maybe he is protecting a number of very poor people who have got into trouble and may eventually repay the money.

Mr. HENDERSON: I have every sympathy with Mr. MacDonald's position, but as I have stated it would be more conservative to write these things off in the year in which they occurred. As I mentioned, it was $37,000 last year. This should be reimbursed to the Receiver General. He has laid this money out to replenish the Post Office funds where the money was lost. It should then be put back into the fund in order to centralize all the final accounting in the treasury. That would be a more logical thing to do, but this is a practice that has gone on for a number of years and I presume some regard should be given to the points Mr. MacDonald mentioned.

Mr. MUIR (*Lisgar*): It would not change the picture as far as recovery of the funds is concerned.

Mr. MACDONALD: There is a certain amount of pride and jealousy in recovering these losses. It is purely psychological. I believe the law would be satisfied if it were reported here, rather than doing the bookkeeping twice.

Mr. DRYSDALE: It would be helpful if we could have the losses at least on a yearly basis and the amount of the losses—that is the trend. Under this situation those 75 cases would go back to the year 1952. I am inclined to agree with the Auditor General that they should be reported each year and written off. It would be a matter of internal bookkeeping and how you want to reimburse any money that is repaid.

Mr. MACDONALD: Do you not think the law would be satisfied if we listed them in the public accounts? In other words, we could give the details of those 75 cases at least it would be under 80 cases. It would stand at the end of the year after we make the adjustments to the guarantee fund which run from $11,000 to $15,000 each year. That is $75,000 or $80,000 is left in the suspense account. If we gave you that list, would that not satisfy the terms of the law?

Mr. MUIR (*Lisgar*): Under the condition that you are putting out these particulars?

Mr. MACDONALD: And would we give the list just as the other departments have done?

Mr. DRYSDALE: When did those cases occur, which you show in the list on page 16?

Mr. MACDONALD: I don't know the dates.

Mr. DRYSDALE: It would be of more value to us to have a year by year analysis. Apparently this could run to 10 or 15 years.

Mr. MACDONALD: On page 16 they are listed as "postmaster" rather than by name. You have a point to consider here. These are honest people in spite of their financial difficulties. They are not the best business people in the world. They are operating a store and a post office. The husband may break his leg and is not able to work, so the wife becomes the postmistress. She might need $3,000 to make payments on a truck. This is the sort of thing that goes on. We recover these losses. The reported shortages at the end of the year run to $75,000 or $80,000 and we write off $11,000 to $15,000. Are you going to insist that this be advertised in the public accounts, that Mrs. Jones in your riding owes this amount?

Mr. DRYSDALE: No, it is sufficient to give the identifications. We should know what is the situation.

Mr. MACDONALD: We could give you the breakdown in years.

Mr. SMITH (*Simcoe North*): Perhaps we could have additional information included on page 16, such as by year showing when the loss was occasioned and the amount recovered and whether or not any amount was recovered during the year, so that the public accounts would show a more complete picture of the losses. Would that be of any assistance to you, Mr. Drysdale?

Mr. MACDONALD: We could do that very easily.

Mr. MUIR (*Lisgar*): Without stating the names.

Mr. DRYSDALE: If you could indicate the yearly losses, then we could have the additional information as to how you are recovering the money so that we would not have this faulty interpretation that the losses are continually written off. In the summary you could give the amounts of full recovery and the overall situation.

Mr. SMITH (*Simcoe North*): We could have a column which showed the amount of the original loss and the amount recovered in the previous years.

Mr. MACDONALD: And the date of the original loss.

Mr. SMITH (*Simcoe North*): And of course the amount of the original loss. In the second column we could show the amount recovered in the previous years, and in the next column the amount recovered during the third year.

Mr. MACDONALD: And the outstanding amount.

The CHAIRMAN: Gentlemen, we are making good progress but we still have a long way to go. Could I suggest we move on?

Mr. MORTON: Is the Auditor General satisfied?

Mr. HENDERSON: My criticism here was the failure to report these in the public accounts rather than the method followed of reimbursing the consolidated revenue fund. If the details along the lines that have been under discussion could be put in in order to meet the point I make in this paragraph, it would be satisfactory.

The CHAIRMAN: Thank you, Mr. MacDonald.

Mr. HALES: I have one short question. Has any thought been given to bonding these postmasters the same as you do rural mail delivery people?

Mr. MACDONALD: Our last correspondence on this subject with the United States postal administration was in 1954. Their postmasters are required to provide an indemnity bond and they pay an average fees of $100 a year out of their own money. I think some fidelity bond companies have a good thing there, and we should not ask the postmaster to do that. This $400,000 is on deposit. It was collected from the postmasters who reimburse the government. In sixty years the government has not lost one cent by postmasters defalcations.

Mr. WINCH: That would be a good statement to have along with your public accounts.

The CHAIRMAN: Paragraph 83.

83. *Responsibility for loss of public funds.* From time to time cases have been observed where public funds in the custody of members of the forces have been lost under circumstances in which the custodians could give no satisfactory explanation and no evidence could be adduced as to what had happened. According to departmental legal officers, no specific regulation existed whereby the officers concerned could be held financially responsible for such losses.

During the year under review a case was noted in which an accounting officer, finding himself short in his accounts, submitted fraudulent travel advance vouchers to a total of $405. He was courtmartialled, pleaded guilty to charges of "making false entries" and "failing to account for public funds", and was dismissed from the service. The attention of the department was drawn to the case when it was observed that there was no intention to seek recovery of the amount of the shortage. Although, as in previous cases, the departmental legal officers were of the opinion that negligence had not been proven and therefore an administrative deduction could not be assessed, the department decided to refer the case to the Department of Justice for an opinion. The opinion received was to the effect that to take so strict a view of the present regulations concerning liability for public property "would permit a servant charged with the responsibility of accounting for his master's monies entrusted to him to evade that responsibility and the heavy presumption that his negligence caused the deficiency by simply stating that he could offer no explanation of the deficiency". As a result of this opinion, the $405 was recovered from monies withheld from the officer at the time of his dismissal.

During the year a similar opinion was given by the Department of Justice in another case and resulted in a deduction of $1,000 against an officer who was short $2,000 and unable to explain the deficiency satisfactorily.

It is understood that the department has under consideration amending the regulations to make it plain that an officer or man who has

funds in his custody is responsible to make good any loss that may occur unless he is able to give a satisfactory explanation of the loss.

Mr. HENDERSON: On paragraph 83, members will recall this when Mr. Armstrong was here in regard to some of the losses in public funds arising from operations in defence services. This paragraph notes that no specific regulation existed whereby members of the forces who were the custodians of public funds could be held financially responsible for losses which had been incurred under circumstances in which the custodians could give no satisfactory explanation and no evidence could be adduced as to what had happened.

Reference is made to a case where we pressed the department for a ruling from the Department of Justice. The ruling given was to the effect that to take the department's view "would permit a servant charged with the responsibility for his master's moneys entrusted to him to evade that responsibility and the heavy presumption that his negligence caused the deficiency, by simply stating that he could offer no explanation of the deficiency."

The paragraph closes by stating it as our understanding that the department has under consideration amending the regulation to make it plain that an officer or man who has funds in his custody is responsible to make good any loss that may occur, unless he is able to give a satisfactory explanation of the loss. This may seem to the committee to be a reasonable approach to the problem—but a recent inquiry indicates that the proposed amendment is still under consideration.

I think, Mr. Chairman, an expression of views from the members here might be not only helpful to me and to my office but also to the committee of the Department of National Defence which is considering this. I think it is a joint service committee. We had quite a long discussion with them regarding the penultimate sub-paragraph about a similar opinion given by the Department of Justice in a case where an officer was short $2,000 and could not explain it. They decided that if he paid back $1,000 they would call it a day.

Mr. MUIR (*Lisgar*): Would there be any difference where the person had been appointed to that position in the first place or whether he volunteered to pay back the funds?

Mr. HENDERSON: I would suggest to you that these cases arise initially under different bases and different circumstances. The Department of Justice has approached it on the simple basis that if a man is put in charge of a sum of money he should be responsible for that money.

Mr. BROOME: What other approach is there?

Mr. DRYSDALE: Mr. Muir was raising the point that he might be placed in an involuntary position. Some people are better at holding money than others. He was trying to make the distinction that if a man was in the forces and either by promotion or some other method suddenly found himself in the position of being responsible for a fair amount of money, he might be in trouble.

Mr. HENDERSON: Then he might be able to offer an explanation that would be satisfactory.

Mr. MORTON: I cannot understand, if a person is entrusted with funds and loses them, why we would not be able to recover them.

Mr. HENDERSON: That was what I was hoping to obtain. I think it is fundamental. I have been accustomed to that in business.

Mr. MUIR (*Lisgar*): There might be cases where he is in charge of regimental funds and he has them in a safe in the office and walks out some night. He would have nothing to do with it. How can he give a satisfactory explanation of how the funds got out of that office?

Mr. HALES: He was supposed to have them secure before he left. He is responsible.

Mr. HENDERSON: It depends on the arrangement he makes. It is the relationship of master and servant.

Mr. BROOME: This is the amazing and fantastic thing to me, that a government department would say "so what, the money has gone".

The CHAIRMAN: Surely the point is that it is understood the department has the amendment under consideration. How long has this been under consideration?

Mr. HENDERSON: About three years. That is what is worrying me.

Mr. BROOME: What is the department's usual record in things like this?

Mr. MORRISON: I have been given to understand that possibly the bill of rights may have slowed down the decision.

The CHAIRMAN: The right to steal?

Mr. BROOME: What about Mr. Coyne? Has he got anything to do with it?

Mr. MORRISON: This has been a matter of concern to us and these illustrations in the report were put in to try to speed up this committee to do something about it. There was the second case where a man was assessed $1,000. That was only the ruling of the Department of Justice that he should be assessed for that sum. The other $1,000 was charged to the departmental appropriation.

Mr. DRYSDALE: Mr. Chairman, I think the point raised by the gentleman was quite reasonable because we have had recent illustrations in the house concerning, for example, the Criminal Code where a person has explosives in his possession and he is called upon to give an explanation as to whether he has them for a reasonable or an innocent purpose. It is the same with the possession under the new narcotics act and the drugs act. The thing that concerns me is whether we are entitled to put this onus on the person that he is presumed to be able to explain as to where the money has gone and if he cannot give this explanation then he is assumed to be negligent. When the gentleman mentioned the bill of rights he had in mind that the person is presumed innocent until he is found guilty and the mere fact of showing negligence is not sufficient.

Mr. HENDERSON: The Department of Justice had ruled in both cases that administrative deductions were in order. The personnel members committee decided that it was desirable to redraft chapter 38 of the Queen's regulations and orders governing "liability for public and non-public property". This was done, but about the time it was completed the bill of rights was proclaimed. Apparently it had considerable impact on the chapter in question so certain revisions were necessary. These revisions have been made and the redraft is now before the Judge Advocate General for consideration.

Mr. DRYSDALE: Is not the situation quite simple? If it is theft, it is a criminal charge?

Mr. SMITH (*Simcoe North*): The views of the committee will very shortly be brought to the attention of the Judge Advocate General and any other draftsmen who are looking at this.

The CHAIRMAN: I would suggest the Clerk send a copy of this testimony to the gentlemen in question.

Mr. DRYSDALE: What Mr. Henderson is suggesting or what Mr. Smith is suggesting that when a person has money and the money has gone, there is a presumption he is negligent and he is called upon to make an explanation.

Mr. MORTON: It is a matter of trust. It is his responsibility to explain why he had not made good his trust.

Mr. BROOME: It is a question of three years for this defence department committee to do something.

The CHAIRMAN: Gentlemen, is there any further discussion? I think your views are quite clear. Shall we go to page 2 of the agenda? Gentlemen, we have with us this afternoon the honourable Sam Hughes, who is chairman of the civil service commission. The reason for inviting him here this afternoon is to see what has been done with regard to one of the recommendations of your committee last year, which is set forth in paragraphs 77 and 78 of the third report of this committee to the House of Commons in 1960. This had to do with the organization and hiring of staff of the Auditor General's department.

I could refresh your minds just to lay the groundwork, because we are seeking information and not stating facts. Taking a ten-year period, for example, in 1950 the total annual government expenditures were approximately $2,449,000,000, there were 29 government departments and 23 crown corporations and the Auditor General's department had 166 employees. In 1960 the total annual government expenditure was approximately $5,707,000,000, and there were 34 government departments and 29 crown corporations, and the staff of the Auditor General was 126 employees. Therefore, with that tremendous increase in work from 1950 to 1960, there was a decrease in employees from 166 to 126.

The Auditor General, of course, is independent, and reports to parliament, I understand that under the new civil service bill which is under consideration the civil service commission has the right to exempt the Auditor General's office with regard to the hiring of new employees. Have I stated the case properly, Mr. Henderson?

Mr. HENDERSON: Yes, Mr. Chairman.

The CHAIRMAN: What we want to find out is what steps if any have you taken with regard to the recommendations made by this committee last year?

Hon. S. H. S. HUGHES (*Chairman, Civil Service Commission*): Mr. Chairman, the only step I thought we could take in this respect is as follows. First of all, perhaps I should explain that until I came here today I did not know what the subject for discussion was. I thought that we were going to talk about section 16 and terminable allowances, and section 60, further discussion on what my colleagues were talking about yesterday. Therefore, anything I say now is subject to documentation. I have no files on the subject with me. The only thing we could do is to resort to that very same section 60 that we were discussing yesterday, Mr. Chairman, and recommend to the governor in council that the positions in the Auditor General's office, or some of them, be exempted from appointment provisions of section 19 of the Civil Service Act and the provisions of section 11, which deal with pay.

As far as I know—and the Auditor General will correct me—no application has been made by him to the civil service commission for any such action. There is, however, in the new bill—and this has nothing to do, Mr. Chairman, with action taken by the civil service commission—clause 39, which reads as follows:

> The commission may authorize a deputy head to exercise and perform any of the powers or functions of the commission under this act in relation to the selection of candidates for a position.

You will note that that clause does not require the exempting power, and is confined to selection and has nothing to do with pay.

Under clause 74, of course, the exclusionary authority secured by section 60 of the present act, is present. It is in somewhat different form. Clause 74 reads as follows:

> In any case where the commission decides that it is not practicable nor in the public interest to apply this act or any provision thereof

to any position or employee, the commission may, with the approval of the governor in council, exclude such position or employee in whole or in part from the operation of this act; and the commission may, with the approval of the governor in council, re-apply any of the provisions of this act to any position or employee so excluded.

I would be less than candid, Mr. Chairman, if I were not to tell you that almost any department of government can, and has in the past, made representations of this type. There is a good case in almost every department for saying that the departmental officers know more than the civil service commission about the selection of particular employees, and their classifications. It is not a case which I think the civil service commission could give practical effect to without a very marked disruption of the merit system, and indeed any possibility of consistency in applying the provisions of the Civil Service Act to the service as a whole.

As to the argument that the Auditor General is responsible only to parliament, I suppose the same thing could be said of the civil service commission, and yet I do not believe it has ever been advanced that employees of the civil service commission should be exempted from the provisions of the Civil Service Act. I have not the figures at my disposal, but I think it can be said that the number of employees in the civil service commission has not kept pace in any degree with the expansion of the civil service since 1950—which I think is the year you selected as a point of comparison.

The CHAIRMAN: Well, Mr. Hughes, there is a difference, surely, between civil servants who are reporting to a minister who is responsible to parliament, and those reporting to the Auditor General, who does not report to a minister, but does report to parliament directly and who, for example, may be called upon to audit the accounts of the civil service commission. If you are going to hire all the employees of the Auditor General, surely it places him under a handicap. Now this is only an argument I am advancing, and I do not say it is the right argument or the wrong argument.

Mr. HUGHES: Surely, Mr. Chairman, the same thing could be said exactly in reverse. The civil service commission does not report to any minister. It is subject, however, to the auditing functions of the Auditor General. With great respect, I do not think that argument illustrates any vital peculiarity of the position of the Auditor General's staff. There is possibly an argument for exempting them altogether from the provisions of the Civil Service Act so that they would be like sessional employees of the House of Commons and not be civil servants at all. This might be a logical way, if it happens to be a matter of government policy.

Mr. DRYSDALE: Mr. Chairman, we have requested that Mr. Henderson would indicate a plan of organization. Is not the onus on him to indicate to the civil service the type and qualification of employees that he requires? In the event that they are not able to provide him with this type of employee, whether as a result of qualification or as the result of the salary requirements —then the next step is for him to come under the exemption suggested by you.

Mr. HENDERSON: I was not aware that the precise application mentioned should have been made by me under the section to which Mr. Hughes referred. Rather was I leaving it until the new civil service bill came down when we would have a little bit more experience with this. I simply left matters on the basis of this committee's recommendation to which the chairman has referred. Now, I would like to make it very clear that I discussed my problems last year with the chairman of the civil service commission, and I remain greatly indebted to him for the assistance which he has given me in my search for increased staff.

The government approved that my staff would go from the previous approved establishment figure of 141 to 159, that is to say 18 more people, effective April 1 of this year. We had discussions in January with the top people in the civil service commission regarding the qualifications. We got to grips with this in January because I wanted to have these people on the job as early in the spring as I could. We have a tremendous influx of work, particularly in the case of crown corporations. coming up around March 31, that is from then until the end of June, in other words, right now. We followed the process indicated by the officials but at the present time my staff still stands at 139. In point of fact, after advertising, I think it was for eight senior people in the auditors four, five and six grades, back last February, I have got only one man on the job so far. We remain very seriously cramped. In fact, we are under great pressure right now from the crown corporation management. I would have liked to have had these people on the job. I was given the money for them as from April 1 last. This has affected the scope of our work. Thus it is taking over six months to get this new talent in. My staff is small and is a highly qualified staff of professional career people, and I have doubts as to whether the civil service procedures are applicable to recruiting this type of staff. I might say that in addition to the six months that has been involved in all this, it has necessitated examination boards and so on, with my assistant Mr. Stevenson having had to travel from Halifax to Vancouver to recruit eight people, and it seems to me that these men are coming to me at quite a cost. For that reason I would like to know what can be done.

Mr. DRYSDALE: What is the difficulty? Is it the amount of money being offered?

Mr. HENDERSON: No sir. The salaries are competitive and, as a matter of fact, the commission were most helpful in the way they went about it.

Mr. DRYSDALE: What is the difficulty regarding the exemption?

Mr. HENDERSON: I think it is due to the commission's various procedural steps and delays. There were certain occasions when we had a good man lined up but he could not wait that long.

Mr. DRYSDALE: Mr. Hughes, does this section permit you, in cooperation with Mr. Henderson, to scrap all of these steps?

Mr. HUGHES: I think when section 39 of the bill is enacted it will give us the power to delegate to any deputy head the right to select and choose, but to what extent this section is going to be used I would not like to say at this time.

Mr. DRYSDALE: But there is no power at present to take this step which Mr. Henderson would like to take?

Mr. HUGHES: All we could do is exempt partially from the provisions of section 19 in order to allow Mr. Henderson to select his own staff, and if the salaries are competitive there probably would not be the same case for exempting from section 11 of the Civil Service Act, which covers pay but if they were not we would have to recommend an exemption from that section too.

Mr. DRYSDALE: Would you be prepared to do that? Would you like a letter from Mr. Henderson?

Mr. HUGHES: That would be a pre-requisite, but I cannot assure the committee I would be prepared to do it. My colleagues and I would certainly give it very careful consideration.

Mr. DRYSDALE: From what Mr. Henderson has said your recruiting has been ineffective.

Mr. HUGHES: Had I received notice this topic would come up for discussion I would have more information on it.

Mr. DRYSDALE: Assuming it is ineffective, as Mr. Henderson has stated, would that be sufficient reason to cut the red tape and exempt him from this particular provision?

Mr. HUGHES: It might be.

Mr. DRYSDALE: Would it, or would it not?

Mr. HUGHES: I am very sorry but I shall not commit myself on that.

The CHAIRMAN: There are two other commissioners and I presume you would like to consult them?

Mr. HUGHES: Yes.

Mr. HALES: Am I right in saying the Central Mortgage and Housing operates outside the civil service commission?

Mr. HUGHES: Yes.

Mr. HALES: Then that would make it possible for the Auditor General's department to operate in the same manner, I would think. I can see Mr. Henderson's problem in recruiting staff with the amount of red tape which has to be gone through in order to get these qualified professional men. I would be in favour of the Auditor General being allowed to go out and hire staff in order to expedite it.

I think we must also consider this angle, that an auditing staff or auditing department should be entirely divorced from the company or the operation with which it works. For instance, in a business they would not consider having an audit department in the business do their final audit. It is always an outside firm which does that audit. The Auditor General should have a free hand in recruiting staff and getting on with the work which he is doing. It is a tremendous job. It is important to Canada and it has got to be done. I believe he must have a free hand.

The CHAIRMAN: I think there are two objectives in view, if I may summarize this, one being the actual selection and the other the saving in cost.

Mr. HALES: You cannot have a board go right across the whole of Canada to hire eight men. It would cost a fortune.

Mr. HENDERSON: May I say that if this comes to pass I should be required to work within an approved establishment, like the national film board. It would be most essential that my staff salaries be in line with the salaries for other accountants in the government service otherwise the Auditor General might end up competing with other departments, and that is not the objective of the exercise. The salary scales to be paid must bear some relation to those of Mr. Hughes. There can be no inter-department competition. Do you not think that is right, Mr. Hughes?

Mr. HUGHES: Yes.

Mr. HENDERSON: It is absolutely essential that rates in other parts of the public service be taken into account.

The CHAIRMAN: If there are no further questions on this, then thank you very much Mr. Hughes for coming today, and I am sorry we have kept you so long.

Gentlemen, the next paragraphs deal with a summary of assets and liabilities which basically have to do with the unemployment insurance fund. One or two members wanted to be present when they were discussed, and we tried to get one or two witnesses today but they were out of town at a convention. We shall now go on to crown corporations, paragraphs 110 to 137.

110. Section 87 of the Financial Administration Act requires the auditor of an agency or a proprietary Crown corporation to report

annually to the appropriate Minister the result of his examination of the accounts and financial statements of the relative corporation, and the report is required to state whether, in the auditor's opinion:

(*a*) proper books of account have been kept by the corporation;

(*b*) the financial statements of the corporation

(i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

(ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

(iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(*c*) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

111. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and Section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume II of the Public Accounts.

112. The Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, and the accounts and financial statements of 22 of the 26 corporations were examined by the Audit Office in the year under review, as follows:

Corporation	Reporting Minister
Agency corporations:	
Atomic Energy of Canada Limited	Trade and Commerce
Canadian Arsenals Limited	Defence Production
Canadian Commercial Corporation	Defence Production
Canadian Patents and Development Limited	Trade and Commerce
Crown Assets Disposal Corporation	Defence Production
Defence Construction (1951) Limited	Defence Production
National Capital Commission	Public Works
National Harbours Board	Transport
Northern Canada Power Commission	Northern Affairs and National Resources
Park Steamship Company Limited	Transport
The National Battlefields Commission	Northern Affairs and National Resources

Proprietary corporations:

Canadian Broadcasting Corporation	National Revenue
Canadian Overseas Telecommunication Corporation	Transport
Cornwall International Bridge Company Limited	Transport
Eldorado Aviation Limited	Trade and Commerce
Eldorado Mining and Refining Limited	Trade and Commerce
Export Credits Insurance Corporation	Trade and Commerce
Farm Credit Corporation	Agriculture
Northern Transportation Company Limited	Trade and Commerce
Polymer Corporation Limited	Defence Production
The St. Lawrence Seaway Authority	Transport

Other:

Northern Ontario Pipe Line Crown Corporation	Trade and Commerce

113. The accounts of the following Crown corporations and other public instrumentalities were not examined by the Auditor General during the year under review:

	Reporting Minister
Bank of Canada	Finance
Canadian National Railways	Transport
The Canadian National Railways Securities Trust	Transport
Canadian National (West Indies) Steamships Limited	Transport
The Canadian Wheat Board	Trade and Commerce
Central Mortagage and Housing Corporation	Public Works
Industrial Development Bank	Finance
Trans-Canada Air Lines	Transport

114. The following paragraphs summarize the operating results of Crown corporations whose accounts were examined by the Audit Office during the year and include comments regarding the extent of the Crown's equity in each at the year-end, together with references to any qualifications made or explanations given by the Auditor General in his statutory audit report. They do not include references to the contents of Audit Office reports (see paragraph 9) where addressed to the managements of the corporations concerning their accounts for the year.

Agency Corporations

115. An agency corporation is an agent of Her Majesty in right of Canada and is responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities on behalf of Her Majesty.

116. *Atomic Energy of Canada Limited.* Expenditures for the 1959-60 research program of this company aggregated $31,574,000, of which $20,047,000 was for operating costs and $11,527,000 for capital

outlays. In the case of the operating program, the available parliamentary appropriations and other income exceeded expenditures by $972,000, which amount has been refunded to the Receiver General of Canada. Of the $11,527,000 of capital expenditures, $10,797,000 was provided for by a parliamentary appropriation and the balance out of retained earnings account. Income from the company's commercial operations amounted to $3,154,000 and expenses to $2,629,000. The resultant excess of income over expense of $525,000 was credited to retained earnings account.

As at March 31, 1960, the Crown's financial interest in the company as reflected in the balance sheet amounted to $62,794,000, comprising: unexpended balance of $972,000 provided under a parliamentary appropriation; loans of $5,374,000 to provide housing for employees; unrealized profit of $753,000 on property sold on deferred payment terms; capital stock of $54,000,000 and retained earnings of $1,695,000. Apart from these amounts was the investment in that portion of the capital assets which had been written off as research expense over the years, to a total of $89,184,000.

117. *Canadian Arsenals Limited.* During the year ended March 31, 1960, this company's sales amounted to $25,049,000 and income from other sources was $431,000, while cost of sales totalled $20,965,000 and administrative expenses amounted to $821,000. The resultant excess of income over expense for the year was $3,694,000 before charging for unabsorbed overhead expenses. Cost of sales included charges for overhead at rates which would theoretically have absorbed overhead expenses had all the plants under the company's administration been operating at full capacity. As this was not the case, there were unabsorbed overhead expenses amounting to $5,754,000 which were attributed to idel plant capacity. After taking this into consideration, the net result of operations was a deficit of $2,060,000. A parliamentary appropriation (Vote 74) provided $2,000,000 towards this deficit and the remaining $60,000 was reflected in the balance sheet as recoverable from the Government of Canada at the year-end.

As at March 31, 1960 the company was financed by: advances of $15,386,000 from the Department of National Defence in respect of orders placed; advances of $7,500,000 from the Defence Production Revolving Fund; and advances of $7,500,000 from the Government of Canada for working capital. The company had under its administration nine Government-owned plants, the total cost of which exceeded $103,000,000.

118. *Canadian Commercial Corporation.* The income of this corporation for the year ended March 31, 1960 totalled $227,000 while administrative expenses amounted to $294,000, giving an excess of expense over income of $67,000, which was charged to surplus account. At the year-end the corporation's agency account showed $2,114,000 for obligations to principals, representing advances from various governments and international bodies. The Crown's equity in the corporation at the year-end consisted of $6,000,000 of working capital advances and a surplus account balance of $900,000.

The audit report to the Minister included a reference to certain advances having been made to a supplier, in excess of those normally provided, to enable a project to be completed. It was observed that repayment of the advances was dependent on settlement of a claim for contract adjustment made by the corporation to its customer.

119. *Crown Assets Disposal Corporation.* The proceeds from sales of surplus Crown assets by this corporation during the year ended March 31, 1960 amounted to $8,405,000. As of April 1, 1959, the Governor in Council authorized the corporation to retain 4% of the net proceeds from sales of lands and building and 10% of the net proceeds of all other sales and other income earned by the corporation, to meet administrative costs and other expenses (previously the corporation had been authorized to retain 10% of the net proceeds of all sales and other income). The percentage of net proceeds of sales and other income, retained during the year under review, resulted in corporate income of $738,000, which included $90,000 derived from sales for the account of the United States Government. Administrative expenses amounted to $606,000, leaving an excess of income expenses of $132,000.

During the year, the Governor in Council directed the corporation to pay to the Receiver General, at intervals of not longer than six months, all of its surplus in excess of $100,000, and remittances amounting to $415,000 were made to the Receiver General in accordance with this direction.

120. *Defence Construction (1950) Limited.* The expenses incurred by this company during the year ended March 31, 1960 in supervising construction and maintenance projects for the Department of National Defence and others (involving expenditure of some $103 million) totalled $3,207,000. After deducting $156,000 with respect to fees earned for various engineering and administrative services, etc., there remained $3,051,000 of net operating expenses to be met from the parliamentary appropriation provided for the purpose.

121. *National Capital Commission.* During the year ended March 31, 1960, the Commission was provided with funds through a parliamentary appropriation of $1,795,000 for "Administration, and Operation and Maintenance of parks, parkways and grounds adjoining Government Buildings at Ottawa and Hull". The funds thus provided were supplemented by income from equipment rentals, sales of supplies and nursery stocks, etc., in the amount of $160,000, making available for expenditure a total of $1,955,000. Expenditures totalled $1,897,000 and the balance of $58,000 was recorded as refundable to the Receiver General. Interest charges on Government of Canada loans, amounting to $590,000, were provided for by means of a parliamentary appropriation of $460,000 supplemented by rental and other income amounting to $133,000. The unexpended balance of $3,000 was recorded as refundable to the Receiver General.

As of March 31, 1960, a balance of $2,360,000 was held by the Minister of Finance at the credit of the National Capital Fund, which was established by the National Capital Act, available for payment to the Commission to finance, with the approval of the Governor in Council, the cost of capital projects of the Commission and contributions towards the cost of municipal projects within the National Capital Region.

At the beginning of the year, the unexpended balance of funds received from the National Capital Fund by the Commission was $345,000, to which was added $2,500,000 drawn from the Fund and $77,000 arising from sales of land. Capital outlays, principally for roads, driveways, parks and boulevards, amounted to $1,806,000, while contributions to municipalities respecting capital works were $595,000, leaving an unexpended balance at the end of the year of $521,000.

Loans received by the Commission from the Government of Canada for the acquisition of property in the National Capital Region increased by $10,642,000 during the year to $17,742,000, and of this amount $17,292,000 had been expended.

The accumulated cost of capital assets under the administration of the Commission amounted to $51,194,000 at the year-end.

122. *National Harbours Board.* The Board's financial statements given in the Public Accounts are a consolidation of the balance sheets and statements of income and expense for the harbours of Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal, Churchill and Vancouver, as well as the grain elevators at Prescott and Port Colborne and the Jacques Cartier Bridge at Montreal. Total operating income for the financial year ended December 31, 1959 amounted to $24,206,000 and the operating expenses to $15,598,000, leaving a net operating income of $8,608,000. After adding income from investments, etc., of $2,344,000 and deducting $7,925,000 for interest on loans and advances, $3,403,000 for provision for replacement of capital assets and $219,000 for other special charges, a net loss of $595,000 resulted. This amount was added to the accumulated deficit brought forward from the previous year.

The proprietary equity of the Government of Canada as of December 31, 1959, as shown on the Board's balance sheet, was $399,243,000, comprising: value of assets transferred to the Board, $56,923,000; loans and advances, $265,997,000; interest in arrears on loans and advances, $54,010,000; and reserve for replacement of capital assets and other reserves, $89,085,000—less an accumulated deficit of $66,772,000.

123. *Northern Canada Power Commission.* The Commission's income amounted to $2,507,000 for the year ended March 31, 1960. Expenses amounted to $2,117,000, comprising: operating expenses, $834,000; maintenance, $72,000; administration, $156,000; interest on advances from the Government of Canada, $507,000; and depreciation, $548,000. The resultant net income of $390,000 was carried to surplus account. At the year-end the balance at credit of surplus account was $510,000 after transferring $138,000 to the reserve for contingencies and $105,000 to the reserve for extension, expansion and improvements. The balances in these reserve accounts then stood at $815,000 and $212,000, respectively.

The liability to the Government of Canada with respect to advances to the Commission for capital construction purposes under Sections 14 and 15 of the Northern Canada Power Commission Act was $25,857,000, and for advances pursuant to agreements entered into under the Atlantic Provinces Power Development Act, $9,201,000.

124. *Park Steamship Company Limited.* The active operations of this company ceased in 1947 on the disposal of the government-owned fleet of cargo ships under its administration, and the activities of the company have since been confined to the liquidation of the accounts and claims relating to those operations.

125. *The National Battlefields Commission.* During its financial year ended March 31, 1960, the activities of this Commission were financed by $178,000 provided by a parliamentary appropriation. Expenditures amounted to $171,000 and the excess of income over expense of $7,000 was credited to the proprietary equity account.

The Government of Canada's equity in the Commission was $1,437,000, represented by a special reserve fund of $13,000 and a proprietary equity account balance of $1,424,000.

Proprietary Corporations

126. A proprietary corporation is responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

127. *Canadian Broadcasting Corporation.* The expenses of the corporation for the year ended March 31, 1960 amounted to $94,040,000. Costs of production and distribution for programs without advertising were recorded as $48,387,000, and for programs with advertising, as $32,581,000. Operational supervision and services of $6,878,000 and selling and general administration of $5,703,000 largely accounted for the balance of the expenses. Commercial revenue amounted to $38,162,000 and interest on investments and miscellaneous income to $402,000. A parliamentary appropriation (Vote 43) provided $58,404,000, of which $6,104,000 was not required, with the result that the Government of Canada paid $52,300,000 in respect of the net operating requirements of the radio and television services. Offsetting amounts of $3,175,000 are recorded in the Statement of Operations and the Statement of Proprietor's Equity Account to compensate for the inclusion in operating expenses, for cost ascertainment purposes only, of the provision made for depreciation of capital assets.

The equity of the Government of Canada at March 31, 1960, as shown by the Statement of Proprietor's Equity Account, stood at $34,232,000, representing working capital of $6,000,000 and capital assets of $28,232,000.

The International Broadcasting Service facilities are operated by the corporation on behalf of the Government of Canada and are shown on the corporation's balance sheet at cost in the amount of $6,264,000. These facilities have been acquired over the years through charges to annual parliamentary appropriations for "International Shortwave Broadcasting Service—Construction or Acquisition of Buildings, Works, Land and Equipment, including Supervision".

128. *Canadian Overseas Telecommunication Corporation.* Income for the year ended March 31, 1960 amounted to $5,778,000. Operating, administrative, traffic solicitation and other expenses aggregated $3,892,000 and, after providing $938,000 for income taxes, there was a net profit of $948,000 which was credited to surplus account.

The Government of Canada's equity in the corporation at March 31, 1960, totalled $25,179,000, consisting of $22,590,000 advanced under Section 14 of the Canadian Overseas Telecommunication Corporation Act, together with $2,589,000 at credit of surplus account.

129. *Cornwall International Bridge Company Limited.* This company is jointly owned by The St. Lawrence Seaway Authority and its United States counterpart, the Saint Lawrence Seaway Development Corporation. The company's income for its financial year ended September 30, 1959 amounted to $320,000, principally derived from the assessment of bridge tolls. Operating and administrative expenses aggregated $117,000. The resultant net income of $203,000 was transferred to The St. Lawrence Seaway Authority in lieu of rental for the right-of-way over bridge, management fee, etc.

The shareholders' equity in the company totalled $110,000, comprising $50,000 of capital stock and a surplus balance of $60,000, after deducting $37,000 for the loss sustained on the abandonment of capital assets during the year under review.

130. *Eldorado Aviation Limited.* This company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited providing aviation facilities exclusively to the Eldorado group. Operational and administrative expenses for the year ended December 31, 1959, amounting to $962,000, including depreciation of $153,000, were apportioned between Eldorado Mining and Refining Limited and its other subsidiary, Northern Transportation Company Limited, in the amounts of $856,000 and $106,000, respectively.

The capital of the company consisted of $28,006 of capital stock together with a surplus balance of $217,000 which arose from proceeds of insurance, profits on sale of aircraft and major spare parts and prior year's adjustments.

131. *Eldorado Mining and Refining Limited.* During the year ended December 31, 1959 sales and other income amounted to $38,414,000, exclusive of amounts totalling $295,330,000 derived from the sale of uranium concentrates purchased from other producers ad on which no profit was earned by the company. Cost of sales totalled $27,418,000 and scientific research, exploration and administrative costs totalled $1,439,000. After a charge of $1,043,000 for the cost of additional benefits in respect of past service, arising on establishment of a new pension plan for employees, and a provision for income tax in the amount de $4,380,000, a net profit for the year of $4,134,000 remained and was credited to surplus account. Dividends of $4,230,000 were paid to the Receiver General during the year.

The Government of Canada's equity in the company as at December 31, 1959 amounted to $53,306,000, represented by capital stock and surplus in the amounts of $6,586,000 and $46,720,000, respectively.

132. *Export Credits Insurance Corporation.* The income of this corporation for its financial year ended December 31, 1959, amounting to $1,240,000, consisted of: premiums on risks insured, $558,000; portion of premiums in respect of insurance entered into under Section 21 of the Export Credits Insurance Act, $115,000; and interest earned on Government of Canada bonds, $567,000. Administrative expenses amounted to $235,000. Policyholder's claims amounting to $176,000 were paid by the corporation, while recoveries of claims previously paid amounted to $335,000. The net result of the operations for the year amounted to $1,164,000 which was carried to the credit of the underwriting reserve, as required by Section 11A of the Export Credits Insurance Act.

The Government of Canada's equity in the corporation at December 31, 1959 was $10,000,000, consisting of share capital of $5,000,000 and capital surplus of $5,000,000. Investments in Government of Canada securities held by the corporation at the year-end amounted to $15,205,000 so that the Government's equity, plus the underwriting reserve of $4,905,000, was more than offset by the Government securities held by the corporation.

The liability of corporation under the contracts of insurance issued and outstanding as of December 31, 1959 totalled $159,117,000, of which $98,956,000 was for contracts entered into under Section 21 of the Act, which provides that all moneys required to discharge the liabilities arising under such contracts are payable to the corporation by the Minister of Finance out of unappropriated moneys in the Consolidated Revenue Fund.

133. *Farm Credit Corporation.* This corporation is the successor to the Canadian Farm Loan Board, under the Farm Credit Act, c. 43, 1959, proclaimed on October 5, 1959. Under Section 30 of the Act, the Farm Credit Corporation assumed all property, rights, obligations and liabilities of the Canadian Farm Loan Board.

During the financial year ended March 31, 1960, 5,339 loans were made to farmers to a total of $40,031,000, and repayments amounted to $7,904,000. Loans outstanding at the balance sheet date, including accrued interest, amounted to $120,152,000. Interest earned on loans to farmers during the year amounted to $5,027,000 and other income to $129,000. After deducting $3,751,000 for interest on loans from the Government of Canada, an amount of $1,405,000 was available to meet administrative expenses, which totalled $1,165,000. The resultant net earnings of $240,000 were carried to the statutory reserve for losses, increasing the balance at the credit of that reserve to $3,749,000 at the year-end.

Pursuant to Section 30 of the Act, the issued and outstanding shares of capital stock of the Canadian Farm Loan Board, consisting of 50,000 shares with a fully paid value of $5,000,000, were cancelled and a like amount was deemed to have been paid to the corporation, as capital, by the Minister of Finance under Section 12 of the Act. Government of of Canada loans to the corporation as at March 31, 1960, amounted to $110,700,000, including $15,800,000 obtained during the last six months of the year at an interest rate of 5¾ per cent per annum. Under Section 16 of the Act, these funds were loaned to farmers at 5 per cent per annum. Over the repayment period of 25 years, it is estimated that the interest loss to the corporation on these loans will amount to over $2,000,000.

134. *Northern Transportation Company Limited.* The income of this company, a wholly-owned subsidiary of Eldorado Mining and Refining Limited, amounted to $3,847,000 for its financial year ended December 31, 1959, while operating and administrative expenses and provisions for depreciation totalled $3,287,000. After deducting $400,000 for the cost of additional benefits in respect of past service, arising on establishment of a new pension plan for employees, and $76,000 for the provision for income tax, $84,000 remained which was credited to surplus account. During 1959, in order to provide for possible marine losses not protected by commercial insurance, the sum of $100,000 was transferred from surplus account to a reserve for marine insurance. The parent company's equity in the company at December 31, 1959 was $5,613,000, consisting of $152,000 of capital stock and $5,461,000 of surplus.

135. *Polymer Corporation Limited.* During its financial year ended December 31, 1959, net sales of products and services of this company amounted to $59,847,000 and other income to $405,000. Cost of sales amounted to $50,923,000 and other expenses to $3,018,000. After providing $2,621,000 for income tax, a net income for the year of $3,690,000 resulted and was credited to surplus account. Dividends of $3,000,000 were paid to the Receiver General during the year.

The Government of Canada's equity in the company at December 31, 1959 was $57,750,000, consisting of $30,000,000 in capital stock and $27,750,000 in surplus.

136. *The St. Lawrence Seaway Authority.* The Authority commenced operations on April 25, 1959, and during the period to December 31, 1959 income from tolls and other sources totalled $9,214,000. Administrative, operating and maintenance expenses amounted to $3,953,000. After a charge of $7,994,000 for interest on loans from the Government of Canada and provision of $3,955,000 for depreciation, there was a net loss of $6,688,000 which was carried to the deficit account.

Responsibility for the operation of non-toll canals and other properties at Lachine, Cornwall, Sault Ste. Marie and Niagara Peninsula

was transferred to the Authority from the Department of Transport as from April 1, 1959. A net amount of $1,656,000 was recovered from parliamentary appropriations to cover the operating and maintenance expenses of $830,000 and the cost of construction of works and acquisition of equipment of $1,139,000, less income from rentals, wharfage and other sources of $313,000.

The Government of Canada's equity at December 31, 1959 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 $130,716,000	$ 179,353,000
Loans under Section 25 of the Act	285,500,000
Interest on loans—matured and capitalized	24,427,000
	489,280,000
Deduct: Deficit—net loss for the period April 25, 1959, commencement of operations, to December 31, 1959	6,688,000
	$ 482,592,000

137. *Northern Ontario Pipe Line Crown Corporation.* The capital cost of $124,583,000 of the Northern Ontario section of the all-Canadian natural gas pipe line at December 31, 1959 consisted of $115,082,000 of assets acquired or in course of construction, and $9,501,000 of engineering, administration and financing expenses, financed out of funds provided through loans by the Government of Canada under Section 6 of the Northern Ontario Pipe Line Crown Corporation Act. The excess of income from pipe line rentals of $5,642,000, over interest on invested capital of $4,792,000, amounted to $850,000 and was credited to a reserve to be available for meeting obligations to the lessee, Trans-Canada Pipe Lines Limited, in the event that it exercises its rights under the existing purchase-option lease agreement.

The CHAIRMAN: I understand the Auditor General has a statement to make.

Mr. HENDERSON: If I had a statement here, Mr. Chairman, I have lost it but I can draw on my memory. Paragraph 110 running through to the end of page 62 paragraph 137, covers crown corporations and agencies and I think they are largely self explanatory.

In the first paragraph there is explained the provisions of section 87 of the Financial Administration Act, under which the auditor of the corporations is required to report. Paragraph 112, on the following page, lists the corporations which were examined by the audit office during the year under review, that is the fiscal year ending March 31, 1960. Paragraph 113 lists the crown corporations and other public agencies whose accounts were not examined by the Auditor General during the year, or were dealt with only in part. Paragraph 114 has reference to how the operating results of the corporations have been reported, to the responsible ministers and the House of Commons under section 87 of the Financial Administration Act, and also deals with the investments in the corporations.

We then go into the position of each of the corporations, and in this connection I have followed the pattern of my predecessor in this particular year in setting forth the equity which Canada has in these corporations, also indicating the outcome of their respective operations for the year

Reference has been made in each paragraph to points which had been mentioned in the statutory reports made under section 87 of the Financial Administration Act. For example, if we turn to Canadian Commercial Corporation, in paragraph 118, you will note just such a reference, which was made in the audit report, to certain advances having been made to a supplier to enable a project to be completed.

You will find the rest to be self explanatory but I should like to say that I have in mind for future reports it might be more informative to members, if members agree, were I to put in a few tables of figures—comparative figures —showing, for example, the expenditures during the year under review as compared with the expenditures for the previous year, followed by an explanation for the increase or decrease. I might say something about the size of the staff figures for these agencies. In short, I might make the paragraph somewhat more informative to the members. Bear in mind that if I have had anything that I felt required to be stated to the House of Commons in qualification of the accounts, I would have done so in my statutory certificate, under section 87, at the time it is issued, following the year end of the corporation. In the same way, I would be mentioning in this section any matters which I have been unable to resolve with managements, where I felt it was necessary to do so.

Mr. DRYSDALE: There is one thing which concerns me. Is there any uniformity in the way that the accounts are set up throughout, and I am particularly concerned with—

Mr. HENDERSON: Are you referring to all of the crown corporations?

Mr. DRYSDALE: Yes.

Mr. HENDERSON: No. The only measure of uniformity exists in the fact that they compare along commercial lines. They are given a corporate status. I would say that as far as I can see, these crown corporations are simply government departments operating under a corporation cloak, for the purpose of facilitating their particular operation.

Mr. DRYSDALE: If some of the corporations were operated on a business basis, would you say a reasonable ratio of the capital stock to the capital debt would be 50-50?

Mr. HENDERSON: Well, that is difficult to say, due to the history of the financing of a number of these.

Mr. DRYSDALE: The point which concerns me particularly is the end result. I will agree that it does not make any difference. For example, some of the companies have very small capital stock—and I could give one illustration: Trans-Canada Air Lines set original capital stock issued at some $5 million; they have a capital debt of approximately some $200 million, on which they are paying interest at approximately 5 per cent. Then, this year, they show a deficit of between $200,000 and $300,000. The point that concerns me is this: If they were doing it approximately on this 50-50 basis, they might be showing a profit on the books of anywhere from $200 million to $300 million, because it would be unnecessary for them to declare a dividend unless they were in a profit position. But, they have this bonded indebtedness, with this 5 per cent repayable to the C.N.R. every year, regardless of their situation. It would appear to me that in trying to compare it with other private enterprise companies, there is likely to be a distortion in the minds of the public, because they will take only the final figure.

Mr. HENDERSON: If I might say so, the opportunity to get that point across rests with the management of Trans-Canada Air Lines, in their annual report. As I am not their auditor, I am not too familiar with their report. However, if they wish to make an effective comparison with the private airlines, their printed annual report is the proper medium through which to do it. When I referred to the crown corporations I audit, I was referring to a comparison of operations as between last year and this year, and why the results are up or down. I am not referring to comparisons with outside.

Mr. DRYSDALE: Would you say then that the crown corporations are not, strictly speaking, comparable in most cases with private business, and that they have sort of grown in a way satisfactory to themselves, but that it would be erroneous to compare them with private enterprise.

Mr. HENDERSON: In some cases I think you could make a good comparison with private enterprise, and in others, no, because of the nature of their operations, the reasons for their existence, and the manner in which they have been financed.

Mr. DRYSDALE: Do you consider it advisable to recommend uniformity of accounting so that such a comparison would be of value?

Mr. HENDERSON: No, I do not think you could recommend uniformity of accounting, because crown companies are engaged in such varied activities. You have uniformity of accounting in terms of working toward a statement of operations, the existence of a balance sheet, the keeping of proper books on the double entry system, a chart of accounts, assets and liabilities, and so on. To that extent, it is standardized. Wherever possible, the same accounting techniques naturally would apply. We are interested in that and we watch for it and we make suggestions to them. We may find that they could be doing a certain type of recording better if they took a leaf out of another crown corporations book or something like that.

Mr. DRYSDALE: The point that concerns me is that an accountant or someone trained ni that field, thereby understanding the basis on which the accounts are kept, could compare them with the previous accounts of the particular company and understand what has happened. I understand that one of the functions of the Auditor General is to give—and perhaps I am going too far—an accurate picture of exactly what is happening. As I say, there is this tendency for people to compare the crown corporations or agencies with a similar type of private enterprise company. I feel, personally, that where there could be a valid comparison made, there should be an attempt to have the accounting carried on on a samilar basis to what is generally carried on in that particular industry, so there would be an obvious comparison.

Mr. HENDERSON: Let me make this clear. There is similarity in the chart of accounts that a corporation like Polymer keeps, with Goodyear or Goodrich, who are in the rubber business. It is true they are in a different type of rubber business; however, if someone came to supply for a job from the accounting department of Goodyear, Polymer would be more likely to litsen to him, I would think, than if he came from somewhere else. Each industry offers a particular experience, from within that industry.

Are you saying to me that you think I should be comparing the financial results of some of the crown corporations with their counterparts in business?

Mr. DRYSDALE: Not comparing them, but I had wondered if they should be formulated in such a way that they could be comparable for other people.

Mr. HENDERSON: We are interested in looking at them and at management. I can recall that when I was with the C.B.C. I personally paid considerable attention to the public accounts of the N.B.C. and C.B.S. in the United States,

and the B.B.C. in London, because the problems were similar in the final analysis. In fact, I know the managements of many of our crown corporations do that, and if they think we can be of any assistance they will speak to us.

Mr. DRYSDALE: In referring specifically to the situation of T.C.A., it invariably is going to be compared with Canadian Pacific and other airlines. Yet, it appears to me, from what little I know of accounting, that a private enterprise firm would not have a capital stock of some $5 million and a capital debt in excess of $200 million, with fixed interest of 5 per cent.

Mr. HENDERSON: Do you not think that would depend on how the corporation got its money in the first place? Maybe it would be cheaper for C.P.A., in fact, to have gotten its money the way T.C.A. did?

Mr. DRYSDALE: I am trying to find out from you, as an auditor or accountant, if there was some rough ratio such as a 50-50 ratio.

Mr. HENDERSON: No, sir; I would not make that as a general statement. There is so much difference between corporations, and certainly quite a difference between our own crown corporations. I think this has been a very useful discussion. You have raised some very interesting points.

Mr. BROOME: I think I am in order in referring to the balance sheet of the crown assets Disposal Corporation where professional services this year were $8,164 and yet administrative, office salaries, executive officers and so on, increased from $388,000 to $435,000 from 1959 to 1960. Yet, as I understand it, in this committee last year this fee paid for professional services was to improve efficiency within the operation of the Crown Assests Disposal Corporation. It seems to have had the opposite effect.

Mr. HENDERSON: May I point out that these are the financial reports for the year ended March 31, 1960, which were issued at about the date we were discussing the operations you mention. The public accounts committee last year went into this. It would be better if you looked at the accounts for the year ended March 31, 1961.

Mr. BROOME: They are through?

Mr. HENDERSON: May I say that those are in process and I think in fact have been finalized. I understand these accounts have gone to the printer. In those accounts I think you will find reference to the point you have mentioned.

The CHAIRMAN: In paragraph 112 it says:

> The Auditor General is eligible to be appointed the auditor, or a joint auditor, of a crown corporation, and the accounts and financial statements of 22 of the 26 corporations were examined by the audit office in the year under review.

Then in paragraph 113 there are eight corporations of which I assume you are not the Auditor General? Have you the names of the firms who are the auditors of those eight crown corporations?

Mr. HENDERSON: They are private firms. Do you wish them in the order they are here?

The CHAIRMAN: The first is the Bank of Canada.

Mr. HENDERSON: In 1959 the accounts of the Bank of Canada were audited by Rosaire Courtois of Courtois Fredette & Cie and W. R. Kay of Fred Page Higgins and Company. The Canadian National Railways were audited by J. A. DeLalanne of Montreal. The Canadian National Railways securities trust were audited by the same person. The Canadian National (West Indies) Steamships Limited, in respect of 1959, were also audited by Mr. J. A. DeLalanne, but I might say with respect to the moment of this financial year they are now audited by me by virtue of an order in council passed under the authority of section 77 of the Financial Administration Act.

The Canadian Wheat Board, has for many years been audited by Messrs. Millar, MacDonald and Company of Winnipeg. Central Mortgage and Housing Corporation is audited by Mr. William H. Campbell of Glendinning, Campbell, Jarrett & Dever and J. H. Rene de Cotret of Rene de Cotret, Ferron, Nobert & Cie. The Industrial Development Bank is audited by the same auditor who audits the Bank of Canada. Trans-Canada Air Lines is audited by the same auditor who examines the accounts of the Canadian National Railways.

The CHAIRMAN: One of the reasons for the question is I understand that in Australia the Auditor General of the government of Australia is the auditor for all of the so called crown corporations and the crown corporations at the same time have a private auditing firm. So, in effect, the Auditor General audits for the government and the private auditor audits for the crown corporation concerned. Is that a fair statement?

Mr. HENDERSON: I think in Australia, and in some of the other commonwealth countries, that is true; the Auditor General is joint auditor or is, so to speak, like the shareholders' auditor, and the private firm does the auditing for the management, like an internal auditor.

The CHAIRMAN: Could you develop the theme of managerial relationship between the crown corporation and the government?

Mr. HENDERSON: This is a tall order. It happens to be something which I find very interesting. It is somewhat outside the field of auditing as such. However, it is naturally something to which we direct our attention in examining accounts of the crown corporations; that is, the functions of the board of directors and how they tie in to the management. I do feel, however, that it is somewhat outside my province for purposes of this discussion, as I believe members would agree. I understand that the Glassco commission is interesting itself in this particular subject, which should be a useful exercise.

The CHAIRMAN: The only reason I raised the question is the crown corporations have become very popular in some quarters. While there are great benefits, it seems to me there also are great dangers which sometimes are not recognized.

Mr. SMITH (*Simcoe North*): Like the C.N.R.

The CHAIRMAN: If you had a poor cabinet minister and a poor president of a corporation there is not too great protection for the taxpayer. This could happen; I do not say it happens now. There is a great interest in the set-up of crown corporations, for example, in the province of Quebec. There are decided advantages when you want certain purposes accomplished, but there are great disadvantages too which perhaps are not as easily recognized.

Mr. SMITH (*Simcoe North*): There are very interesting thoughts to be developed in respect of the system in Australia where they have dual auditing.

The CHAIRMAN: I was raising the question of whether the Auditor General of Canada should not be at least co-auditor with private firms in respect of the crown corporations under the control and indirectly the direction of the government.

Mr. MUIR (*Lisgar*): Is there any reason why you audit some crown corporations and not others?

Mr. HENDERSON: I do not know the history of this, Mr. Muir. I am fairly recently arrived here.

The CHAIRMAN: Is there anything else on crown corporations? We would like to go into in camera to consider this report.

Mr. WINCH: Is there very much more before us?

The CHAIRMAN: Not very much.

Mr. MUIR (*Lisgar*): I think Mr. Henderson indicated he had a table showing the differences in operating procedures.

Mr. HENDERSON: I was thinking that if it met with the approval of the committee—and I rather sense that it does—I would expand it to bring that type of treatment to these paragraphs.

Mr. MUIR (*Lisgar*): I was wondering if we might have time to do that at this particular moment. Perhaps your table could be appended to the minutes.

Mr. HENDERSON: No. I mean in respect of my report for 1960-61. I am dealing here with our operations through March 31, 1960. When I come to 1960-61, if the members wish, I will expand what I say under each crown corporation and highlight in more comparative fashion what the results have been, if the committee feels this would be useful.

Mr. DRYSDALE: Will you include the ones which you do not audit?

Mr. HENDERSON: No, I cannot, because I do not have access to the books of companies I do not audit.

Mr. DRYSDALE: Would the information from the balance sheet be sufficient?

Mr. HENDERSON: I would require to have access to the books in order to get the detailed information I would want. That would probably involve having recourse to the auditors' working papers, and I would question whether I have that right.

The CHAIRMAN: There are two sections to finish plus the in camera consideration. I am sure we could do it in half an hour. Shall we go ahead?

Agreed.

The CHAIRMAN: We have paragraphs 85 to 105 under the heading summary of assets and liabilities.

> 85. 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".
>
> 86. The statement of assets and liabilities for the year ended March 31, 1960, with comparative figures at the end of the preceding year, prepared and certified in accordance with this requirement, is given as Appendix 2 to this report. The statement was prepared on a modified cash basis, as in previous years, and explanations regarding certain aspects of this basis of presentation are included in the introduction to the public accounts, as follows:
>
> > "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 other 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 . . .
> >
> > "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 of the statement of assets and liabilities."

Assets

87. The following table lists the assets at March 31, 1960 by main headings in the statement of assets and liabilities (appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1958	March 31, 1959	March 31, 1960
Current assets	$ 699,729,000	$ 910,944,000	$ 862,147,000
Advances to the Exchange Fund Account	1,975,000,000	1,995,000,000	1,960,000,000
Sinking fund and other investments held for retirement of unmatured debt	211,741,000	83,214,000	85,272,000
Loans to and investments in Crown corporations	2,554,409,000	3,271,061,000	3,446,662,000
Loans to national governments	1,487,985,000	1,448,960,000	1,414,528,000
Other loans and investments	662,648,000	683,056,000	934,471,000
Securities held in trust	22,646,000	20,742,000	30,612,000
Deferred charges—Unamortized loan flotation costs	77,535,000	147,431,000	150,993,000
Unamortized portion of actuarial deficiencies	139,000,000	465,300,000	465,300,000
Suspense accounts	2,000	2,000	33,000
Inactive loans and investments	90,854,000	92,261,000	93,539,000
Total Assets	7,921,549,000	9,117,926,000	9,443,557,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net Assets	$7,375,165,000	$8,571,542,000	$8,897,173,000

88. *Current assets.* The balances included under this heading at March 31, 1960 with the comparable balances at the close of the two previous years were:

	March 31, 1958	March 31, 1959	March 31, 1960
Cash	$ 468,013,000	$ 640,459,000	$ 565,436,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account	26,524,000	67,078,000	120,698,000
Defence production revolving fund	54,576,000	30,161,000	20,667,000
Other	49,181,000	54,743,000	54,645,000
	130,281,000	*151,982,000*	*196,010,000*
Securities investment account	79,846,000	98,031,000	77,863,000
Other current assets	21,589,000	20,472,000	22,838,000
	$ 699,729,000	$ 910,944,000	$ 862,147,000

The increase of $53,620,000 (80 per cent) in the agricultural commodities stabilization acount at March 31, 1960 compared with the corresponding balance at the end of the preceding year was largely accounted for by increases of $53,249,000 (256 per cent) in the inventory of pork and $9,864,000 (30 per cent) in the inventory of butter, less a decrease of $9,345,000 (94 per cent) in the inventory of dry skimmed milk. The reduction of $9,494,000 (31 per cent) in the defence production revolving fund resulted largely from the repayment to the fund by Canadian Asenals Limited of $7,500,000 of working capital advances.

89. *Advances to the Exchange Fund Account.* The purpose of the exchange fund account, which is operated on behalf of the Minister of Finance by the Bank of Canada, is "to aid in the control and protection of the external value of the Canadian monetary unit".

The advances to the account at March 31, 1960 are included in the statement of assets and liabilities at their full total of $1,960 million. A parenthetical note associated with the item explains that the value of the investments from advances was $1,746 million at March 31, 1960, indicating an unrecorded deficiency of $214 million. The following briefly summarizes the nature of this deficiency:

Net loss on dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies, since establishment of the Exchange Fund Account in 1935	$ 136,000,000
Exchange loss arising from valuation of United States dollar holdings at the exchange rate of $0.95¾ at March 31, 1960	78,000,000
	$ 214,000,000

Comment is made in paragraph 106 regarding the practice of carrying the advances made to the exchange fund account without adjustment for the deficiency shown above.

90. *Sinking fund and other investments held for retirement of unmatured debt.* The following is a summary of the balances comprising this item at March 31, 1960 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Investments held for sinking fund maintained with respect to Newfoundland loans assumed under Terms of Union	$ 13,886,000	$ 14,931,000	$ 15,960,000
Additional investment in Newfoundland guaranteed stock held for retirement of Newfoundland loans	18,761,000	18,811,000	19,822,000
Investments held for retirement of loans payable in New York	179,094,000	49,472,000	49,490,000
	$ 211,741,000	$ 83,214,000	$ 85,272,000

91. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1960 with the comparable balances at the close of the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Central Mortgage and Housing Corporation	$ 668,017,000	$1,003,576,000	$1,318,683,000
Canadian National Railways	1,266,227,000	1,468,179,000	1,207,808,000
The St. Lawrence Seaway Authority	176,743,000	282,819,000	315,927,000
National Harbours Board	125,431,000	145,632,000	161,398,000
Northern Ontario Pipe Line Crown Corporation	70,750,000	113,500,000	121,500,000
Farm Credit Corporation	65,172,000	87,219,000	115,700,000
Atomic Energy of Canada Limited	56,044,000	58,789,000	59,374,000
Northern Canada Power Commission	14,355,000	21,639,000	34,585,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Canadian Overseas Telecommunication Corporation	12,636,000	12,979,000	22,590,000
Other balances	69,034,000	46,729,000	59,097,000
	$2,554,409,000	$3,271,061,000	$3,446,662,000

The $315 million increase in the investment in the Central Mortgage and Housing Corporation resulted from loans of $352 million being made to the Corporation during the year, under Section 22 of the Central Mortgage and Housing Corporation Act, less repayments in respect of loans made in previous years.

The decrease of $260 million during the year in the loans to and investment in the Canadian National Railways resulted from repayments of advances to the extent of $490 million, while advances made to the company under annual Canadian National Railways Financing and Guarantee Acts amounted to $208 million, and purchases of 4 per cent preferred stock under Section 6 of the Canadian National Railways Capital Revision Act, c. 311, R.S., amounted to $22 million.

The $59,097,000 of "other balances" at March 31, 1960 included loans to or investments in the following corporations: National Capital Commission, $17,742,000; Export Credits Insurance Corporation, $10,000,000; Eldorado Mining and Refining Limited, $8,247,000; Canadian Arsenals Limited, $7,500,000; Canadian Commercial Corporation, $6,000,000; and Bank of Canada, $5,920,000.

92. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1960 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Belgium	$ 43,833,000	$ 41,526,000	$ 39,219,000
France	169,000,000	160,550,000	152,100,000
India	16,173,000	33,000,000	33,000,000
Netherlands	89,504,000	84,340,000	79,177,000
United Kingdom	1,163,397,000	1,124,703,000	1,108,287,000
Other countries	6,078,000	4,841,000	2,745,000
	$1,487,985,000	$1,448,960,000	$1,414,528,000

Of the $34 million decrease during the year under review, $18 million resulted from repayments by Belgium, France, the Netherlands and Norway, of loans made to them under the provisions of the Export Credits Insurance Act, while $16 million was repaid by the United Kingdom on the loan authorized by the United Kingdom Financial Agreement Act, 1946.

93. *Other loans and investments.* The balances comprising this asset item at March 31, 1960, with the comparable balances for the two previous years, were:

	March 31, 1958	March 31, 1959	March 31, 1960
Subscriptions to capital of and working capital advances and loans to international organizations	$ 372,561,000	$ 369,916,000	$ 605,175,000
Veterans' Land Act advances	201,733,000	192,857,000	188,903,000
Less—Reserve for conditional benefits	47,760,000	41,857,000	37,277,000
	153,973,000	*151,000,000*	*151,626,000*
Loans to provincial governments	70,828,000	96,339,000	90,397,000
Old Age Security Fund, temporary loan			28,001,000
Balances receivable under agreements of sale of Crown assets	21,963,000	19,105,000	15,982,000
Other balances	43,323,000	46,696,000	43,290,000
	$ 662,648,000	$ 683,056,000	$ 934,471,000

The increase of $235 million (64 per cent) in the first of these items during 1959-60 was due to the increase of that amount in Canada's subscription to the capital of the international monetary fund. The $28 million temporary loan to the old age security fund represented the deficit from the fund's transactions for 1959-60 carried forward to 1960-61; in the preceding year the deficit in the fund's operations was charged to budgetary expenditures (see paragraph 28). This accounting treatment stems from the decision, stated in the budget speech of April 9, 1959, to carry the deficit forward to 1960-61, in anticipation that it would be covered by increased receipts credited to the fund as a result of the increased rates of old age security tax.

94. *Securities held in trust.* The net increase of $10 million (48 per cent) in this item is more than accounted for by the inclusion in 1959-60 for the first time of $14 million of security bonds lodged by various departments with the securities deposit branch of the Department of Finance. The most significant amounts were $6 million of guarantee deposits with the Department of Northern Affairs and National Resources in connection with permits for exploratory work with respect to oil and gas on territorial lands, and $6 million of guarantee deposits with the Department of National Revenue to secure payment of customs duties and excise taxes on certain products released in advance.

95. *Unamortized portion of actuarial deficiencies.* The amounts appearing under this caption in the Statement represent the extent to which the balances at credit of the public service superannuation account and the Canadian forces superannuation account—part from the non-cash entries referred to in paragraphs 107 and 108—fell short of the estimated actuarial liabilities of the two pension plans, calculated as at December 31, 1951 and March 31, 1958, respectively.

In our opinion, there should be a plan, approved by parliament, for amortizing the balances of these two actuarial deficiencies, aggregating $465,300,000 at March 31, 1960, if they are to continue to be carried as "assets" on the Statement and if the offsetting credits are to remain in the two superannuation accounts. Explanations regarding these credits are given in paragraphs 107 and 108.

96. *Inactive loans and investments.* The $93,539,000 shown for this item in the statement at March 31, 1960 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)	13,185,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain.	74,000
	$ 93,539,000

The amount shown for third item in the above listing is $1,323,000 greater than the corresponding amount at March 31, 1959 by reason of a payment covering $1,275,000 of principal and $48,000 of interest during 1959-60 under the terms of the guarantee. A contingent liability exists to meet the final payment of $1,285,000 in 1960-61, covering $1,275,000 of principal and $10,000 of interest.

Liabilities

97. The following table lists the liabilities at March 31, 1960 by main headings in the statement of assets and liabilities (appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1958	March 31, 1959	March 31, 1960
Current and demand liabilities	$ 877,751,000	$ 952,560,000	$1,099,057,000
Deposit and trust accounts	187,037,000	237,917,000	242,673,000
Annuity, insurance and pension accounts	2,712,813,000	3,301,861,000	3,565,376,000
Undisbursed balances of appropriations to special accounts	285,367,000	83,387,000	96,620,000
Deferred credits	76,813,000	81,429,000	83,961,000
Suspense accounts	36,551,000	18,664,000	8,528,000
Unmatured debt	14,245,107,000	15,574,113,000	15,890,152,000
	$18,421,439,000	$20,249,931,000	$20,986,367,000

98. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1960 were:

Non-interest-bearing notes payable to the International Monetary Fund and the International Bank for Reconstruction and Development	$ 381,828,000
Accounts payable	245,099,000
Outstanding Treasury cheques	228,768,000
Interest accrued	137,622,000
Other balances	105,740,000
	$ 1,099,057,000

The only significant change in any of these balances during the year under review was an increase of $176 million in the first amount, due to the issue of additional non-interest-bearing notes payable to the international monetary fund as part of the increase in Canada's subscription to the capital of the fund (see paragraph 93).

99. *Deposit and trust accounts.* The following is a summary of the balances included in this item at March 31, 1960:

United States Strategic Air Command	$ 33,927,000
Post Office Savings Bank	29,372,000
Indian trust funds	29,224,000
Contractors' security deposits	27,705,000
Deposits by Crown corporations	19,269,000
Contractors' holdbacks	17,398,000
Korean Operations Pool	16,104,000
Guarantee deposits	14,345,000
Canadian Pension Commission (Administration trust fund)	10,281,000
Other balances (77 in number)	45,048,000
	$ 242,673,000

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. Canada received $9,293,000 during the year ended March 31, 1960 as its share of the proceeds from the disposal of pool equipment and stores. After crediting this amount, and charging $573,000 as Canada's share of logistic support, the balance of $16,104,000 at the credit 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 other participating governments submit their billings to the pool.

100. *Annuity, insurance and pension accounts.* The following is a listing of the balances making up this item at March 31, 1960 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Government annuities	$1,047,641,000	$1,105,825,000	$1,156,867,000
Public Service Superannuation Account	1,045,760,000	1,136,022,000	1,229,620,000
Canadian Forces Superannuation Account	513,869,000	942,315,000	1,053,011,000
Other balances	105,543,000	117,699,000	125,878,000
	$2,712,813,000	$3,301,861,000	$3,565,376,000

The balance at the credit of the government annuities account at the close of each fiscal year represented the actuarial liability in respect of outstanding annuity contracts. This was after annually crediting the account (with a corresponding charge to Expenditure) with the amount required to adjust the balance to the year-end actuarial liability, as is required by section 15 of the Government Annuities Act, c. 132, R.S.

Section 32 of the Public Service Superannuation Act, c. 47, 1952-53, requires that credits be given to the public service superannuation account (with corresponding charges to expenditure) for the following:

(*a*) interest on balances at credit of the account;

(*b*) annual contributions matching the total amounts of contributions by employees in respect of current service;

(*c*) annual contributions, as determined by the minister, matching amounts of contributions by employees in respect of past service; and

(*d*) amounts to provide for the increase in cost to the crown of benefits payable as a result of salary increases of general application to the public service.

The year-end balances at the credit of the account, as shown in the above table, were after recording these statutory credits along with credits for employees' contributions. The balances also include $139,000,000 which resulted from a non-cash entry made in a previous year, crediting the account to increase the balance to the amount of the actuarial liability and charging an account called "unamortized portion of actuarial deficiency in the public service superannuation account" (see paragraph 107).

The balances at the credit of the Canadian forces superannuation account at March 31, 1960 and at the close of the preceding year were after crediting, in addition to members' contributions, amounts provided by means of annual parliamentary apropriations (at one and two-thirds of the contributions by members of the forces) together with interest on the balances at credit of the account. The balance was augmented by a non-cash credit of $326,300,000 to the Account in 1958-59, with a corresponding charge to an account called "unamortized portion of actuarial deficiency in the Canadian forces superannuation account" (see paragraph 108).

The "other balances" in the liability item "annuity, insurance and pension accounts" includes the uninvested portion of the unemployment

insurance fund on deposit with the Receiver General—$22,765,000 at March 31, 1960. The amount of the fund at the close of the 1959-60 fiscal year was $377,258,000 (see also paragraph 109).

101. *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 for the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Colombo Plan Fund	$ 60,368,000	$ 59,878,000	$ 62,966,000
Railway Grade Crossing Fund	12,648,000	22,560,000	31,196,000
National Capital Fund	543,000	860,000	2,360,000
Other	69,000	89,000	98,000
National Defence Equipment Account	211,739,000		
	$ 285,367,000	$ 83,387,000	$ 96,620,000

During the year ended March 31, 1960 an amount of $50 million provided under Vote 98 was credited to the account for the Colombo Plan, while expenditures totalling $46,912,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling $15 million, provided under section 265 of the Railway Act and vote 444, were credited to the account for the railway grade crossing fund during 1959-60, while expenditures totalling $6,364,000 were incurred in aiding in the cost of installation of protective devices at railway grade crossings and in the cost of grade separations.

During the year ended March 31, 1960 an amount of $4,000,000 provided under Vote 307 was credited to the account for the national capital fund, while amounts totalling $2,500,000 were paid over to the national capital commission to finance the cost of capital projects approved by the governor in council.

The $211,739,000 balance of the national defence equipment account at March 31, 1958 was utilized in absorbing certain expenditures of the Department of National Defence during the year ended March 31, 1959 (see paragraph 27).

102. *Deferred credits.* The following is an analysis of this item at the close of the 1959-60 fiscal year:

Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	$ 44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority	19,427,000
Credits arising from the recording of agreements of sale of Crown assets	13,554,000
Equity in agency account of Crown Assets Disposal Corporation	5,603,000
Other balances	1,203,000
	$ 83,961,000

The only significant change during the year was the increase of $6,608,000 in the deferred interest on loans to The St. Lawrence Seaway authority. This deferred interest will become payable by the Authority commencing in 1963, along with repayments of principal and current interest.

103. *Suspense accounts.* The only large balance included in this item on the liabilities side of the statement of assets and liabilities at March 31, 1960 was that of $3,623,000 at the credit of the replacement of mate-

riel account maintained pursuant to Section 11 of the National Defence Act. Amounts credited to the Account during the year for the proceeds of sales to other countries of "materiel not immediately required", totalled $3,841,000, while the amounts applied towards the procurement of materiel during the year totalled $14,063,000. There was accordingly a reduction of $10,222,000 during the year in the balance of the Account.

104. *Unmatured debt.* A summary of the unmatured debt outstanding March 31, 1960, in comparison with balances outsanding at the close of the two previous years, is as follows:

	March 31, 1958	March 31, 1959	March 31, 1960
Bonds:			
Payable in Canada	$12,368,296,000	$13,777,302,000	$13,563,341,000
Payable in London	51,811,000	51,811,000	51,811,000
Payable in New York	300,000,000	150,000,000	150,000,000
	12,720,107,000	*13,979,113,000*	*13,765,152,000*
Treasury Bills	1,525,000,000	1,595,000,000	2,125,000,000
	$14,245,107,000	$15,574,113,000	$15,890,152,000

Net Debt

105. With the liabilities amounting to $20,986,367,000 (paragraph 97) and the Assets to $8,897,173,000 (paragraph 87), the net debt at March 31, 1960 was $12,089,194,000. The following is an analysis of the net debt account for the year under review:

Balance at March 31, 1959		$11,678,390,000
Deduct—Write-up of loans to:		
City of Montreal re Atwater Avenue Tunnel	$ 2,000,000	
City of Vancouver re Airport Terminal Building	306,000	
		2,306,000
		11,676,084,000
Add—Deficit for the fiscal year 1959–60:		
Expenditure	5,702,861,000	
Revenue	5,289,751,000	
		413,110,000
Balance at March 31, 1960		$12,089,194,000

The credits resulting from the write-up of the two loans were the amounts, as determined during the year, to be recovered under the terms of the agreements with the respective cities as their shares of the construction costs of the projects mentioned. The full amount of the cost of each project had been charged to Expenditure in previous years.

The CHAIRMAN: Mr. Henderson has a statement.

Mr. HENDERSON: These paragraphs contain summaries of the account balances making up the several asset and liability items in the statement of assets and liabilities included in the public accounts. In these summaries, comparisons are made with the corresponding amounts at the end of the two previous fiscal years.

In paragraph 89 an explanation is given of the difference of $214,000,000 between the amount shown for the advances to the exchange fund account, and the value of investments held at the year end. A comment on this deficiency is made in paragraph 106 of the report, and discussion on the point might be deferred until that paragraph is reached.

In paragraph 95 reference is made to the amounts included among the assets, for the unamortized portion of actuarial deficiencies in the public service superannuation account and the Canadian forces superannuation account, and the effect of so recording these amounts, on the balances shown for the two pension accounts on the liabilities side of the statement, is explained in paragraph 100. Audit comments on the situation are made in paragraphs 107 and 108, and again discussion might be deferred until those paragraphs are reached.

I hope I am able to answer any questions you may have.

The CHAIRMAN: If there are no questions, may I suggest that we pass on to paragraph 106.

106. *Advances to Exchange Fund Account.* In paragraph 89 reference is made to the composition of the unrecorded deficiency between the advances to the exchange fund account, included in full as an asset in the statement, and the value of investments from advances at the year-end.

As the net loss amounting to $136 million on dealings in gold and foreign currencies and securities, and on revaluations of gold and foreign currencies, represented a cost of exchange management over the period since the establishment of the account, we are of the opinion that it should be written off in the accounts of Canada with parliamentary authority.

The Currency, Mint and Exchange Fund Act, under which the exchange fund account operates, makes provision for payment of interest earnings to the Receiver General within three months after the end of each calendar year. In our opinion, consideration should be given to transferring annually to the consolidated revenue fund the profit or loss resulting from trading operations and revaluations of holdings.

Mr. HENDERSON: The advances to the exchange fund account amounted to $1,960,000 as of March 31, 1960, and they are, as you will see, carried in the statement of assets and liabilities at their full total, after repayments, although the value of investments acquired from the advances was $214 million less. The table in the paragraph indicates the nature of this deficiency. Paragraph 106 records it as our opinion that the $136 million portion of the deficiency, relating to the net loss of the dealings in gold and foreign currency and securities on revaluation of gold and foreign currencies—and representing a cost of exchange management over the period since the establishment of the account—should be written off in the accounts of Canada with due parliamentary authority.

Mr. DRYSDALE: How could this be done?

Mr. HENDERSON: In a letter to the comptroller of the treasury, I am expressing the hope that during the current fiscal year, consideration might be given to writing off, with appropriate parliamentary authority, perhaps, against the reserve for losses on realization of assets, at least that portion of the deficiency I have referred to.

The CHAIRMAN: Are there any questions?

107. *Public Service Superannuation Account.* In paragraph 100 mention is made of the fact that the balance of the Public Service Superannuation Account, forming part of the "annuity, insurance and pension accounts" item, included $139,000,000 which resulted from a non-cash entry made in a previous year, which at the same time set up an offsetting "asset" item called "unamortized portion of actuarial deficiency in the Public Service Superannuation Account". It is understood that

the Department of Finance relied for the making of this entry (which increased the balance at the credit of the Account to an amount equal to the actuarial liability) on the general direction given by section 64 of the Financial Administration Act that the Statement include "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".

In the Audit Office view, as has been mentioned in previous annual reports, the Account should have been credited only with amounts provided for by the Public Service Superannuation Act. The actuarial deficiency in the Account at the year-end should, in the opinion of the Audit Office, have been disclosed by means of a footnote to the Statement of Assets and Liabilities.

Another point that is of audit concern was mentioned in the report for 1954, namely, that when the balance is increased through the crediting of amounts that are not provided for by statute, a question arises as to the legality of charging expenditure for the extra amount of interest credited annually ($7,994,000 in 1959-60) as the Act authorizes interest to be credited only "on the balance at credit of the Account".

No special appropriation was provided during the year under review to reduce the actuarial deficiency. An actuarial report dated August 1959 indicated that the deficiency had increased from $139 million to $277 million at December 31, 1957.

108. *Canadian Forces Superannuation Account.* In paragraph 100 reference is made to the non-cash 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 "unamortized portion of actuarial deficiency in Canadian Forces Superannuation Account". In the Audit Office view, amounts additional to contributions by members of the forces should be credited to the Account only when authorized by parliamentary appropriations. The question of the propriety of charging Expenditure for the additional interest credited annually ($13,651,000 in 1959-60) by reason of the enlargement of the balance at credit of the Account arises in the same way as in the case of the Public Service Superannuation Account mentioned in the preceding paragraph.

Not only was no special appropriation provided to reduce the actuarial deficiency during the year under review but, the rates of contribution having remained the same, the deficiency has undoubtedly increased. A reason is that the Canadian Forces Superannuation Act, c. 21, 1959, which replaced the Defence Services Pension Act with effect from July 8, 1959, permits benefits greater than had been provided under the former act, for example:

(*a*) Under the former Act a member of the Forces who had served for 10 years or more and was released because of inefficiency in the performance of his duties was entitled to only one-half pension to age 65 and two-thirds pension thereafter. The present Act continues this entitlement but also permits a larger award to be made at the discretion of the Treasury Board (for example, an officer released because of inefficiency was awarded a pension of $2,732 a year instead of the statutory minimum of $1,438, as mentioned in paragraph 52).

(*b*) Under the former Act a member of the forces who had served for less than 20 years and retired voluntarily was entitled only to a return of his contributions. The present Act provides, as an alter-

native, for an award of pension at the discretion of the Treasury Board if the member has served for 10 years or more (for example, a 42 year old officer who had contributed only $5,481 to the Fund was granted an annuity of $1,526, having a capital value of approximately $38,000, after serving some 17 years).

Mr. HENDERSON: With respect to the unamortized portions of actuarial deficiencies referred to in these two paragraphs, I would say that in paragraph 95 it is put forward as our opinion that there should be a plan, approved by parliament, for amortizing the actuarial deficiencies, if they are to continue to be carried as "assets" on the statement of assets and liabilities, and if the offsetting credits are to remain in the two superannuation accounts. In other words, unless statutory provision is made for the charging of a specified amount to expenditure each year, over a reasonable period (say ten years) the "assets" balances should, in our view, be eliminated, and the balances at credit of the two superannuation accounts reduced to the amounts at which they would then stand, i.e., on the basis of including only credits provided for by statute or by means of annual parliamentary appropriations.

The opinion given by the deputy attorney general to the comptroller of the treasury, which is given as appendix A to the minutes of proceedings and evidence of this committee for February 22, 1961, refers to section 63 of the Financial Administration Act which requires the Minister of Finance "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"—and, as I understand it, the deputy attorney general expresses the opinion that, accordingly, the way in which the liability with respect to the Superannuation Account is shown (and the same would apply to the permanent services pension account) "is a matter upon which the opinion of the Minister of Finance is the governing factor."

Without questioning this interpretation of the authority conferred upon the minister by section 63, I would point out that its effects is to leave the Department of Finance free to reflect any liability—an extreme example would be the actuarial liability for old age security payments—at whatever amount it might choose, providing that, by recording an offsetting amount on the assets side of the statement, there was no unauthorized charge to expenditure.

Naturally, of course, the Department of Finance would be expected to seek to avoid extremes and, in practice, assets and liabilities would be reflected in what, in its opinion, would be the proper basis. On the other hand, I feel that I must include a comment in my annual report to the House of Commons whenever an item has been included in the statement at an amount which seems to me improper from an accounting point of view, having regard for specific statutory requirements.

I have accordingly (as has been done in previous reports) questioned the basis used in reflecting the liability for the superannuation account and the permanent services pension account.

In the case of the superannuation account, for example, I hold to the view that the balance:

(*a*) should reflect credits given to the account, as specifically directed by section 32 of the Public Service Superannuation Act, (listed in paragraph 100) and

(*b*) should not reflect credits which are not provided for by statutory authority (whether such credits result in unauthorized charges to expenditure or in offsetting balances on the assets side of the statement of assets and liabilities).

That is a rather lengthy statement, but I think it will explain the situation. There was discussion in this committee last year over the point that the liabilities shown for these two superannuation accounts were increased in order to raise them to what was believed to be a more correct level; and instead of being charged as expenditures, the increases were shown in the balance sheet of Canada as assets. Perhaps because the amounts are so large they should be written off over several years. That is why I suggest that there be a plan approved by Parliament to write them off. Otherwise they will stay there on the asset side. I suggest they are not very good assets.

The CHAIRMAN: Are there any further questions? You have heard a long and full explanation.

Mr. DRYSDALE: Has Mr. Henderson been in touch with the Minister of Finance on the recommendations he has made, and has he received any satisfaction?

Mr. HENDERSON: Yes, but I shall ask Mr. Stevenson to speak to this.

Mr. STEVENSON: We have had discussions with officers of the Department of Finance with regard to various points to be considered in connection with the form of the statement of assets and liabilities as at March 31, 1961; and a letter summarizing our suggestions in this regard is, I think, on the point of going forward now to the comptroller of the treasury for his consideration. Included in this letter is a suggestion that Mr. Henderson has referred to, namely, that consideration might be given to writing off the amount of the deficiency in the exchange fund account—perhaps against the reserve for losses on realization of assets. This was one of the suggestions made in that letter.

Mr. DRYSDALE: You mean the $139 million?

Mr. STEVENSON: That is so.

Mr. DRYSDALE: What about the suggestion on this last item that the Auditor General was discussing?

Mr. HENDERSON: In both superannuation plans these deficiencies existed. They were increased to what was believed to be the correct acturial levels, but the increase was put on the asset side rather than being written off.

Mr. DRYSDALE: Have you made a recommendation that it be written off?

Mr. HENDERSON: Yes, and so did my predecessor.

Mr. STEVENSON: This view is being expressed again in the letter going forward to the comptroller of the treasury.

The CHAIRMAN: I understand there are large amounts of money in the crown corporation pension funds. Have you any thought on the matter?

Mr. HENDERSON: I would not say there are necessarily large amounts of money in the crown corporation pension funds. The separate crown corporation plans are for the most part either annuity based, that is, through insurance companies, or trustee-ed; in other words, they operate their own portfolios.

It seemed to me a while ago that there was a case to be made administratively for centralizing these funds in the interest of saving money with the Department of Finance, where they have a superannuation department. I discussed this with the Department of Finance which I found receptive to the idea.

I have also discussed it with the Glassco commission which, I understand, is making a survey of all crown corporation pension plans, their extent and cost so that the feasibility of transferring their operations to one, central point, maybe as an adjunct to the public service plan, or as a sub-department or something of that kind could be considered, If they are each administering separate pension plans involving trust companies and staff to keep the books

and invest the money, and if you could have it all done in the one place, it seemed to me you might have a simpler and cheaper operation. We left the Glassco commission to be the logical people to assess this possibility.

Mr. DRYSDALE: Is the employee of the crown corporation, under any of the funds, prevented from being re-employed and getting a full pension? Secondly, in the case of an employee under a crown corporation who is under a pension but is employed by the federal government proper, shall we say, could he still retain his full pension and be so employed?

Mr. HENDERSON: I think that depends on the recognition or otherwise given to the particular pension plan of which he is a member.

Mr. DRYSDALE: But there is no uniformity?

Mr. HENDERSON: I do not think so. That would stand subject to check, but I am thinking of a couple of cases.

Mr. DRYSDALE: At present there are no regulations applying, if it is under the Superannuation Fund Act?

Mr. HENDERSON: Yes, they only recognize the pension plans of certain of the crown corporations, but this proposal I mentioned would go further than that. It would in effect remove all the pension moneys from the crown corporations to the Department of Finance to handle the entire operation. It could save duplication of staff, where you have pockets of staff so to speak looking after individual operations. As I have said, I have passed the suggestion along to the Glassco commission and I assume they will be investigating it.

The CHAIRMAN: We have three reasonably short paragraphs, plus this in camera decision on the report. I do not want to push members, but perhaps we could finish tonight?

Mr. WINCH: It would have to be speeded up, as I have an appointment which I do not want to break.

The CHAIRMAN: Very well, would it be all right to hold a meeting on Monday afternoon, at 2.30 on the balance, and we could go *in camera* now on the report.

Thank you very much, Mr. Henderson.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19

Report of the Auditor General to the House of Commons—1960

RECEIVED
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MONDAY, JUNE 19, 1961

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; *Assisted by* Mr. D. A. Smith and Mr. J. R. Douglas, Audit Supervisors; Mr. C. A. L. Murchison, Commissioner, Unemployment Insurance Commission; Mr. James McGregor, Director, Unemployment Insurance; Mr. R. Humphrys, Assistant Superintendent, Department of Insurance; Mr. J. R. Baldwin, Deputy Minister, Department of Transport; *Assisted by* Mr. H. J. Connolly, Director, Construction Branch, and Mr. G. W. Smith, Assistant Director.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25441-7—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech
Bell (*Carleton*)
Benidickson
Bissonnette
Bourbonnais
Bourget
Brassard (*Chicoutimi*)
Broome
Bruchési
Campeau
Danforth
Denis
Deschatelets
Drysdale
Dupuis
Fisher
Grenier
Hanbidge
Hellyer
Keays
Lahaye
Macdonnell
McGee
McGrath
McGregor
McMillan
Morissette
Morton
Muir (*Lisgar*)
Murphy
Noble
Nugent
Pigeon
Pratt
Robichaud
Rouleau
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Winnipeg North*)
Spencer
Stefanson
Stewart
Tucker
Valade
Villeneuve
Winch
Woolliams
Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

REPORT TO THE HOUSE

TUESDAY, June 20, 1961.

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

FOURTH REPORT

1. Your Committee having considered the several purposes which annual Estimates are designed to serve, came to the conclusion, and would recommend, that the most important purpose of Estimates is to enable Parliament to meet its constitutional responsibilities in connection with the appropriation of the funds required for the conduct of federal government services. To this end, annual Estimates should be prepared in a form which will clearly identify for every Member and for the public the spending programs being proposed by the government and the essential elements of cost involved in them. Your Committee feels that this objective can be approached by rearrangement of the detail presently provided and by the inclusion of selected additional information.

2. In the opinion of your Committee the following inter-related changes in the form of the Estimates would contribute to a better understanding of the content of the Estimates:

(*a*) a new "permanent numbers" Vote system;

(*b*) the inclusion of Vote numbers in the Details Section;

(*c*) the addition of a departmental Table of Contents to the Estimates Book;

(*d*) the rearrangement of the sequence of information so that the Details Section of each departmental class would be located immediately following the Vote Section for that class;

(*e*) the inclusion of separate summaries at the end of each departmental or Agency grouping so that the sources of the amounts carried forward into the over-all Estimates summary will be clearly evident.

3. The inclusion of additional information in the Estimates and the rearrangement of existing detail were also given consideration:

(*a*) Your Committee recommends the proposal to distribute, for information purposes, the costs of major common services which are provided to other departments without a corresponding charge to their appropriations.

(*b*) Your Committee recommends the proposed rearrangement of staff detail which will result in a clearer understanding of establishment proposals and is pleased also to note that this improvement will result in a sizeable saving in the work-load associated with the present detailed costing of salaries estimates.

4. Old Age Security payments have, since the inception of the program, been included with the budgetary items in the Estimates although Parliament has provided the Old Age Security Fund with its own sources of revenue. Inclusion of this different type of expenditure each year in the Estimates with the Budgetary items complicates the Estimates Summary and also the Standard

25441-7—1½

Object Summary in the back of the Estimates Blue Book. Your Committee recommends henceforth that this present method of presentation be discontinued and that the item be shown at the bottom of the Estimates Summary in the front of the Book for information only.

5. Since 1937 when the last major revision of the number and nature of Votes was made, there has been a substantial growth and reorganization of the Public Service. These changes have not always been matched with changes in the Votes. Therefore, it is recommended that the officials concerned study the matter further and present the results of such a study to the Public Accounts Committee during the next session.

6. Your Committee recognized that there are other possible changes in the form of Estimates. Some of these are of a fundamental nature and your Committee was not able to give full consideration to these proposals in the limited time available. The Committee was of the opinion that this factor should not delay the implementation of those recommendations on which there is full agreement. These recommendations are contained in paragraphs 3 and 4 above. Your Committee recommends that other possible changes be considered early in the next session.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, June 19, 1961.
(21)

The Standing Committee on Public Accounts met at 2.43 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Drysdale, Hales, Lahaye, Macnaughton, McGrath, McMillan, Muir (*Lisgar*), Morton, Nugent, Spencer, Stefanson and Winch.—15

In attendance: From the Department of Transport: Mr. J. R. Baldwin, Deputy Minister; Mr. H. J. Connolly, Director, Construction Branch; and Mr. G. W. Smith, Assistant Director, Construction Branch. *From the Unemployment Insurance Commission:* Mr. C. A. L. Murchison, Commissioner; and Mr. James McGregor, Director; Mr. R. Humphrys, Assistant Superintendent, Department of Insurance, and Consulting Actuary; Mr. A. M. Henderson, Auditor General of Canada; Mr. I. Stevenson, Assistant Auditor General; Mr. D. A. Smith and Mr. J. R. Douglas.

Moved by Mr. Winch, seconded by Mr. McMillan,

That any Minutes of meetings of the Board of Directors of Polymer Corporation, at which discussions or decisions relating to its status as a public corporation or the possibility of the Company becoming privately owned, be tabled and examined by the Committee.

Following discussion of the motion it was agreed that it be referred to the Sub-Committee on Agenda and Procedure and that the question of the effect on Canadian workers of the construction at Strasbourg, France, of a plant, to be used in the manufacture of synthetic rubber be also considered by the Sub-Committee. At the same time the Chairman agreed to re-examine the requests made by Mr. Drysdale in connection with a similar subject.

Following the reading of a letter dated June 16th from Mr. J. R. Baldwin, Deputy Minister, Department of Transport, to the Chairman, on the subject of airport construction at Rivière-du-Loup, Quebec, it was agreed that it would be necessary to have Mr. Baldwin again appear before the Committee.

The Auditor General introduced a document containing further comments on paragraph 76 of his report to the House concerning "Payments to Civil Servants additional to salary". It was agreed that the document be taken as read and placed on the Committee's record.

On paragraph 109—the Chairman introduced Messrs. Murchison, McGregor and Humphrys, who outlined the background and history of Unemployment Insurance in Canada, and the reasons for the rapid depletion of the Unemployment Insurance Fund.

Following the questioning of Messrs. Murchison, McGregor, Humphrys, Henderson and Douglas, the witnesses were thanked, and retired.

Mr. Baldwin, having been summoned, and assisted by Messrs. Connolly and G. W. Smith, was further questioned concerning construction details of the airport at Rivière-du-Loup. Mr. Baldwin was asked to prepare additional information for consideration by the Sub-Committee on Agenda and Procedure.

On paragraphs 138 to 148 inclusive, those relating to departmental operating activities, Mr. Henderson commented, and was questioned.

On paragraphs 149 to 157 inclusive, relating to special statutory audits and examinations, Mr. Henderson was further questioned.

At 6.00 p.m. the Committee adjourned to the call of the Chair.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

MONDAY, June 19, 1961.

The CHAIRMAN: Gentlemen, we now have a quorum. Let us proceed.

Mr. WINCH: Before we start, Mr. Chairman I would like to ask a question. I have just asked the Clerk of the Committee to let me see a copy of our terms of reference. Those terms of reference state that the committee shall be empowered to examine and inquire into such matters and things as may be referred to it by the house, and to report from time to time its observations and opinions, with power to send to for persons, papers, and records. I have received certain information in the last two days which has disturbed me a bit. I would like to ask you, Mr. Chairman, if the committee will support my request, namely, that since we have had Polymer Corporation before us in this committee, I would like to ask, under the power to send for persons, papers, and records—if you could obtain for this committee any minutes of the Polymer Corporation directorate, in which there was any discussion or decision on the matter of whether or not it should be a publicly-owned or privately-owned corporation. Let me say, sir, because of certain information which was given to us by the present general manager of Polymer, I want to know whether or not my information today is correct; and I can only find it out if I can get the minutes of those meetings. I would like it, if I could get a seconder to ask that these records be produced; that is, the minutes of the Board of Directors of the Polymer Corporation.

The CHAIRMAN: Is there a seconder?

Mr. MUIR (*Lisgar*): Would this not be more relevant to finding out whether or not this particular corporation had misused funds, or perhaps had not dealt with their corporate responsibilities in the way in which they should?

Mr. DRYSDALE: Perhaps I might speak to the matter, because I have asked for several things in connection with Polymer Corporation with the objective of bringing out the facts as fully as possible. Many of my statements were misconstrued or misinterpreted by the newspapers, and in one case by a Vancouver union, the Vancouver district labour council, when they passed a resolution criticising my so-called stand, to the effect that I advocated the sale of Polymer Corporation. As I have indicated to them very clearly, and I reiterate it here, all I was doing was endeavouring to get all the facts and information on this particular corporation. As I understood the situation, I endeavoured to get the views of the committee, and I believe we left it at a stage whereby if there was time at the end of the public accounts proceedings, we would possibly return to Polymer Corporation in order that I might get the information that I had requested at that particular time. The matter which Mr. Winch has referred to is part of the information I had requested.

Mr. WINCH: Not quite; but I am not going to get into a debate or detailed discussion. But the way the question was put was this: it was a matter of policy for the government only; but we had certain answers to certain questions of Polymer, as to whether or not the directors had received anything. I am a bit disturbed by something which has come to my attention, and I want to find out whether or not there was a discussion among the directors, and I can only get it from the minutes. That is all I have to say.

Mr. DRYSDALE: I received a letter from the oil and atomic workers who alleged that Standard Oil of New Jersey had offered to purchase the Polymer Corporation.

Mr. WINCH: That would be to the government. But what I am after comes completely under our jurisdiction, according to the information given to us by the manager of Polymer.

Mr. DRYSDALE: I have replied to that letter asking them what was their source of information, and I sent them copies of the transcript of our evidence here indicating that I had been made unable to find out what the situation was in regard to a sale. But I would like to make it very clear at this time, that this was an inquiry seeking factual information, and not concerning policy matters; and I reiterate the stand I took before the committee, that I was not advocating either the sale or the retention, one way or the other. I simply wanted to try to get the basic facts, and to find out what was happening.

Mr. MORTON: Without trying to be too technical, I wonder whether or not this is a matter of government policy, and whether or not it is within our power to call evidence concerning the development of that policy. Now, if there is evidence in respect to the accounts which were sent to us, and that type of thing, then I think it would be quite within our rights to call for such papers. But this is just a little different. This is trying to ascertain something concerning a discussion, apparently, among the board of directors, as to whether or not Polymer should be sold or not; and I do not think it has been referred to us. I think, that since it would be a matter of government policy, it is not for this committee, unless the problem were referred to us to study, to make any comments or to come to any decision as to it. But I still think it is a matter of government policy which has not been referred to us. I feel that is the sole purpose of bringing the minutes here, in order to find out whether this has been, or has not been included in their deliberations, and I feel it is outside our purview.

Mr. WINCH: I completely agree with the basic principle as outlined by Mr. Morton. But I am concerned with an answer to a question which was given to us in this committee, that in the directorate no discussion ever took place, and that they had no knowledge of any offer to buy Polymer. I am asking strictly concerning that. And I would like to have the minutes of the directors meetings, to indicate whether this was discussed by the directors or not.

The CHAIRMAN: Would you have a page reference? I remember that statement, but I do not know where it is to be found.

Mr. DRYSDALE: The point which Mr. Winch has raised is interesting, but I think we should remember that Mr. Rowzee has only become general manager of Polymer Corporation very recently, as I understand it. That is why I had requested, that if we were going to go into it fully, Mr. Barrington, the former president of Polymer, who held office up until about January or February, 1960, perhaps should be called, to give an outsider's view. I emphasized at the time, that I did not intend any criticism of Mr. Rowzee or of Polymer, but that since February 13, 1942 when the company was incorporated, I would like to look at the factual material, and that I was trying to get information as to whether or not there had been any offers to purchase Polymer Corporation, and that I only wanted it from the factual point of view.

Mr. WINCH: I do not know whether or not I am in order in asking that these minutes be produced.

The CHAIRMAN: Is there a seconder?

Mr. MCMILLAN: I second the motion.

The CHAIRMAN: The motion is seconded by Dr. McMillan. Gentlemen, before I put the motion, I would like to say that on Tuesday, May 23rd, 1961,

Mr. Drysdale's question was carefully considered and answered. This is at page 397 of the minutes of proceedings and evidence No. 14. There is quite a long report and it was very carefully considered by the steering committee. It was decided at that time it was a matter of policy whether or not it should be sold. Mr. Winch's motion is different. He is really questioning the truth of a statement made before this committee; that is what it amounts to.

Mr. DRYSDALE: May I ask Mr. Winch, through you, to what period the statement is related. How far back does it go?

Mr. WINCH: Have you the information I asked for, Mr. Henderson?

Mr. A. M. HENDERSON, (*Auditor General of Canada*): Yes.

The CHAIRMAN: What I was going to suggest is that we refer this motion to the steering committee for careful consideration. Then we can consult and bring in a proper decision, I hope. If not, if you want it put to the committee, then I will have to do so. It is, however, quite a serious thing. It is serious first because a member asks and, secondly, if a mis-statement was made then certainly we want to check that.

Mr. WINCH: That is what I want to find out.

Mr. HALES: I would like to substantiate your suggestion, Mr. Chairman, that this matter go to the steering committee. We have witnesses here today, and I do not think we should spend any more time on this.

The CHAIRMAN: May I also suggest that you might send a letter so that there is no confusion in our minds as to what you have in mind. Then we can give it the most careful study.

Mr. WINCH: May I also ask that the steering committee consider the advisability of asking Mr. Rowzee for assurance that the expenditures to be made in respect of the $40 million capital investment will not mean any loss of employment in Canada in view of their present negotiations.

The CHAIRMAN: This is in respect of the subsidiary in Strasbourg, France.

Mr. WINCH: Yes.

Mr. DRYSDALE: Then, in fairness, I think inquiry should be made as to the number of employees who are going to be employed in the French firm in Strasbourg; also the amount of the expansion of the butyl plant in the United Kingdom and the number of workers whom it is intended to employ there. At the time I was extremely concerned about this expansion outside of Canada. That is why I endeavoured to get factual information as to the marketing reports in order to see if there was any opportunity for some of that expansion to be carried on in Canada, particularly on the Pacific coast where it would be of advantage to Canadian workers. In connection with Mr. Winch's motion, I think it is only fair that you should take into consideration the fact that I had been turned down by the committee in respect of getting the information I requested. It seems to me it would be unfair if you produce one segment of this for Mr. Winch.

The CHAIRMAN: You are mixing up the porridge a bit. Let us deal with Mr. Winch.

Mr. DRYSDALE: It is part of the overall picture.

The CHAIRMAN: Mr. Winch wants further information which should be easy to obtain. If you wish further information along that line, then that is all right; but if it is a question of whether it should be sold or not, then we have disposed of that.

Mr. DRYSDALE: The information covered by the point raised by Mr. Winch is in the report, I think, for 1960-61 which is not in our terms of reference which are before this committee. I believe you raised this technical matter in respect of some of the things I wanted to discuss. Therefore, I think it is fair to point out that this is not before the committee.

The CHAIRMAN: The basic point is that he questions a statement made by a corporation witness before this committee. The question is: is it correct or is it not?

Mr. DRYSDALE: But the basic statement was made in relation to the $40 million or $45 million which is in the 1960-61 program which is not before the committee. Whether it is right or not, are we entitled to discuss it?

Mr. WINCH: The answer was that it would not affect employment in the Polymer Corporation in Canada. Because of information I have to the effect that it may, I would like to know whether or not the chairman can find out that this statement to the effect that it will not affect employment in Canada is correct.

Mr. DRYSDALE: I am satisfied with your motivation, but I am pointing out that I was technically prevented from getting some of that information.

Mr. MORTON: I would vote against Mr. Winch's motion if it were dealt with as a straight motion here today. I would not object, however, to it being referred to the steering committee for consideration. If at the same time Mr. Drysdale has suggestions which the steering committee considers to be in order, that would be the time to decide on them. I feel the matter would be more judiciously decided by the steering committee. I am wondering if Mr. Winch will agree to let his motion be decided by the steering committee; then, if Mr. Drysdale submits his questions to the steering committee, I think in fairness they also should be decided by that body.

Mr. WINCH: I would like to move that the two matters I have raised be referred to the steering committee and that report be made back to the general committee.

Mr. DRYSDALE: I would like to point out that in respect of the matters I raised I was given to understand that if the committte had time to go back to Polymer the steering committee had every intention that we would do so. I think Mr. Winch's particular question would come in under the same thing. In view of the likely termination date of this session fairly soon, I do not think we will get back to it; but I had deferred it for the steering committee to consider.

The CHAIRMAN: You have heard the motion of Mr. Winch. It has been seconded. I am sure the committee would agree that both Mr. Drysdale and Mr. Winch should have the opportunity, if they wish, to meet with the steering committee and list a series of questions.

Mr. DRYSDALE: They are on the record.

The CHAIRMAN: Perhaps you would write it out to point them up again.

Mr. MUIR (*Lisgar*): Are you speaking of the second motion of Mr. Winch? The first is that the committee call for papers. The second is that this request be referred to the steering committee.

The CHAIRMAN: I think that was combined into one to the effect that the steering committee consider the question. Is that agreed?

Agreed.

The CHAIRMAN: Now I may say that the steering committee will get in touch with you to find out exactly what you have in mind and see if we can consolidate these things. There certainly is no desire to prevent you getting the information.

Mr. DRYSDALE: I have no objection to the way the things were left; that is, if the committee had time we would recall these witnesses.

The CHAIRMAN: Gentlemen, we have received a reply from Mr. Baldwin, the Deputy Minister of Transport to a matter raised in respect of paragraph 70. Shall this be filed, or would you like to have it read?

Mr. DRYSDALE: I think I would like it read, Mr. Chairman.

The CHAIRMAN: Would you read it?

CLERK OF THE COMMITTEE:

June 16, 1961

Mr. Alan Macnaughton, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
OTTAWA.

Dear Mr. Macnaughton:

At my appearance before the public accounts committee on June 6th, you will recall I was asked to provide certain further information regarding the Riviere du Loup airport contract which was mentioned by the Auditor General in paragraph 70 of his report. My understanding was that the committee wished to know:

(*a*) The degree of difference between the runway location as shown in our headquarters layout plan and the trial line for the runway which the regional engineer had staked out on site during the tender call stage when the site was available for examination by contractors.

(*b*) Why did the Department insist that the contractor switch from the line staked out by the regional engineer to the location shown on the headquarters plan rather than allowing the work to be completed as staked out by the regional engineer.

The answer to these two questions is as follows:

(*a*) The stakes for the trial line staked out under the direction of the regional engineer were removed when construction was officially started and it is not possible to give an exact answer because the stakes were removed but the information on our files indicates that subsequently, when this matter came to light, our resident engineer stated that the difference of the angle was between five and 10 degrees. However, this relatively slight difference was enough to make a considerable difference in the terrain covered particularly at the outer ends of the runway layout.

(*b*) There was no question of requiring the contractor to switch from one layout to the other because, in fact, work started from the outset on the basis of the layout shown on the headquarters plan (the trial lines staked having been removed). Construction, therefore, followed the headquarters contract plan from the outset. It was some months later that the contractor himself advised headquarters that this was a different layout from the trial line which he had seen previously and that he had not himself known that his construction operations were based on a different line than the one he had seen previously until contract information regarding his work began to flow to him some months after the contract began in a manner which indicated that quantities, types and distances in regard to material were differing from his original estimates.

I believe the foregoing provides the additional information which the committee requested.

Yours, sincerely,

"J. R. Baldwin"
Deputy Minister.

Mr. DRYSDALE: The only point I would like to make is this: The difficulty I still have with this particular contract is that apparently the Department of Transport's original engineer provided the basis for tendering on this particular contract, and the only complaint which I understand has been made is that when they went out and looked at this trial line layout, that, apparently, from what I can understand, formed the basis for the increase in the fees. Now, I am not an engineer, and I do not know very much about contracting, but it would seem logical that the tenders should be based on the original Department of Transport estimates. I think with the variation of four or five degrees, plus the indication that there was, as the reports says, a large and deep area of muskeg, the contractor should have been on his notice to ascertain that, and not to proceed for several months, and then to say that he was surprised to find out that they had to proceed according to the Department of Transport contract on which the tender was based, and not on this trial line on where the trial line had disappeared. I do not think we have satisfied ourselves on that.

The CHAIRMAN: Except, in paragraph 70 of the Auditor General's report it says:

> Any advantage that might have been gained from competitive bidding on this project was therefore lost through faulty preliminary engineering work.

Mr. A. M. HENDERSON (*Auditor General of Canada*): I do not know that we have the information here to answer Mr. Drysdale's point, unless Mr. Smith can add anything to it.

Mr. D. A. SMITH (*Audit Supervisor, Auditor General's Department*): This contract was on the basis of estimated quantities and the submission of tenders on unit prices with regard to estimated quantities, and the potential tenderers, in looking over the terrain prior to the submission of bids, would need a different set of circumstances than the successful contractor ultimately had to contend with. They would not contemplate, in looking at the original staking out, the large and deep area of muskeg to which reference is made in our paragraph, nor the hummock of solid rock at the end of the planned runway which, of course, was not evident at the end of the original staked-out runway. The difference in conditions, if they had been obvious to the contractor initially, would, undoubtedly, have led to a higher unit price.

Mr. DRYSDALE: That is the point I am trying to get at. Then, what actually happened, in effect, was this: the tender was made on the stake-out with apparently no reference to the actual original plan, and if they had followed the original plan, they would have seen they were going over muskeg and this rock area. It seems to me a little bit strange they should get this increased benefit, because they got a contract on what they tendered. Or, are we saying that we should not rely on the original Department of Transport contract, but on the stake-out, whatever it is? That is apparently what happened.

Mr. SMITH: Yes. Every consideration was given to this contract because, on account of the different conditions encountered, and as a result of an examination of the contractor's cost, it became evident he actually had incurred costs in the neighbourhood of $690,000. The actual fee received by the contractor was then the difference between the $725,000 and his actual audited cost.

Mr. DRYSDALE: That may be right, but he got what he tendered for, and then he found he was not making the profit—and the only justification, so far as I can see, for this is that if you go out and take a look at the country and see how it is plotted out, that means you are not bound by the contract. Is it usual for engineers not to know what the plans cover? I thought if there was

any muskeg close by, and there was a small variation of four or five degrees, the contractor would take every step to make sure he had the correct layout, because it would affect his costs.

Mr. SMITH: The reason for the inclusion of the comment was the unusual circumstances, and they were unusual.

Mr. WINCH: Was the original contract a firm contract?

Mr. SMITH: Unit prices were firm for estimated quantities. That is, the job was broken down into various aspects, and the contractors would quote so much per yard.

Mr. WINCH: It was not a firm contract?

Mr. SMITH: Not firm prices, no, not in the sense you have in mind.

Mr. WINCH: Is it not a part of all contracts awarded by the federal government that anyone who is contracting is required to go and look over the site and the terms?

Mr. SMITH: Yes, that is so, sir.

Mr. WINCH: Then, why this additional price?

Mr. SMITH: I am afraid you would have to seek an explanation from the department for that.

Mr. MORTON: Mr. Chairman, this seems to me very unsatisfactory, to put it mildly. Here we have what appears to be a mistake of an engineer and, from what Mr. Smith has just stated, the department itself must have made an estimate of the materials needed and the type of work on the mistake of this engineer; otherwise there would have been a great variance from the department's suggested requirements to what was put in the tender. Now, if the contractor depended upon the staking out, as set out by the department, without question, and the department itself had made this mistake in connection with the type of materials and the type of work to be done on that, then the fault lies solely on the engineer who made the original stake-out, and no one seems to have double-checked his work.

Mr. HENDERSON: I think that point was covered in the evidence of Mr. Baldwin; if my recollection is correct, the engineer responsible has since died. That is, perhaps, one of the missing links.

The CHAIRMAN: That is what the Deputy said. He said the mistake was made in the department, and they did not feel they could hold the contractor responsible.

Mr. DRYSDALE: What I was trying to arrive at is this: Is there any obligation on a contractor to ascertain that the staked-out area conforms with the contract or tendered area on the Department of Transport plans? It appears to me the only thing you could say was that they went out and looked at this particular area, passed their tenders of expenditures on it, and then did not discover it until some months later. I find it a little hard to believe, when they indicate in this reply that a variation of 4 or 5 degrees would make such a substantial difference.

Mr. WINCH: I wonder if the Auditor General would explain this: if he did not think there was something wrong, then why did he bring it to our attention?

Mr. HENDERSON: I brought it to your attention for the reasons I have set out here. I think it is explained in the last sentence, that any advantage which might have been gained from competitive bidding was lost through faulty engineering work; I think Mr. Baldwin so stated when he was present.

Mr. WINCH: Have you any recommendation to make?

Mr. HENDERSON: The only recommendation I can make is that you might want to recall Mr. Baldwin for further discussion of it.

Mr. HALES: I think that this work would be drafted at engineering headquarters, and they would send it out to the area engineer. I think the responsibility lies at engineering headquarters, and if Mr. Baldwin returns, I think he should have his engineer with him who drew the original plans.

Mr. MUIR (*Lisgar*): Do you not think there is any responsibility on the part of the contractor to find out for himself the actual conditions under which he would have to work?

Mr. HENDERSON: It would seem so to me, from what I have heard about it, but I would like to discuss it further with Mr. Baldwin in the light of what has been said. I would not want to be unfair.

Mr. WINCH: Would you ask Mr. Baldwin as to when, in his department, it came to their notice that there was an engineering mistake.

Mr. HENDERSON: I will ask him that, but do we know that when the mistake was noted it was drawn to the contractor's attention?

Mr. D. A. SMITH (*Audit Supervisor, Auditor General's Office*): Later it became apparent, before the contractor got underway.

Mr. WINCH: That is the very point. I thought you said that, because if it came to the attention of the department before the contractor ever started to work, why are we faced with a situation, when it was known before the contractor ever started?

Mr. SMITH: I think the answer to that is that the error was corrected, before the contractor got underway. But at the time he made his preliminary examination, the terrain of the runway was incorrectly staked out.

Mr. MORTON: If that is the case, I think we should find out why there was not a re-tender.

Mr. WINCH: That is the very question I was going to ask. If the mistake was found by the engineering department before the contractor ever started, why was not the entire project re-tendered?

The CHAIRMAN: May I suggest that we ask Mr. Baldwin to come to the next meeting?

Mr. DRYSDALE: On the matter of these tenders, I wonder if we should not have it given, as a general principle, that there was no guarantee on the part of the government as to fiscal liability, conforming with the tender, and that it placed the onus quite clearly on the contractor to ascertain that fiscal liability, and that the losses would be their responsibility, rather than to have it bounce back to the federal government.

The CHAIRMAN: We will try to have Mr. Baldwin here if we possibly can. Shall we go on? Mr. Henderson advises that he wants to complete the information on paragraph 76, and that he has a small statement to tender or to read.

Mr. HENDERSON: Last Tuesday, June 13, 1961 a member of the civil service commission informed the committee that payments to civil servants additional to salary, referred to in paragraph 76 of the Auditor General's report, were considered to be in order by reason of an opinion rendered to the civil service commission by the Deputy Minister of Justice on March 23, 1948. In view of the fact that 13 years have elapsed since this opinion was given, several members of the committee suggested that the civil service commission obtain another ruling.

It is believed that some of the background of this matter may be of interest to the commitee. I wonder if you wish me to read it, or simply to table it.

Mr. BELL (*Carleton*): I think we should have it read.

The CHAIRMAN: You will read it, please, Mr. Henderson.

Mr. WINCH: Is this a new review?

Mr. HENDERSON: No, it is purely the background of the matter. I spoke to the civil service commission this morning and they agreed with me that it would be useful to have this on the record.

Mr. WINCH: Why not table it?

The CHAIRMAN: Mr. Bell indicated that he would like to have it read.

Mr. WINCH: Why not include it in your report?

The CHAIRMAN: Is that the desire of the committee?

Agreed.

Mr. HENDERSON: This is just historical data regarding the circumstances leading up to this statement by my predecessor.

The CHAIRMAN: We shall include it in the report, and in the meantime you may pass a copy of it to Mr. Bell.

Mr. SPENCER: When you say report, you mean evidence, do you not?

The CHAIRMAN: Yes.

Mr. HENDERSON: The statement reads as follows:

On June 13, 1961, a member of the Civil Service Commission informed the Committee that payments to civil servants additional to salary, referred to in Paragraph 76 of the Auditor General's Report, were considered to be in order by reason of an opinion rendered to the Civil Service Commission by the Deputy Minister of Justice on March 23, 1948. In view of the fact that thirteen years have elapsed since this opinion was given, several members of the Committee suggested that the Civil Service Commission obtain another ruling.

It is believed that some of the background of this matter may be of interest to the Committee.

The text of the opinion given by the Deputy Minister of Justice on March 23, 1948, is as follows:

> "In accordance with your request, I have considered the question as to whether Section 59 of the Civil Service Act authorizes the Commission, with the approval of the Governor in Council, in cases falling within the provisions of that section, to exclude from the operation of section 17 of that Act positions of permanent employees who are temporarily required to perform extra duties or temporary positions occupied by permanent employees who are on leave of absence from their permanent positions. Your inquiry arises out of a proposal that payments by way of extra salary be made in proper cases in respect of the additional duties of the employee.
>
> "I am of opinion that it is within the authority of the Civil Service Commission, with the approval of the Governor in Council, to exclude these positions from the application of section 17, if it reaches the decision required by section 59. It would be necessary, of course, that moneys be available under a Vote by Parliament for payment of additional remuneration before it could be paid."

It will be noted from the foregoing that one of the provisos set forth by the Deputy Minister of Justice was that "it would be necessary, of course, that moneys be available under a Vote by Parliament for payment of additional remuneration before it could be paid." There was no such vote in 1959-1960 relevant to the particular payment referred to in Paragraph 76 of the Auditor General's Report, which was charged to a general vote.

A decision by the Civil Service Commission that, because of a desire to pay temporary additional remuneration to an individual employee, it is not practicable nor in the public interest to apply the Civil Service Act to the

position occupied seems to involve the assumption by the Commission of a power which Parliament had, by section 16(1), reserved to itself. In September 1949 my predecessor instructed the staff of the Audit Office to

> take the view that the words 'special authority of Parliament' mean a power more specific than a general power to exclude positions. In other words, that section 17 (now 16) controls the spending power.

He then cited two examples, one being Vote 424 of 1929-30 authorizing special compensation, and the other, Vote 510 of 1936-37 authorizing the payment of honoraria for services rendered to Royal Commissions. His concluding remark was:

> With precedents of this nature, the Audit view must necessarily be that Parliament has applied 'special authority of Parliament' in section 17(1) [now 16(1)] to mean that a special appropriation is a condition precedent to payment.

Copies of this Audit Office instruction were provided on September 20, 1949, to the Chairman of the Civil Service Commission and to the Treasury Board.

In his 1953 report to the House of Commons (paragraphs 63 and 64), my predecessor drew attention to honoraria paid for services provided by civil servants to the Royal Commission on the South Saskatchewan Irrigation and Power Project. The practice since that time has been to include in the text of votes for Royal Commissions authority for the payment of honoraria or allowances to officers, clerks or employees permanently employed in the Civil Service for services rendered by them to the Commission. There was no such authority for the particular honorarium referred to in Paragraph 76 of the 1960 Report.

The CHAIRMAN: Now, we are at page 50, paragraph 109, "unemployment insurance fund".

109. *Unemployment Insurance Fund.* In paragraph 100 reference is made to the practice of including in the item for "annuity, insurance and pension accounts" only the uninvested portion of the Unemployment Insurance Fund. There may be technical arguments in favour of this method of presentation since, under the Unemployment Insurance Act, the investments of the Fund are held in trust by the Bank of Canada for the Unemployment Insurance Commission. However, the practice places the Unemployment Insurance Fund in a position similar to a Crown corporation although, unlike such a corporation:

(a) all the receipts of the Commission flow into the Consolidated Revenue Fund and all disbursements made for purposes of the Fund are paid out of the Consolidated Revenue Fund; and

(b) the Commission is not required by statute to prepare annual financial statements subject to audit.

It is therefore the Audit Office view, as was stated in the report for 1956-57, that the practice of including in the liability item only the uninvested portion of the Fund should be further considered. Were the full amount of the Fund to be included in the item, the securities held at the year-end would be carried as a contra item on the Assets side of the Statement.

The balance at credit of the Fund at March 31, 1960 was $365,892,000, a decrease of $560,885,000 from its highest level of $926,777,000 in December

1956. The large decrease in the balance at credit of the Fund during the last three fiscal years is analyzed in the following table:

	1957-58	1958-59	1959-60
Expenditures:			
Benefit payments	$385,078,000	$478,631,000	$415,234,000
Interest on advances from the minister of Finance			1,517,000
			416,751,000
Revenues:			
Contributions from employers and employees	189,179,000	185,487,000	228,616,000
Contributions by Government of Canada	37,836,000	37,097,000	45,723,000
Other receipts	28,004,000	21,773,000	16,907,000
Less: Loss on sale of securities	4,182,000	10,115,000	8,414,000
	23,822,000	*11,658,000*	*8,493,000*
	250,837,000	*234,242,000*	*282,832,000*
Excess of Expenditures over Revenues, representing decrease in balance at credit of the Fund	$134,241,000	$244,389,000	$133,919,000

The excess of expenditures over revenues in 1959-60, shown above at $133,-919,000, was financed by advances from the Minister of Finance under Section 86 of the Act and by the sale of securities. The advances, which totalled $79,000,000, were repaid by the end of the year.

The numbers of persons receiving unemployment insurance benefits at the close of each of the past three years were as follows: 859,639 at March 31, 1958, 766,852 at March 31, 1959, and 823,005 at March 31, 1960.

Changes in the Unemployment Insurance Act and regulations over the years have resulted in a broadening of the coverage and in decreasing emphasis on insurance principles recognized when the Fund was established in 1941. Various classes of seasonal employment were successively brought under the Act. Those employed in lumbering and logging operations in British Columbia were made insurable in 1945, transportation by water in 1946, stevedoring in 1948, lumbering and logging operations in the remainder of Canada in 1950, and fishing in 1957. Separate figures in respect of benefits paid to and contributions received from these special classes are available only for fishermen; they received benefits approximating $26,700,000 from April 1957 to March 31, 1960, whereas contributions for this class during the same period amounted to $2,900,000.

Special regulations imposed additional conditions on seasonal workers, and also on farmers who engage in insurable employment in the farming off-season, and on married women, to test that they were actually in the labour market when applying for benefits. However, these special regulations were in due course revoked, those applicable to seasonal workers because they came into conflict with regulations governing seasonal benefits, and those applicable to farmers and married women because they were considered discriminatory.

The coverage of fishermen, the majority of whom are self-employed rather than under contract of service, has created serious difficulties in administration and control because it is not practicable to apply two of the basic conditions for receiving benefits, i.e., that the applicant be unemployed and available for work.

Older workers, many of whom have been pensioned from their regular employment, and married women also present special problems because of the difficulty in verifying that they are actually in the labour market and therefore entitled to benefit payments.

Supplementary benefits were introduced in February 1950 to meet the needs of claimants who had not made a sufficient number of contributions to qualify for regular benefits, the rate being about 80% of the regular benefit rate. The period during which supplementary benefits could be drawn was originally three months, but in 1953 this was extended to 3½ months, with contributions to the Fund being increased in recognition of the resultant additional benefit payments. In 1955 these supplementary benefits were made equal to regular benefits and the name changed to 'seasonal'. Effective December 1957, the number of weeks of benefit for a given number of contribution-weeks was increased and the seasonal benefit period was extended (by 3½ months for the winter of 1957-58 and by 2 months for each of the last two winters). No increases in contributions to the Fund were provided to compensate for the additional cost arising from the above changes. In September 1959 there was a general increase in contribution rates but no special contribution was made to compensate for the previous drain on the Fund caused by these changes in seasonal benefits.

The report of the actuary, dated July 12, 1960, observes that "there is a distinct possibility that if unemployment conditions continue at the level that prevailed in 1957-60, the Unemployment Insurance Fund may be exhausted in two or three years unless action is taken to increase revenue or decrease benefit payments".

The CHAIRMAN: We have with us today Mr. C. A. L. Murchison, Commissioner, Unemployment Insurance Commission, who is sitting immediately to my right, and then on his right we have Mr. James McGregor, Director of Unemployment Insurance, and finally, to his right, we have sitting R. Humphrys, Assistant Superintendent, Department of Insurance, and Consulting Actuary.

Mr. WINCH: Is there anybody here officially from the Department of Finance?

The CHAIRMAN: I would say that Mr. Bell was here. But we can always get someone. When we were looking for witnesses we thought that by having the men here who were operating the fund, they would be the best persons to have. We may be wrong, but we will find out, I am sure.

Mr. HENDERSON: Dealing with paragraph 109: In the first two sub-paragraphs of this paragraph the audit office view is put forward that it would be desirable for the balance of the unemployment insurance fund to be included among the other "annuity insurance and pension accounts", in the statement of assets and liabilities included in the public accounts.

In the third sub-paragraph, a summary of the expenditure and revenue transactions of the fund is given for each of the past three fiscal years, and the resultant large annual decreases in the balance at the credit of the fund are shown. The remaining sub-paragraphs concern themselves with noting some of the changes in the act and regulations, that have been made over the years, which have resulted in broadening the coverage given by the fund and in decreasing the emphasis on insurance principles recognized when it was established.

That about sums it up. I would think you would wish to hear from Mr. Murchison and his associates.

The CHAIRMAN: I have spoken to Mr. Murchison and he asked me, when he came in today, just what his role was. I said that we would probably examine him on paragraph 109 with regard to what the fund is, how it started, how it has changed, how it has been built up, why there are so many losses, and what we could do to try to improve it. Are there any questions, first of all, from the committee? It is rather hard on the witness to ask him to start off on his own.

Mr. McMILLAN: Is the witness going to make a statement?

The CHAIRMAN: You do not have a prepared statement, do you?

Mr. MURCHISON: No, but I can give you a bit of the background of unemployment insurance, if that would interest the members of the committee.

Mr. WINCH: I wonder if Mr. Henderson is going to add to the fund upon recommendation of this committee?

Mr. HENDERSON: This paragraph is not so much one of recommendation as it is of explaining the misfortunes which have attended the operations of this fund. I do feel that the point made in the first part of paragraph 109, that is to say, at the top of page 51, has merit, and I would hope that in the discussion which follows, members might see fit to express their views on this recommendation.

The present method of operating the fund places the unemployment insurance fund, as I say, in a position which is similar to crown corporations, but it does not have the benefit that the crown corporation possesses. We have the situation here where all its receipts go straight into the consolidated revenue fund, and all its disbursements are paid out of that fund. That is to say, it is like a fund, for accounting purposes, within the larger consolidated revenue fund. Consequently the commission is not required by statute to prepare annual financial statements subject to audit. The audit of the unemployment insurance fund transactions is covered by the general audit that I make of the consolidated revenue fund, which, as you know, embraces a great many things. But I do think that an interesting case could be developed whereby it might be better—I do not know what Mr. Murchison's views might be—were it set up more along the lines of a crown corporation and subjected to audit. I do not know whether that would be of benefit to the people who manage the fund, but it might be of interest to hear Mr. Murchison's comments.

Mr. MURCHISON: May I comment immediately?

Mr. MORTON: Yes.

Mr. MURCHISON: It seems, Mr. Chairman, and gentlemen, that it would be helpful to this committee if I gave you some of the background of our Unemployment Insurance Act. The Auditor General has pointed out certain weak spots in our legislation, and I shall refer to them in due course. But my story begins back in 1911, when unemployment insurance was adopted in the United Kingdom; and in 1927, I might say, it was a carefully prepared scheme the fund prospered. But in 1927, there was a bit of unemployment in that country, and the Government of the United Kingdom modified the provisions of their act, by bringing in what they called transitional benefits, which meant that people who had exhausted their benefits would be entitled, under the authority of the Minister of Labour, to continue to draw benefits. By 1929 the fund in the United Kingdom was bankrupt, and a royal commission was established under Judge Gregory, who sat and heard evidence; and later reported. The recommendations were that the Exchequer should loan the fund. £130 million sterling, that the rates of benefit be reduced, and that the rates of contribution be increased. That took place in 1933 when the act was freed of all the features that were not regarded as being insurance.

It was just about that time that the government of Canada went shopping for an unemployment insurance scheme. They went to the United Kingdom and they thought well of that scheme and included most of its principles in the 1935 legislation. That act was later found to be beyond the powers of the federal government at that time. After an amendment had been made to the British North America Act the 1940 act was passed, which act, for all practical purposes, was the same as that originally adopted in 1935. That act was quite sound. It had certain limitations on rates of benefit, duration, and had certain

restrictions with regard to coverage, and so on. There were none of the outstanding seasonal industries covered in the first instance.

As the Auditor General points out in his report, it was not until 1945 that logging and lumbering in British Columbia was brought under the act. I think it was in 1949 or 1950 that logging and lumbering in the rest of Canada was covered. In the meantime the coverage for transportation by water, which is a highly seasonal industry, was brought in in 1946. Stevadoring was brought in in 1948. These continue to be seasonal industries. It has been pointed out, in the Auditor General's report, that in respect of the fishing industry which did not come in until much later—I think 1957—the cost to the Fund is quite high. We are paying out about $9.26 for every dollar we get in by way of contributions from that particular industry. Logging and lumbering is another substantial deficit account so far as we are concerned and also transportation by water, along with other seasonal industries which I will mention later.

Then, in 1950, there was a scare of unemployment. I think the unplaced applicant figure in January of that year rose to 375,000. It was found that quite a number of people—including loggers—were unemployed and had no entitlement to unemployment insurance. Of course, it must also be pointed out that at that time unemployment assistance was not in effect. So, what we called supplementary benefits were brought into effect. They are now called seasonal benefits. That provision provided that people who had a limited number of contributions following the end of March could qualify by the first of January next if they proved that there had a certain number of contributions. In those days we worked on a daily basis. The requirement was that they should have ninety daily contributions.

Then there was another kind of supplementary benefit, now called benefit B. The provision relating to that is that if a person exhausts his benefit period at any time after May 15—this is section 52 of the act—he may without making a further contribution to the fund return after the first of December and draw benefits from the fund. As I say, he does that without having been employed in insurable employment, or in any employment for that matter. He may come back and draw benefits, sometimes for the entire seasonal benefit period, depending upon the duration of his previous benefit period. That supplementary and seasonal benefit has cost the fund almost $500 million. Whether that is a good thing or not, it is not unemployment insurance. That is the point we want to make; it is not unemployment insurance.

As you probably know, Mr. Chairman and gentlemen, the speech from the throne made reference to the act and the possibility of amendments being made to it. Because of that it would be quite improper for us here today to discuss the points the government might have in mind. As I say it would be quite improper and consequently we can only give you part of the story. It is quite clear, however, that these seasonal industries and seasonal benefits have severe drains on the fund.

At one time we had what we called seasonal regulations. Let us take the example of a Great Lakes seaman who when he signs on about the first week in April knows full well he is going to be out of a job come freeze-up sometime early in December. All through the summer he knows that later on he will have a period of idleness—anticipated idleness. It should be clearly understood that unemployment insurance as such was intended to cover only those periods of unemployment which fall upon a person unexpectedly. At that time we had seasonal regulations which, in effect, said that the seaman could not draw benefit during his off-season unless, in the previous two off-seasons, he had shown participation in the labour market. That regulation also applied to logging and lumbering, stevedoring and transportation by water. In 1950, however when the seasonal benefits were brought into effect, it was found impossible for us to maintain seasonal regulations. So they were revoked. Now

a Great Lakes seaman my sail all summer long and return home at the end of the season and draw his benefits throughout the off-season. The same applies to stevedores and other seasonal industries. That is the position we are in in respect of seasonal employment.

Then there is another regulation which we once had; and it concerned married women. I believe this is mentioned in the Auditor General's report. The regulation was criticized severely from time to time, but it served a very useful purpose in screening out those cases where the female applicant was not really in the labour market and was not looking for work. That regulation however, has been withdrawn and the consequence is married women may draw benefits without having to show too much interest in the world of work.

Briefly, Mr. Chairman and gentlemen, that is the story behind unemployment insurance, and it indicates in very very broad terms the reasons why the Fund is in such a serious condition. I suggest to you that if we had not had supplementary or seasonal benefits the fund would still be in a reasonably sound condition.

There is another item mentioned in the Auditor General's report; that is the payment of pensions to people who have retired from the world of work. At the present time there is nothing to prevent such a person drawing benefits for a period up to seventy-six weeks—nothing at all to stop him. A locomotive engineer who has served well and faithfully his company for forty or more years. He may on reaching the age of 65, the age of retirement, apply for benefit. He is in good health; he is quite capable of employment. It is impossible for us to get this man a job as a locomotive engineer because he was laid off for the reason that he had reached a certain age. Therefore, that man draws a benefit for a considerable period of time. There are many instances in which we feel those people who have been retired on substantial pensions are taking advantage of this fund. We recognize, however, that there are many people who retire on small pensions who should not be dealt with in the same way as those who retire on larger pensions. We have what we call the allowable earnings feature in our act which would take care of such cases.

I think that gives you a general picture of some of the problems. Mr. McGregor will speak to you, with your permission, on this matter of the Auditor General's first suggestion concerning the accounting.

The CHAIRMAN: Thank you, Mr. Murchison.

Mr. McGregor, would you like to make your comment now?

Mr. J. MCGREGOR (*Director of Unemployment Insurance*): The Auditor General suggests that the uninvested portion of the fund, that is the $343 million, be added to the liabilities in item 17 with a contra item on the assets side. The commission is satisfied that the present practice of showing accounts provides an adequate account of the assets and liabilities as shown on page P-19. There is a complete statement of the balance sheet and the assets and liabilities in the appendix here in the statement of revenue.

The CHAIRMAN: This is in volume I of the public accounts of Canada for the fiscal year ended March 31, 1960.

Mr. MCGREGOR: Yes; at page P-19.

Mr. WINCH: May I ask one of the witnesses, as a result of the changes in the legislation from 1953 to date, to give us an estimate of the cost to the fund and the additional revenue.

Mr. MURCHISON: When the supplementary benefits were adopted in 1950, you will perhaps remember that a contribution of one cent per day was prescribed to offset the cost of supplementary benefits. That additional contribution took care of the outgo very well in those days. In 1955, however, when

substantial amendments were made to the act, that extra contribution was included in the general contribution.

Mr. WINCH: Let us take the changes made in 1955 up until now; what has been the additional expenditures out of your fund because of these changes, and what has been your additional revenue, approximately?

Mr. MURCHISON: This is very difficult to answer. I could give you some figures, but they might not answer your question, because, after all, there has been an increase—a very substantial increase in the labour force, which has meant a substantial increase in coverage, which brought more and more contributors to the fund. In addition, with a larger insured labour force. We have had a larger number of people claiming benefits every winter and that, of course, has more than offset the increased revenue.

Mr. WINCH: Then, could I put it this way: What is the difference since 1955 between your increased revenue and your increased expenditures because of a change in the law?

Mr. MURCHISON: Probably it would be better if we filed a statement in answer to that question.

The CHAIRMAN: Would that be suitable?

Mr. WINCH: Yes.

Mr. MURCHISON: We could do that.

The CHAIRMAN: Mr. Beech is next.

Mr. BEECH: Mr. Chairman, I am just wondering—and perhaps I am not reading the figures correctly—but on March 31, 1959, the number of persons receiving unemployment insurance was lower than the other two years, and yet the expenditures were so much higher. What is the reason for that?

Mr. MURCHISON: The increased rate benefits. You will remember that in 1959 the contributions were increased by, approximately, 30 per cent. At that time we added two new classes. Prior to that time the maximum rate of benefit was $30 a week. As I say, we added two new classes, and they were $33 and $36 a week, and the higher rate of benefit, of course, meant a higher outgo.

Mr. BEECH: But this year, 1959, it is still higher than it is for 1960, and yet the number is lower.

Mr. MURCHISON: That is correct. There was $478 million paid out in 1959.

Mr. MCGREGOR: That is caused because, in 1958-59, the seasonal benefit period was extended by six weeks, from the 15th day of May to the end of June.

Mr. MORTON: Mr. Chairman, if I understood Mr. Murchison correctly, he stated that since the setting up of the supplementary or seasonal benefits there has been approximately $500 million paid out of the fund, and that these were expenditures or payments out that had not originally been contemplated when the act was set up. I understand, further, the increase in contributions was not made on the basis of the supplementary and seasonal benefits. Is that correct?

Mr. MURCHISON: Well, there are no contributions at all required for a substantial number of these seasonal benefits, because they are paid to the people who have exhausted their regular benefits, and have not contributed anything.

Mr. MORTON: In other words, since the beginning of the establishment of the basis, there has been some $500 million paid out, to which no contribution has been made for that purpose?

Mr. MURCHISON: Not altogether, no. There was a time when seasonal benefit B represented about 60 per cent of our outgo for seasonal benefits, and 40 per cent for seasonal benefit A. But, it has reversed now. Now, seasonal benefit A constitutes about 60 per cent of our outgo, and seasonal benefit B 40 per cent. The seasonal benefit A people do contribute to the fund the same as the others, but they do not make as many contributions.

I would point out to you, further, that the formula for the regular benefit is that a claimant may obtain one week's benefit for every two weekly contributions. A claimant or seasonal benefit receives five weeks' benefits for every six weekly contributions, so the formula for seasonal benefits is much more generous than for regular benefits.

Mr. MORTON: Along that line, have we anything to indicate the amount of supplementary or seasonal benefits which have been paid out since 1957?

Mr. MURCHISON: Yes. 1957 to 1960?

Mr. MORTON: Yes.

Mr. MCGREGOR: About $300 million, roughly, since 1946, and the fiscal year ending March 31, 1957, is included.

Mr. MORTON: This would include the increase for fisheries, and so on?

Mr. MURCHISON: Just a moment, now. My $500 million included the payments up to the end of the fiscal year, 1961.

Mr. MORTON: Up to the present time?

Mr. MCGREGOR: In the case of my figure, you would have to add on another—

Mr. MURCHISON: $107 million.

Mr. MCGREGOR: $106 million.

Mr. MORTON: That is about $406 million.

Mr. MURCHISON: Yes.

Mr. MORTON: And of that figure, 40 per cent is this B fund, of which there has been no contribution.

Mr. HUMPHRYS: When the act was very substantially amended in 1955, we prepared an actuarial report on it at that time, and established contribution rates that would meet the benefit costs as far as they could be predicted. We used a five-year period, and it ended, I think, on March 31, 1954, which was the latest data we had at the time. On the basis of the proposed benefits, proposed in the legislation at that time, we determined that the contribution rates in the act would fall a little short of meeting the expected benefit load. And, in the benefit load we took into account not only the regular benefit, but also the seasonal benefit of these two types that Mr. Murchison has described. But, by reason of the very large fund at the time, there were substantial interest earnings, and the revenue from the contributions together with the interest earnings in the fund was sufficient to meet the expected benefit load. So, it can be stated, in one sense, that the contribution level was set at a rate that would cover all the benefits, including the seasonal benefits. However, since that time, the unemployment level has averaged considerably higher, and a number of changes have been made in the benefit formulae that have increased the benefit load, and we now find that the revenue has not been sufficient to meet the costs.

Mr. MORTON: I have one other question, Mr. Chairman, in respect to grants or assistance to individuals. Do I understand there is no limit to the amount of money he might have earned in a year, which would bar him from any benefits? Suppose someone had been on the boats and made $5,000 or $6,000 a year, or perhaps more. Are they also entitled to unemployment insurance benefits?

Mr. MURCHISON: There is no means test under the scheme.

Mr. MORTON: And the fact that in some employment which is seasonal, their wages may have been given on the basis that it was for all year round, although they may have only worked part time—is that not given consideration?

Mr. MURCHISON: No.

Mr. MCGREGOR: The act mentions that all persons are insured up to $5,460, except if they are on an hourly or piece rate—and that is where your seamen come in. They go above the ceiling, but they are kept on and insured.

Mr. MCMILLAN: I would like to deal briefly with the fund itself. The Auditor General says the commission is not required by statute to prepare an annual financial statement, which is subject to audit. In view of that I wondered if this figure of $365,892,000 is an audited amount and, if so, does the Auditor General see what bonds are held; if so, are those bonds at face value? I am asking that in the light of some replies to questions I have on the order paper, namely that bonds today, held by the unemployment insurance fund, are from 14 to 18 per cent below what is shown as held by the fund, and when you take the depreciated value of this into consideration, the fund today stands at $365 million. I would like to know, in view of that, whether or not this $365 million is a true amount as of that date, and if it is an audited amount.

Mr. HENDERSON: Dr. McMillan, under the Unemployment Insurance Act, the obligations—that is to say, the securities—that are shown here total some $365 million. They are held by the Bank of Canada, and subject to the inspection of the Auditor General. It is my understanding that we are furnished with a certificate from the Bank of Canada with respect to these holdings. I would like to ask Mr. Douglas to elaborate on that point.

Mr. J. R. DOUGLAS (*Audit Supervisor, Auditor General's Department*): Mr. Chairman—

Mr. WINCH: At the same time, may I also ask whether you have to accept them at the purchase value or market value?

Mr. HENDERSON: Could you deal with that, as well, Mr. Douglas?

Mr. DOUGLAS: We accept the certificate of the bank's auditors as to the physical existence of the securities. I have not the figure with me, but I believe they are carried at an amortized cost value, and the losses are taken into consideration at the time of the sale.

Mr. WINCH: I am sorry, but I did not quite get that. When you have accepted the certificate of the Bank of Canada, is that certificate baesd on the purchase value or the market value at the time you obtain it?

Mr. DOUGLAS: That would be the cost of the securities at that time, sir.

Mr. HENDERSON: The cost of purchase; and their practice is to carry them at the amortized value; that is to say, writing them up to par, or down from par, depending on the cost. Is that right Mr. Douglas?

Mr. DOUGLAS: That is right.

Mr. WINCH: I am sorry, but this intrigues me quite a bit, it may be because I happen to be a director of a fund which is investing in government bonds. What would happen in the case of the depletion of the insurance fund if they have to sell? That would be done at the market value. So how does the auditor's branch have a responsibility to this committee of the House of Commons? How do you have that responsibility, except you take the bond value? I do not know whether I have put it very clearly or not, but I think it is an important point.

Mr. HENDERSON: Perhaps we might explain it this way; it might be an oversimplification to say that they are carried at par. If you are amortizing them up or down, you are actually carrying them at cost.

Mr. DOUGLAS: We are carrying them at cost.

Mr. HENDERSON: That is right, you are carrying them at cost; and if there is a loss at the time of selling them, that loss is taken right at the point of sale; that is to say, if you should have, let us say, a $80 bond, and you sell it for $100, at the time you sell it you make $20. It is the realized profit; or on the other hand it might be a realized loss, and the profit and loss is taken each month. I have before me a list showing the profits and losses, and if you look at the statement on page 51 you will see the losses from the sale of securities for the years in question. These are realized losses, amounting to $4 million, $10 million, and $8 million.

Mr. MCMILLAN: At that time there was the amount of $365 million in the form of securities.

Mr. HENDERSON: Yes.

Mr. MCMILLAN: And there was some in cash?

Mr. HENDERSON: Yes sir, but it would be a small amount in cash.

Mr. WINCH: In view of the drop in income, have you found that you had to sell securities?

Mr. MURCHISON: Yes.

Mr. WINCH: Do you sell at a loss?

Mr. MURCHISON: Yes, the Bank of Canada acts as our agent in the sales.

Mr. WINCH: Is the loss not made up to you in any way whatsoever, or is it strictly a loss?

Mr. MURCHISON: It is a loss.

Mr. HENDERSON: I think it is shown quite clearly in the table. Do you see the figures shown across there?

Mr. WINCH: There is nothing in the act whereby because you have to invest in government bonds, that any loss, because of a sale brought about by a drop in your requirements, shall be made up?

Mr. MURCHISON: There is nothing in the Unemployment Insurance Act to that effect.

Mr. WINCH: Or in any other act?

Mr. MURCHISON: I know of no other law.

Mr. MCMILLAN: I was curious to know about this. A lot of these bonds now have depreciated in their market value by over 18 per cent at the present time. I do not know what bonds they are; but what was the depreciation as of that time, March 31, 1960? Probably there was a lot more at that time.

Mr. HENDERSON: You are referring to the depreciation, and to $365 million?

Mr. MCMILLAN: That is right; are the bonds held at par?

Mr. HENDERSON: Do we have the details of these security holdings showing the cost on the market?

Mr. DOUGLAS: I am sorry, but I do not have it.

Mr. HUMPHRYS: I have not got the market value.

Mr. HENDERSON: There would be a potential loss in that portfolio, obviously, Mr. McMillan, and I am trying to find out how much it was.

Mr. MCMILLAN: I realize that there was a loss on the bonds sold that year, and I am trying to get the value in that fund, as of that time.

Mr. HENDERSON: Is that your list of securities?

Mr. DRYSDALE: I think all this information is listed on page P-20.

Mr. WINCH: Who actually invests the funds of the unemployment insurance commission?

Mr. MURCHISON: The law requires us to advise the Minister of Finance when we have money available for investment and the bank acts as agent for the purpose of making the required purchases.

Mr. WINCH: And that is the Bank of Canada?

Mr. MURCHISON: The Bank of Canada, yes. But we do not have any say as to the issues of securities to be invested in, or to be purchased.

Mr. WINCH: You also order them to sell?

Mr. MURCHISON: Yes, we advise the bank and the Minister of Finance each month of our requirements, and it is up to the bank to make the money available to us.

Mr. WINCH: This is interesting. You mean that with a surplus of money you have to advise the Bank of Canada to invest the money, and if you require money, you tell the Bank of Canada; you do not operate through the treasury branch in any way whatsoever?

Mr. MURCHISON: We keep the Minister of Finance informed. I think it is on record in *Hansard* that we have been borrowing money on the strength of our securities. This winter we borrowed $70 million.

Mr. WINCH: Through the treasury department, on your securities, from the Bank of Canada?

Mr. MURCHISON: We ask the Minister of Finance. What is the number of that section? Is section 86 of the act which provides for borrowing. Section 85 of the act says that to the extent that there are amounts standing to the credit of the unemployment insurance fund, in the consolidated revenue fund, which are not currently required for the purpose of the act, the Minister of Finance shall on the requisition of the commission purchase obligations of or guaranteed by the Government of Canada and shall pay therefor out of the consolidated revenue fund.

Mr. WINCH: I have read that report. But I was a little bit stunned when you gave the answer as to whether you worked through the Bank of Canada or through the treasury board.

Mr. MURCHISON: We work through the treasury, yes. I should say the Department of Finance.

Mr. MCMILLAN: In that fund, now you have over $109 million of bonds which are down over 18 per cent. I was just curious to know what type of securities are selling at a discount of over 18 per cent at the present time.

Mr. MURCHISON: I do not have a copy of the portfolio, but I think the two and one quarter are quoted at around that figure.

Mr. MCMILLAN: Yes, I see.

Mr. MURCHISON: Yes, and on page P-20 of the public accounts report, it shows the portfolio, and I should have said two and three quarters instead of two and one quarter; they are the ones in which you will find a substantial loss in their sales, I think.

Mr. HENDERSON: No provision is being made for a potential loss in the figures shown in the statement, because the losses are only taken when they are realized, that is, when securities are sold.

Mr. MORTON: We are only to get 18 per cent? Is that not consistent all the way through?

Mr. MCMILLAN: I understand that the Auditor General checks the statement, but he does not look over the portfolio.

Mr. HENDERSON: The Auditor General takes a certificate from the Bank of Canada that they are holding these securities which are in the name of the unemployment insurance commission as listed on page P-20. This list does

not show the market value, which would tend to prove the adequacy or otherwise of the 18 per cent depreciation figure.

Mr. WINCH: Do we have a complete picture as to the actual situation of the fund?

Mr. MURCHISON: You cannot, I suggest, Mr. Chairman. It is probably carried at par value until we sell the securities. Suppose we should get into a position where we do not have to sell securities, then, upon maturity, we would get 100 cents on the dollar of the investment.

Mr. WINCH: I wish you were ready to give me the picture of the present circumstances of the fund we are discussing.

Mr. HENDERSON: Government agencies, by and large, carry their investments at cost, whereas in business it is usually done at the lesser figure of cost or the market. The theory in general is that they aim to hold their securities until maturity, so that they may pick up 100 cents on the dollar, but it does not always work out that way. We show on the balance sheet what the circumstances are, that is, what the market value of the holding is. Were we required by statute to audit the unemployment insurance fund as a statutory duty, you would find that on the balance sheet there would be a notation as to the market value.

Mr. MURCHISON: That would only be good for the date on which the certificate was given.

Mr. HENDERSON: That is true, but recognition would have to be given as to the use to which the portfolio is being put; and if it is obviously to be held to maturity, the matter is only academic; but if it is going to be sold, then it takes on real significance.

Mr. WINCH: I would like to ask a question while this discussion is on this subject. First of all I want to thank the witnesses for clarifying my mind a great deal and I would like to ask a question. I do not think it is a policy question, but at the time that the unemployment insurance fund was started, I think it was supposed to be operated on an actuarial basis; but I gather that because of changes in the act, whether it be the so-called benefits, or extended benefits bringing in fishermen or anything else, that you are no longer operating whatsoever on a actuarial basis, in the way it started in the beginning.

Mr. MURCHISON: I am not an actuary. Mr. Humphrys is an actuary by profession, and he is better qualified to answer your questions.

Mr. HUMPHRYS: When is it said that a fund operates on an actuarial basis—

Mr. WINCH: It started out to operate on an actuarial basis.

Mr. HUMPHRYS: Speaking generally, if one speaks of a fund being operated on an actuarial basis, I suppose most people would ascribe that to mean a solvent basis, and that the income will meet the expected outgo. The fact that an actuary may be involved in the calculations, I suppose, does not by itself constitute operation on an actuarial basis. I think the common use of the term contemplates a solvent basis. Now, unemployment insurance is rather different from other types of insurance. The risks involved are not as predictable as the risks in many types of insurance, so that consequently it is much more difficulty to set up a plan with any real degree of assurance that the contributions are going to meet the benefit costs for any long period in the future.

When the act was originally established in 1941, actuarial calculations were made, or calculations were made by actuaries, based upon drawn from the census of Canada; in fact they were drawn from two censuses, the first, that of 1921, and the second, that of 1931; and the data were adjusted in so far as it was possible to do so to conditions that seemed to be current, taking into

account the terms of the plan as they then existed. The contribution rates were set such that they would seem to have a good chance of meeting the benefit payments.

The act started in 1940 or 1941, and of course they were war years, and unemployment was virtually unknown. But even after the war years, our experience in boom times was one of very high employment, so that the fund grew very rapidly; and on the basis of employment experience in those years, it turned out that the contribution rates were higher than were necessary to meet the benefits.

Well, as the fund grew larger and larger, the tendency was to ease the eligibility requirements, bring in other industries which established higher claim rates and to extend the benefits. As each of those moves were made the original basis altered. Obviously, since the original calculations were drawn from census data it could not be expected they would exactly reproduce what we would experience in 1940, 1950 or 1960. Therefore, some revision inevitably would be expected as experience developed.

At the time of the 1955 amendments, the calculations were done again on the basis of the experience which had actually developed under the act as it existed prior to that time. This was important, because in a scheme of unemployment insurance, the claim load depends not only on the rate of employment but also on the rate of claim, so that the rules of the plan are very significant so far as the benefit load is concerned. We had some fifteen years experience under the plan at that time. We used that experience in trying to strike contribution rates for the 1955 plan. As I mentioned earlier, that was based on a recent period of employment and unemployment experience. To that extent it could be said that the plan adopted in 1955 was on an actuarial basis; but it later developed that the actual unemployment experience was very much higher in the years following 1955 than it had been earlier. Also changes were made since 1955 which had the effect of increasing the benefit loads. So, the present situation is that, on the basis of unemployment experience we are now going through, on the basis of the unemployment experience we have been going through in the past four or five years and on the basis of the present benefits, the income is no longer sufficient to meet the outgo.

Mr. WINCH: No longer sufficient?

Mr. HUMPHRYS: It is falling short by very large amounts. Those are the facts of the situation. I would rather put it that way than say that the fund is or is not on an actuarial basis. Actuaries have been involved in the calculations; but we must make some assumptions concerning the level of unemployment that is going to be experienced. We cannot predict it, so we have tried to base it on some recent period of experience and leave it to others to judge whether or not this particular base period we use is likely to be a good illustration of the actual experience in the near future. I think, however, inevitably it requires adjustment from time to time, because so far as we know no one can make any reliable predictions as to the levels of unemployment for more than a short period in the future. Does that answer your question?

Mr. WINCH: Yes; but may I ask this—have you fallen below revenue in all categories of those who contribute? Has it fallen down in all, or almost all, categories of revenue so that you are now putting more in expenditure in various phases? We are most interested in and are strong supporters of the fishermen being protected. There has been are awful lot of stories, wild or otherwise, to the effect that this fund has been depleted to a great extent because of the fishermen. Could you give us, from your experience, any indication as to what is the actual situation in respect of the revenue from fishermen on the Pacific coast and the monies paid out?

The CHAIRMAN: It is mentioned.

Mr. WINCH: I mean up to date.

Mr. HUMPHRYS: Personally I do not have the figures, because we do not maintain the accounts. It is drawn to my attention, however, in the Auditor General's report, that the benefits from April 1957 to March 31, 1960, paid out to fishermen amounted to $26,700,000, and that the contributions received from fishermen and their employers, as well as the government, was $2,900,000. That established a loss of about $24 million.

Mr. WINCH: When that was brought in it was not based on an actuarial figure as to what was the expected revenue.

Mr. HUMPHRYS: No.

Mr. MCGRATH: What is the equivalent figure for the logging and lumbering industry?

Mr. MURCHISON: We have an estimate.

Mr. MCGREGOR: We do not segregate it.

Mr. MCGRATH: Why are fishermen segregated?

Mr. MURCHISON: Because we have special contribution stamps for fishermen and in this way we can keep a fairly accurate account on income and outgo for this industry. We have estimates on some of the other industries. They are estimates based on information received from the bureau of statistics who, incidentally, keep our statistics. As I say these are estimates fairly carefully calculated. In 1959 the logging and lumbering industry made contributions of $4,046,952 and in that same year drew $30,289,000. That was a drain on the fund of over $26 million; or, they drew $7.48 for every dollar they contributed. The workers in transportation on inland waters in 1959 contributed $489,600 and drew in benefits of $4,358,000; so there was a loss there of $3,368,000.

Mr. MCGRATH: When you say they contributed you are not considering the contribution of the employer?

Mr. MURCHISON: Yes; the total contribution.

Mr. MCGRATH: The employer and the government.

Mr. MURCHISON: Yes.

The CHAIRMAN: Do you have the other figures?

Mr. MURCHISON: This paper happens to deal with six industries; fishing, stevadores, logging and lumbering, transportation on inland waters, canning and curing and packaging of fish and processing of fruits and vegetables. These are the industries where there is a substantial incidence of unemployment due to seasonality.

Mr. DRYSDALE: Do you have the total figures of the amounts paid in?

Mr. MCMILLAN: Are they going on the record?

The CHAIRMAN: They are going in now.

Mr. WINCH: You say that those are the contributions made when they were engaged in their occupation. Does that also include what they may have paid in during their off-season, or is it their straight contribution as loggers or fishermen? Does it include the contribution they would make if they had other employment?

Mr. MURCHISON: These calculations are based on the individual insured worker, and it may include employment in industries other than those mentioned. Where the individual's main occupation is in logging, for the purposes of this study he is a logger and contributions made for and on his behalf, regardless of whether he is logging or in a paper mill or in transportation, or in any other work, would be included in that figure.

Mr. HALES: Could Mr. Murchison give us those six industries and the dollar basis? For every dollar which comes in how much is paid out?

Mr. MURCHISON: We cannot give you the figures on processing of fruits and vegetables or processing of fish products. Nor can I give you figures accurate enough for publication in respect of the stevadore groups, because there is a lot of mixed in employment there. The statisticians would not risk an estimate on that.

Mr. MCMILLAN: Do you have the figures on shipping in the Great Lakes?

Mr. MURCHISON: Transportation by water. I gave you that. In 1959, the latest information available, $489,600 was contributed and the benefits amounted to $4,358,000.

Mr. WINCH: Would you mind repeating the figures for logging and lumbering.

Mr. MURCHISON: The estimate on logging and lumbering is that the contribution amounted to $4,046,952.

Mr. WINCH: And the amount paid out?

Mr. MURCHISON: $30,289,530.

Mr. WINCH: And that $4 million includes the government's and the employer's payment?

Mr. MURCHISON: Yes.

The CHAIRMAN: Do you have the others?

Mr. MURCHISON: No. There were three smaller segments on which it was impossible for the bureau of statistics to give us figures which were accurate enough to rely on.

Mr. MCMILLAN: I assume the figure of $17 million for the fiscal year 1959-60 mentioned on page 51 is mostly interest on bonds?

Mr. HENDERSON: That is correct.

Mr. MCMILLAN: And therefore if the bonds were sold that would likely decrease?

Mr. HENDERSON: Yes.

Mr. MCMILLAN: Mr. Humphrys referred to the fact that there was depletion in the payments out of this fund. I am wondering whether or not he has figured out, if the benefit payments were continued at the same rate to the same people, how much the contribution would need to be raised percentage-wise. Have you any idea on that?

Mr. HUMPHRYS: It depends upon what level of unemplyoment you base your evaluation.

Mr. MCMILLAN: On the basis of the past, for instance.

Mr. HUMPHRYS: On the basis of experience in the period 1957-60 it would appear that an increase of at least forty per cent would be required to make ends meet. The period 1960-61 has been somewhat heavier than that, so at the present time the revenue would have to be increased by something in the order of fifty per cent to make ends meet. In the last year the contribution fell short of benefits by about $180 million and the total revenue was $333 million, so it would require at least 50 per cent, or perhaps more.

Mr. DRYSDALE: That would include such segments as fishing and logging?

Mr. HUMPHRYS: Yes, on the basis of the present rates of coverage.

Mr. SPENCER: But that would not make these segments self-supporting.

Mr. HUMPHRYS: Everyone pays the same contribution. To the extent that one person claims and another person does not, you might say, for that person, his contributions do not support his benefits.

The CHAIRMAN: Mr. Humphrys, is this your statement or words referred to at page 53 of the Auditor General's report, where it says:

> The report of the actuary, dated July 12, 1960, observes that "there is a distinct possibility that if unemployment conditions continue at the level that prevailed in 1957-60, the unemployment insurance fund may be exhausted in two or three years unless action is taken to increase revenue or decrease benefit payments."

Mr. HUMPHRYS: Yes.

The CHAIRMAN: Do you think the fund should operate in such a way that it could be audited separately?

Mr. HUMPHRYS: With one exception, Mr. Chairman, nothing has come to my attention that suggests that the present method of keeping the accounts is defective, so that I have not formed any particular view in respect to the Auditor General's recommendation about keeping the accounts. The one exception I would make is that I believe it would improve the quality of the information if the market values of securities were shown.

Mr. DRYSDALE: You are not an accountant?

Mr. HUMPHRYS: No.

Mr. DRYSDALE: You are an actuary?

Mr. HUMPHRYS: Yes.

Mr. DRYSDALE: I was trying to get at the basis of the chairman's question, in asking an actuary an accounting matter.

The CHAIRMAN: I apologize.

Mr. DRYSDALE: Could I have a word of clarification? On page 50 there is reference to the uninvested portion of the unemployment insurance fund. Could I have an explanation as to what is made up in that particular fund, and what the fluctuations are likely to be over the course of a year?

Mr. MCGREGOR: There are cash deposits at the various banks to enable local officers to pay benefits, and for deposit on the redemption of benefit warrants for payments to postal claims.

Mr. DRYSDALE: How does that fluctuate?

Mr. MCGREGOR: Well, if the claims were higher, you would have a larger amount on deposit.

Mr. DRYSDALE: Well, I mean in terms of dollars. Have you any knowledge of the extreme of the fluctuations?

Mr. HENDERSON: It would not vary widely.

Mr. DRYSDALE: Where does this money come from?

Mr. MCGREGOR: It would depend on your benefit A. If it were high, you would have to make provision to see that the bank accounts were getting supplied, and that would be the only basis for any fluctuation.

Mr. MURCHISON: The treasury office could give you the answer on this.

Mr. DRYSDALE: Well, do you just put in a requisition to the treasury branch when you want $5 or $6 million, say, for this month, and do they then allocate it through the banks throughout the country?

Mr. MCGREGOR: The mechanics of it are this: The district treasury office in each district estimates its needs for a month, and the others, from week to week. Each month the district treasury office estimates its needs, and the local office draws on it for the funds necessary to keep up the payments.

Mr. DRYSDALE: It is something like a petty cash account. Has it no significance or relationship with the investments or the returns from your investments?

Mr. McGREGOR: No.

Mr. DRYSDALE: Or to money being potentially available for investment, or being realized from investment? I am just trying to find out what actually this item covers.

Mr. McGREGOR: The revenue that comes in has nothing to do with the disbursements going out. The revenue comes in through a different source. It is not a question of taking in money on one side of the ledger and paying it out on the other side. The money comes straight in through the post offices or the district treasury office, and that is your income of revenue. The other side is simply on the basis of whatever is required, and that would fluctuate according to your claims load.

Mr. HENDERSON: Mr. Humphrys mentioned about the desirability of showing the market values. I think Dr. McMillan asked about that question earlier, and I pointed out that the public accounts do not show it. However, I have been handed here a statement of securities we have in the fund as at March 31, 1961. I realize that is a year later than the accounts we are considering. I might say that the book value shown here is $245,167,000, giving you round figures, and a market value of $205,750,000 is shown indicating a shrinkage of $40 million, which would be about 16⅔ per cent. It is an unrealized loss.

Mr. McMILLAN: I realize it is not taken in until sold.

Mr. HALES: I have a question in connection with the audit of the unemployment insurance in the field. Could you tell me what department audits the money transactions of the unemployment insurance? Does your department?

Mr. HENDERSON: Yes. Of course, in our work we make visits to the regional offices of the Unemployment Insurance Commission, and report thereon, actually, to Mr. Murchison and his associates.

Mr. HALES: How frequently do you make these audits?

Mr. HENDERSON: Would you answer that, Mr. Douglas? It is continuous, but I do not know the frequency.

Mr. DOUGLAS: It depends, sir, on the size of the office. We try to cover the larger offices on a cycle of about once every two to three years, and the smaller offices on a cycle of about once every five years; then, we get into the regional offices approximately once a year.

Mr. HALES: Are you saying that in a local office, such as in my community, it would be audited by the Auditor General's Department only once in five years?

Mr. DOUGLAS: It would depend on the grade.

Mr. HENDERSON: Of course, you know the commission has its own internal auditors.

Mr. WINCH: You are the Auditor General, and the Auditor General is supposed to report to us once a year. Are you saying that in small offices you only visit them once every five years, and every three years in the larger ones?

Mr. DOUGLAS: Every two years.

Mr. WINCH: What would be the case in Vancouver?

Mr. DOUGLAS: The very large ones in the major cities would be visited annually.

Mr. WINCH: Do you ever make a spot check?

Mr. DOUGLAS: Yes, we do.

Mr. WINCH: How often.

Mr. DOUGLAS: Do you mean, for example, a spot check on cash?

Mr. WINCH: Yes.

Mr. DOUGLAS: That probably would be done once a year, as well as a more detailed examination in the testing of claims.

Mr. WINCH: I think the Auditor General needs a larger staff.

Mr. HENDERSON: That is coming under another heading. However, I do want to point out that the commission has its own internal auditors who carry out a program. Our job is to have our external audit crews visit these places, and we have a cycle we follow.

Mr. WINCH: It sounds to me absolutely extraordinary that the Auditor General, who has the responsibility only to parliament and to this committee, for the spending of hundreds of millions of dollars a year, visits some of these places only once every five years and, in the big offices, only once every year.

Mr. HENDERSON: Well, we have at all times to satisfy ourselves that the agency is carrying out a check. Now, in this particular case, the commission have their own internal auditors.

Mr. WINCH: Don't all branches?

Mr. HENDERSON: I must say that the majority do. At the same time however, the treasury office is carrying out a pre-audit function. You might almost say there is a continual audit there. I have to determine the extent of the reliance I can place on these two other agencies. I must say that the calibre of their work is high, and we endeavour to arrange our own work accordingly.

Mr. DRYSDALE: As a result of this method, can you attribute any losses to this particular system? Have there been any financial losses?

Mr. HENDERSON: I would like to add that I am not satified with the scope of the work being done; however, I have only so many people.

Mr. DRYSDALE: Have there been any losses discovered in any of the branches?

Mr. HENDERSON: I will have to have one of my audit supervisors answer that. I know we have drawn a number of points to their attention, but whether there were losses, I do not know.

Mr. DOUGLAS: I would not say that we have uncovered any actual defalcations. We check on their general system of control, the handling of cash, their books of accounts, and so on.

Mr. HENDERSON: I can recall some excess payments which we have seen going out, which we felt should have been more closely checked. We have pointed this out to the officials of the commission. They have replied and informed us of the remedial action they had taken.

Mr. WINCH: I was wondering whether or not the number of criminal prosecutions in the last 12 months in this connection has gone up. I do not want to go into the details of it. I can understand a fellow being hungry. It is my understanding that these cases have increased and, from an auditor's point of view, is it because of supervision by your department that we have seen the increase?

Mr. HENDERSON: I think that would stem from the commission's own officers.

Mr. MURCHISON: If I may say so, we have had a fair increase in personnel in our enforcement branch, which has enabled us to get out and do better examinations and investigations. It certainly has paid off. However, that is the enforcement side of our operation. They are the people who have investigated these cases.

Mr. WINCH: It is not auditing.

Mr. MURCHISON: No.

Mr. MCMILLAN: I have one question: I think the advisory committee met in July of last year. I do not suppose you could give any results from a meeting of an advisory committee, but have they met since and made recommendations?

Mr. MCGREGOR: They met in October, 1960.

Mr. MCMILLAN: They met once in 1960.

Mr. MCGREGOR: In October, 1960.

Mr. MURCHISON: There were two meetings in 1960.

Mr. MCMILLAN: How often do they meet?

Mr. MURCHISON: The statute requires that they meet once a year to examine the accounts and make their observations to the government of Canada, and at such other times as circumstances may require. They have not been called in since October last.

Mr. WINCH: Do they have to be called, or do they meet automatically?

Mr. MURCHISON: Well, the chairman of the committee is the person who decides the need for such a meeting, apart from a statutory meeting.

Mr. MCMILLAN: You referred also to the older workers retiring on a fairly high pension, making application, and drawing unemployment insurance for some time. Have some of these workers in the past received communications from the local office to go down and get their unemployment insurance, or what attitude does the unemployment insurance take in respect to these older workers?

Mr. MURCHISON: The unemployment insurance Commission does not encourage people to apply for benefit.

Mr. MCMILLAN: Would you say it has never happened?

Mr. MURCHISON: I cannot say that.

Mr. WINCH: I was most intrigued, interested and amazed at some of the figures Mr. Murchison gave us a little while ago of contributions made by certain industries, and through employers, and governments, and the amount paid by way of benefit. Do you happen to have at hand any information on trades, or professions that have paid in amounts and drawn far less? Do you happen to have one or the other?

Mr. MURCHISON: We do not have the figures here, but some years ago we made a study of it, and found that here are certain types of industries which are quite profitable as far as we are concerned. It must be remembered that the system used in Canada's Unemployment Insurance Act is that of pooling the risk, and that involves the banker, people in financial institutions and what have you that enjoy stable employment, that they make contributions to the fund, and their contributions help to take care of the high risk industries. For instance, you know that employment in the paper mill industry is quite stable, and you can pick out a great number which are good risks. The trouble is that we do not have enough good risks to take care of the bad ones.

The CHAIRMAN: Mr. McGrath?

Mr. MCGRATH: My question has already been answered.

Mr. SPENCER: My question is on a different matter, and it is directed to the Auditor General. I have drawn a conclusion which appears on page 51, and from the table there as well, and if my conclusion is not correct, I presume the Auditor General will correct me. I read as follows:

> The balance at credit of the fund at March 31, 1960 was $365,892,000 a decrease of $560,885,000 from its highest level of $926,777,000 in December 1956.

Now the table on page 51 shows the excess of expenditure over revenues including loss on sale of securities for the three fiscal years ending in 1958, 1959 and 1960. I have totalled the three amounts for those three years, and they come to $512,549,000. I conclude from that that the difference between $560,885,000 and $512,549,000, or an amount in excess of $48 million represents the depletion of the fund in the period from December 1956 to March 31, 1957. I would like to know if that is correct?

Mr. HENDERSON: Well, in the first place, these three-year depletions are put in for information, or for explanatory purposes, designed to assist in consideration of the paragraph. The difference in question arises, I believe, from the fact that the three fiscal years analysis is based on fiscal years which ended on March 31, 1960, whereas the statement in the first paragraph carries only through December.

Mr. SPENCER: There was a difference of $48 million representing a depletion of the fund from its high point of $926 million odd at December, 1956 to a figure of some $48 million less at the end of March, 1957.

Mr. HENDERSON: That would be correct, sir.

Mr. WINCH: In 1960?

Mr. HENDERSON: No, 1957. The depletion, I think, is what Mr. Spencer means.

Mr. SPENCER: There is one further clarification I would like to have. As to that loss which occurred, that depletion of the fund which occurred in that three month period, I would like to know whether or not there is included in it the depletion which is brought about by the inclusion of seasonal benefits for fishermen, who according to the report were not provided for until April, 1957.

Mr. HENDERSON: That would not be so, Mr. Spencer.

Mr. HALES: Are you sure, Mr. Spencer?

Mr. SPENCER: Yes.

Mr. HALES: I would like to follow up this matter of the auditing a little further. If the chief audit is done through the commission, how many unemployment insurance offices have we in Canada?

Mr. MURCHISON: Two-hundred and eight.

Mr. HALES: How many persons have you on your audit staff?

Mr. MURCHISON: I do not like to contradict the Auditor General, but I think probably he is under some slight misunderstanding. We do not audit our own accounts. The treasury officers are the people responsible for that function. We do have something like 450 auditors now, but it is their job to get into the field to audit employers' books to see that the contributions due and owing to the fund are paid. That is on the revenue side, bringing the money in from the contributions; but, so far as the actual checking of the cash transactions in the local office are concerned, that is the function of the treasury office. They have offices in each of our five regions, and staff accordingly.

Mr. HALES: Can you enlarge on their staff? Perhaps it should be an official from treasury who would answer this aspect of it.

Mr. MURCHISON: I would prefer that. I do not know.

Mr. HALES: You do not know how many?

Mr. MURCHISON: No. There is a constant audit going on. I know that.

Mr. HENDERSON: I was under a misapprehension I suppose. The enforcement officers Mr. Murchison refers to we would regard as being auditors. We do go over the program of work and the frequency with which they carry it out.

Mr. DRYSDALE: Who checks for fraudulent claims?

Mr. MURCHISON: It is the duty of the insurance officer and the enforcement officer. We have various methods. I do not know whether we should make them public.

Mr. DRYSDALE: I do not think you should.

Mr. WINCH: On your overall expenditure of unemployment insurance, what part of one per cent have you found to be your estimate of the loss on account of fraud?

Mr. MURCHISON: It is impossible to answer that question, because we are not gullible enough to believe we are catching all the fraud. We do catch a substantial number of cases.

Mr. WINCH: Being in government service you are not gullible at all; you are trying to operate because this is the government's money. How much money have you found you have lost by laying prosecutions in anyone year?

Mr. MURCHISON: That would not give you the story either, Mr. Winch, because we have another means of getting money back into the fund; that is under section 65 of the act where, if we find a claimant has violated the provisions of section 106—that is, he has committed some form of fraudulent misrepresentation—we sometimes deal with this case without taking it to court, on the understanding that the person concerned may appeal the decision to the board of referees. I suggest there is much greater use made of that section than of the courts. If you want exact figures I would have to get them, because we do not have them here.

Mr. WINCH: May I put the question another way. Personally I do not believe too many people in Canada are straight crooks. Recently there has been an awful lot of publicity and a number of editorials to the effect that the fund is down because people are taking undue and illegal advantage of the unemployment insurance fund. From your knowledge, Mr. Murchison, do you say that there are very many who are defrauding the fund?

Mr. MURCHISON: In relation to the total outgo, I would say the percentage is low. I like to believe that Canadians, generally, are honest. However, there are those people who want to take advantage of the scheme, and they make the news.

Mr. WINCH: So, you would say the percentage is very low?

Mr. MURCHISON: The ones that are brought to our attention represent a low percentage of the overall.

Mr. WINCH: I am very glad you made that statement. I wanted that brought out.

Mr. SPENCER: Along the same line, Mr. Murchison, there are two branches, are there not, to your enforcement officers—one dealing with contributions, and the other dealing with payments?

Mr. MURCHISON: Auditors and enforcement.

Mr. SPENCER: Could you give me the relative figures between the numbers employed in enforcement and the numbers employed in auditing? I mention that because, I believe, in the industrial relations committee I brought this matter up in 1958. I thought there was an inordinate variation between the two branches, and that far too many were, by comparison, in the audit branch as compared with the numbers in the enforcement branch.

Mr. MURCHISON: Yes; that was so in those days. Probably, it still applies. In round figures, there are three auditors for every enforcement officer, I would say.

Mr. SPENCER: Do you not think that the relationship should be changed? I would not say it necessarily should be reversed, but that a little more

attention should be paid to the disbursement end of the business rather than the collecting end. I imagine the great bulk of your revenue comes from the larger employers who have internal controls, and, as such, you do not need to be concerned too much about not getting the amount?

Mr. MURCHISON: That is true as far as the revenue is concerned, but we have a duty to the insured worker as well. Our duty in that connection is to see to it that contributions are made on his behalf, so in the event of his unemployment, he would have some entitlement to benefit. Now, a lot of those audits are made just for that purpose—to check on the defaulting employer and have him make up contributions for an ex-employee who has certain benefits. That does not bring much revenue in, but it is a service to the insured worker which we feel is coming to him.

Mr. WINCH: How do you handle that? It comes to my mind that I have a case now in connection with a man who was employed six monthts but did not get paid. They had his insurance book, and when he turned it in, because the employer had not put in the six months, he was not entitled to unemployment insurance.

Mr. MURCHISON: Mr. McGregor has much greater knowledge of this than I have, in connection with the matter of making up contributions.

Mr. WINCH: Because the employer did not put the entries in the book, is the man not entitled?

Mr. MURCHISON: No.

Mr. MCGREGOR: There is a provision. If a person is employed and his employer has not paid contributions on his behalf, although deductions have been made from his pay, on being satisfied to these facts, the commission will accept those contributions as having been paid and will give him benefits. However, if he has gone along quite happily, and no deductions have been made, and then he comes to us and cries that there was no payment made, that is a different thing.

Mr. MURCHISON: In many cases the evidence which is accepted by the commission is the pay envelope or the stub of a cheque, or something of that nature—something that shows conclusively that the man was employed by employer A over a certain period of time, and that his rate of pay was so much per week, or that his earnings were so much a week. That would entitle him to contributions at a certain rate, and we would credit that man for these contributions just as if they had been paid.

The CHAIRMAN: Gentlemen, might I interrupt to say that if we made an effort, since we have in fact only two more paragraphs to go, and since Mr. Baldwin should be here at about five, or in five minutes time, would you please stick with us for a little bit longer? Are there any further questions on paragraph 109?

Mr. MCMILLAN: I am always more or less confused with the large number that seem to be drawing unemployment insurance. It seems to be quite a large percentage of the total number of unemployed. Does that mean that most of the unemployed, or a good percentage of them, are drawing unemployment insurance?

Mr. MCGREGOR: Most of the unemployed are we gather, from among 82 per cent of the paid workers in the labour force now, so that the moment unemployment occurs, at least 82 per cent are coming in for benefits.

Mr. WINCH: It is easy to get an accurate figure by taking your figure of 82 per cent for unemployed?

Mr. MCGREGOR: No, the coverage is such that we get a great number of these people now, I mean of these 82 per cent which are covered.

Mr. MORTON: The other 18 per cent may not be unemployed in the same proportion.

Mr. MURCHISON: No. The public service, the dominion and the provincial government services are not covered. Nor are school teachers or hospital workers whose employment is quite stable. Agricultural workers are not covered, and they do not show up in your statistics.

Mr. MCMILLAN: There are a number of married women who are on unemployment insurance, and who would be covered as unemployed, if they made application through your offices.

Mr. MURCHISON: If they register and continue to report, they are considered as unemployed.

Mr. MCMILLAN: In connection with the figure of 800,000 for March 31, 1960, have you any idea how many different individuals would draw unemployment insurance in those 12 months?

Mr. MURCHISON: We have statistics on that available.

Mr. MCGREGOR: We take off those statistics once a year on the terminations throughout the year. We took off all the terminations for 1959; and when the claims originated in 1958, we figured the entire number of weeks that those people have drawn. This is done once a year because it cannot be kept up to date; it is done by the dominion bureau of statistics. If you are interested in the figures for married women, I have some of those figures.

The CHAIRMAN: We are always interested in married women.

Mr. MCGREGOR: In 1959, the average number of benefits paid for married women was 17.8; and the benefits paid for single women was 13.5; Married women as a whole drew 32 per cent more than did single women.

Mr. DRYSDALE: How much did they draw?

Mr. MCGREGOR: We do not give the amounts. This is simply taken from the benefit weeks paid.

The CHAIRMAN: Are there many prosecutions of married women?

Mr. MCGREGOR: Not too many, no.

Mr. WINCH: Could you also give us, on the same basis, the number who drew, because of pregnancy?

Mr. MCGREGOR: We do not keep track of pregnancies.

Mr. WINCH: But you still pay?

Mr. MCGREGOR: There is a rule regarding pregnancy; the rule is this: if the person loses employment or if someone forces her to lose employment because of pregnancy, and she maintains that she is still on the labour market, then we pay her for six weeks before confinement. But if she voluntarily quits on account of pregnancy, we say that she has taken herself out of the labour market.

The CHAIRMAN: Are there any further questions?

Mr. DRYSDALE: You indicated that in 1959 there was an increase of 32 per cent in the amount charged for contributions. Could you indicate what that would be in terms of dollars and cents in the case of the minimum or maximum contributions?

Mr. MURCHISON: By contributions, you mean the gross revenue?

Mr. DRYSDALE: Yes, I think that would be helpful too.

Mr. BENIDICKSON: When the amendments were introduced, I think the commission made a calculation for the minister as to what the new rates, the increased rates of contribution, would likely bring in in the next full year.

Mr. DRYSDALE: I wanted to bring it out on a dollar and cents basis.

Mr. McGREGOR: The 60 cents rate was raised to 70 cents, and there were two new classes added, when the long benefit was paid for 33 and 36. There were two completely new rates, one was 86 cents and the other was 94 cents.

Mr. DRYSDALE: How much revenue would that bring in?

Mr. McGREGOR: It increased the revenue over all by over 40 per cent that year, actually.

Mr. DRYSDALE: Can you give us approximately in dollars and cents what it was?

Mr. McGREGOR: Well, it was half a year.

The CHAIRMAN: Do you feel that this fund should be audited by your department separately and, if so, why?

Mr. HENDERSON: Well, I think, Mr. Chairman, that it would be a much cleaner proposition if the commission were required, by statute, to prepare annual financial statements, and if I were to audit them and report on them in the manner required, that it would be a good thing. For example, in my report, there is a section on statutory audits. We have operations like the exchange fund, the Canada Council, and so on. It seems to me it would be a much cleaner operation if it were done that way than to continue as a part of the consolidated revenue fund. This point is covered at the top of page 51:

The point made in the last paragraph, namely:

> It is the audit office view, as was stated in the report for 1956-57, that the practice of including in the liability item only the uninvested portion of the fund should be further considered.

This relates to the fact that the uninvested portion is carried in that way on the balance sheet of Canada. If the fund were required by statute to operate in a manner so as to prepare its annual financial statements so that I could audit them separately, I think it would be a much cleaner fund to audit and report on. As well, it would be better understood.

Mr. WINCH: Do you know of any objection to that policy, Mr. Humphrys?

Mr. HUMPHRYS: I would prefer not to comment on it, Mr. Winch. I have not given any attention to that though. I think that the matter of keeping he accounts is perhaps a matter more for the commission, and for the Department of Finance to discuss.

Mr. McMILLAN: Do you refer to these extra payments now as seasonal payments, or are some of them still supplementary payments?

Mr. HUMPHRYS: They are now called seasonal benefits.

Mr. McMILLAN: The reason I asked is that I hear it referred to all the time.

Mr. MURCHISON: Prior to 1955 the expression used was supplementary, and now it is seasonal.

The CHAIRMAN: I want to thank you very much, Mr. Murchison, Mr. McGregor, and Mr. Humphrys for coming and giving your views on this interesting but difficult matter.

Mr. DRYSDALE: I think Mr. McGregor had an answer to give to me.

Mr. McGREGOR: The total contributions in the last full year before the increase was $232 million, and the last year, 1961, $326 million. However, there is an increase in the labour force in that period. As well, there has been an increase in wages, which brings it up from one bracket to another. It is rather difficult to say what has contributed to this.

The CHAIRMAN: Thank you.

Gentlemen, we have the Deputy Minister of Transport, and I do not want to keep him waiting. After we have finished with Mr. Baldwin we still have two more paragraphs to go. I am sure we could finish tonight with this part of

the report. Mr. Baldwin, the reason for asking you to come is that we are trying to save your time as well as our time. Various questions were raised with regard to the building of a runway at Riviere du Loup. Mr. Winch and Mr. Drysdale have some questions. We could not answer them. Perhaps you can.

Mr. J. R. BALDWIN (*Deputy Minister of Transport*): I shall do my best, Mr. Chairman.

The CHAIRMAN: What were the questions?

Mr. DRYSDALE: The thing I have been concerned about basically is that we got a reply, from which the conclusion to be drawn was that although the department had set out the specifications and the requirements for the tender, the actual person tendering had apparently based his tender on those requirements, and on the way that the runway was laid out on the ground; and the thing that concerned me was apparently the only mistake made was in going in and looking at the ground, and saying: that is the only thing I have to do, and I shall make my tender on that basis. We got an explanation from the witnesses that there was muskeg and rock, and that this was clearly 4 per cent or 5 per cent of the basic error. I have been trying to find out whether or not it would be a good idea in future tenders to indicate quite clearly that the person tendering should not rely on the ground layout, but should rely purely on the original tender as you have set it out; because what I cannot understand about this particular case is that the contractor got what he had bargained for and entered into the contract. I cannot see why he should be paid any higher rate.

Mr. BALDWIN: All tenderers were in the same position, in that they saw the same headquarters documents, which showed the runway properly laid out according to our requirements. Well, all of them in looking at it on site also saw the stake line which was slightly off angle. But every tenderer was exactly in the same situation. No one noticed this deviation until several months afterwards, as I understand it, when the contractor who was the low man and was awarded the job, questioned it.

Mr. WINCH: That leads to my next question. According to the information the committee had, that deviation was basically a mistake made on the part of the departmental engineers?

Mr. BALDWIN: That is correct, and we accept it.

Mr. WINCH: And, for the information of the committee, that mistake was caught before the contractor ever started to work.

Mr. BALDWIN: Oh no.

Mr. WINCH: That is our information. If so, why were not new tenders called for?

Mr. BALDWIN: It was several months after the contractor started work when the contractor drew it to our attention.

Mr. WINCH: But we were told that it was caught before the contractor started to work.

The CHAIRMAN: That came up during the discussion today. I do not think that Mr. Baldwin said it the other day.

Mr. BALDWIN: The runway which the contractor started to work on was correctly laid out; but the fact that it was not laid out correctly earlier was not known to the department or to the contractor until several months later.

Mr. DRYSDALE: Actually, he based his tender only on the actual physical layout, and had nothing to do with the headquarters documents.

Mr. BALDWIN: He based it on the route he walked over on the field, as we understood it.

Mr. WINCH: I have seen a lot of contract in my life. Did you not have in your contract the responsibility for the man who is tendering to go over the situation and make a check of it?

Mr. BALDWIN: That is correct.

Mr. WINCH: Was that not done, then, so that the tenderer could actually find out the situation?

Mr. BALDWIN: He did not notice this error at the outset. He walked over a given stake line, looked presumably at our headquarters plan, and did not realize there was a deviation between the headquarters plan and the stake line.

Mr. MORTON: I presume the department made an estimate of the cost of the amount in types of materials, and I presume that was made on the misttaken estimate of the engineer?

Mr. BALDWIN: No. The estimate we made was on the correct runway lay-out. The estimate we made for this job was $750,000.

Mr. MORTON: When the tenders were checked, did they not notice a difference in the type of material then?

Mr. WINCH: And the four degrees deviation?

Mr. BALDWIN: The answer is no, because the tender comes in in terms of unit prices, basically, and the estimated quantities were basically in accordance with our own plan.

Mr. WINCH: Your own plan that was wrong.

Mr. MORTON: I cannot understand such a big difference in the actual cost and what the original estimate was, when you run into, in one place, muskeg, which would necessitate more material being dumped into it, which the department must have estimated, and the rock which was required to be moved. It seems to me these two things would have shown up quite differently in the quantities accepted on the tender and what was actually tendered.

Mr. BALDWIN: Would it be all right to ask Mr. Connelly to give a detailed, technical answer to that?

The CHAIRMAN: Yes.

Mr. HAROLD J. CONNELLY (*Director of Construction Branch, Department of Transport*): We had a plan prepared from a survey. Our engineer had a trial line and staked it. The contractors, in bidding the job, walked over the staked line and estimated their work on that condition, whereas the line that was laid out according to the plan was in a different direction and, therefore, changed the intent of the contract altogether, as a result of which it required a different type of operation completely.

Mr. WINCH: Who made the new alignment?

Mr. CONNELLY: It was the one set up in the original, but it was five to ten degrees off our plan.

Mr. BALDWIN: We sent in a resident engineer, as we generally do in large projects such as this, when the job gets under way, and he would be responsible for staking out the alignment the contractor was supposed to follow, and he made it out according to the headquarters plan. But—

Mr. WINCH: Did you tell him before you called for tenders you did not send in the engineer?

Mr. BALDWIN: We did send in the engineer. It was done, and laid out.

Mr. WINCH: And then it was changed?

Mr. BALDWIN: The regional engineer earlier had put a line of trial stakes in through the bush so that the tenderers would have some idea where to build the runway. This was only a line of trial stakes. When the contract was

awarded, these trial stakes having been removed, the resident engineer went in and laid it out according to our headquarters plan for the contractor to build.

Mr. WINCH: If that is correct, then the contractor was bidding with an exact knowledge of where it had to go.

Mr. BALDWIN: With our headquarters plan, and he used our estimated quantities related to that headquarters plan when he tendered.

Mr. MORTON: Then the estimated quantities by the department must have been away out.

Mr. BALDWIN: Not for the job that was actually done.

Mr. WINCH: Why, then, the extra money?

Mr. BALDWIN: I think there was a variety of problems involved there.

I think we have frankly to admit that at this point, while directly speaking in law, we could have rested on our position that there was a mistake made by the engineer in drawing the lines, and because of that anyone could have been misled. That regional engineer is no longer available, but he made an error, and we frankly admit it.

Mr. DRYSDALE: The contractor apparently figures that he could clean up, because the department had made a mistake; as they say there is a large area of muskeg which would indicate that he would need much more fill than if he went over an area which did not have muskeg, and apparently that was done under these circumstances, and he never studied the plan. He had all the documents before him, and the proper layout which you said was subsequently discovered; but all I can see is that he got exactly what he wanted, yet he got all this extra payment. What for, I do not know.

Mr. MORTON: I still cannot see why he should be allowed so much more money when we are told that the government engineers make an estimate of the cost, and that the estimate was based on the correct route. Now, when the contractor makes his tender on the wrong route, if there had been such a difference in the cost, it should have been noted when the tenders came in. But I am told that there was not that much difference. If they used your quantities, and they were on the right original estimate, I mean on the right route, then why was there that difference?

Mr. BALDWIN: Because he had to go over the route which was a different route and he thought that the quantities applied to the different route.

Mr. WINCH: You say that he tendered on the correct route?

Mr. BALDWIN: That is right.

Mr. WINCH: Then what he did on the wrong route would have no bearing on the contract. Is it not just as simple as that?

Mr. BALDWIN: Yes, but I suppose he would calculate his unit prices and conditions of work in relation to what he saw on the wrong route.

Mr. DRYSDALE: One would think he was going to make a killing on the basis of that route.

Mr. BALDWIN: I think from the point of view of the cost angle which you raised earlier—without attempting to praise or to be critical of the contractor—we did seek to protect ourselves in terms of the crown's outlay, as the Auditor General has noted. (I am not sure where it is his comment or not), by having the Treasury Cost Audit section go over the contractor's books in very great detail; that is why the ultimate settlement only took place many weeks after the work had been performed.

Mr. BEECH: It strikes me that the department estimated that the job would cost $750,000. So would you not naturally be suspicious when that low tender came in?

Mr. BALDWIN: We got some tenders which ran as high as $882,000.

Mr. MORTON: Perhaps it would be helpful if we had the amount of the other tenders.

Mr. BALDWIN: I know they ranged over a wide amount. Would you like me to read them into the record? There was a tender from Lewis Brothers Asphalt Paving Ltd. in the amount of $479 million; Ryanmoir Excavation and Contractors Ltd. $521 million; North Shore Construction Co. Ltd., $556 million; La Compagnie d'Equipment et de Construction de Rimouski Ltee, $576 million; North Shore Builders Ltd., $591 million; E. Morin and Freres Ltee, $684 million; Les Constructions du St-Laurent Ltee., $696 million; and McNamara (Quebec) Ltd., $706 million. The Union de Carriers and Pavages Ltee., $763,000; E. J. Persons, Esq., $767,000; Sir Robert McAlpine & Sons (Canada) Ltd., $869,000; La Société d'Entreprises Generales Ltee., $882,000. In other words, they ranged over a very wide area of costs.

Mr. MORTON: Were the quantities estimated the same, or was there a different range on the estimate?

Mr. BALDWIN: I think they would be all based upon the estimates in our tender call.

Mr. WINCH: Then every one of these tenderers went over the wrong route but tendered on the right one?

Mr. BALDWIN: Anyone that walked down and looked over the site went over the wrong route but they tendered on the correct plan and our estimate of quantities.

Mr. WINCH: That is why I cannot understand it. The may have walked the wrong route but tendered the correct one.

Mr. MORTON: Could you check on the tenders of McNamara and the other one that was $763,000, because they are around the figure stated, to see if the estimate of materials was the same as given by the department?

Mr. HALES: While you are looking up this information, what was the government's estimate on this job?

Mr. BALDWIN: When we originally did the engineering on the site and put aside an amount in estimation, we put aside $750,000 as being what we thought it could cost.

Mr. HALES: And you let it for $479,000?

Mr. BALDWIN: Yes.

Mr. HALES: With such a wide difference, would not your department know right off the bat there was something wrong?

Mr. BALDWIN: Not necessarily, not the way they came in, because we have had some low tenders come in which have been quite substantially under departmental estimates.

Mr. HALES: But you would be suspicious that there was something wrong some place?

Mr. BALDWIN: The difference between the high and low tender?

Mr. HALES: Yes, and your own estimate. You estimated $750,000 and gave it out for $479,000. Therefore, I would think you would be immediately suspicious. Did you send your engineer from head office to the site to double-check it?

Mr. BALDWIN: Oh, no, not in regard to the tender.

Mr. HALES: Do you not think you should have sent an engineer from here to the site to review this thing?

Mr. BALDWIN: No. Normally, if we feel that there is something questionable about a tender, we examine it rather carefully at headquarters, in terms of

estimates and unit prices. Then, if this indicates some further doubt in our mind, we would do that.

Mr. DRYSDALE: What were the major items that went into this $246,035 that was above the tendered bid?

Mr. BALDWIN: This was an allowance made for actual cost of the work based upon the treasury's audit for the total job done.

Mr. DRYSDALE: Is there no way of allocating or bring it down in relation to the initial quantities under the tender?

Mr. BALDWIN: This might be possible, but that would necessitate looking through my files.

The CHAIRMAN: Are there any more questions?

Mr. DRYSDALE: This amount is over one-third above the tender. It seems like a substantial increase, when they got what they contracted for.

Mr. MORTON: It appears they have not the information for which I was asking. I was wondering if it would be possible for them to make out a table showing the unit cost under the specifications of materials in the unit costs, and follow that through on each of the tenders, and file it with the committee so that the steering committee could see it. Then, if there are any further questions, the steering committee at that time could decide whether to proceed further with it.

Mr. BALDWIN: We can do this. Could I be quite clear on what you would like. Is it the unit prices on each tender.

Mr. MORTON: Specifications for the material and the work figures. Also we would like to have what you paid the contractor.

Mr. BALDWIN: What we actually paid Lewis.

Mr. MORTON: Yes; and would you follow through with what was actually tendered on the other.

Mr. DRYSDALE: And in addition, the breakdown of your own figure as a comparison.

Mr. BALDWIN: We can give you the unit prices Lewis paid in comparison to the others; but when the final statement was made it was made in terms of a cost audit which did not show the same pattern. Therefore an exact breakdown of what he received following the treasury officer's audit, in terms of the initial tender, might not be possible.

Mr. MORTON: There must be some basis for that cost audit?

Mr. BALDWIN: I think we could give you the breakdown of the cost audit.

Mr. MORTON: Would you work out these tables I suggested including the low tender, your own figures of how you estimated the $750,000 and then how you worked out the final payment. Would you file that table with the committee?

The CHAIRMAN: May I suggest it is quite late. We certainly will not get through the remaining paragraphs.

Mr. DRYSDALE: Let us try.

The CHAIRMAN: We could meet at 9:30 tomorrow morning to finish the two paragraphs. Perhaps Mr. Baldwin might have the information then.

Mr. BALDWIN: It would be a very lengthy proceeding.

The CHAIRMAN: Shall we go ahead?

Thank you very much, Mr. Baldwin and Mr. Connolly.

Departmental operating activities includes paragraphs 138 to 148 and the Auditor General would like to draw attention to paragraph 148 which is a proposal of his to parliament. Then we have the subject of special statutory audits and examinations which is paragraphs 149 to paragraphs 157 inclusive.

Departmental Operating Activities

138. Extensive trading or servicing activities are operated by several departments, for example:

Agricultural commodities stabilization activities, operated by the Agricultural Stabilization Board under the Department of Agriculture;

National Film Board, under the Department of Citizenship and Immigration;

Royal Canadian Mint, under the Department of Finance;

Post office activities;

Public Printing and Stationery activities;

Board of Grain Commissioners, under the Department of Trade and Commerce;

Canadian Government Elevators operated by the Board of Grain Commissioners under the Department of Trade and Commerce;

Airports operations, under the Department of Transport.

139. A general statutory direction is contained in the Financial Administration Act as to the way in which the operating results of Crown corporations are to be reflected in annual financial statements. There are, however, no statutory directions regarding the preparation of financial statements in respect of trading or servicing functions carried on as departmental activities. Revenues arising from such activities are included in the accounts as revenues of the departments concerned, while the expenditures which involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. Where statutory revolving funds are used to acquire materials, statements summarizing the transactions in the revolving fund accounts are included in the Public Accounts.

It will be noted from the Public Accounts that there are a few instances where financial statements showing operating results from departmental operating activities are included. However, for the reasons already explained in paragraph 13, the costs shown in these statements include only the direct costs arising from cash outlays by the departments concerned.

140. *Agricultural commodities stabilization activities.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, c. 22, 1957-58. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of the amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold. Purchased commodities may be sold or otherwise disposed of by the Board. The Board's activities are financed through the Agricultural Commodities Stabilization Account, to which charges are made for purchases of commodities and for other expenditures incurred, except administration expenses, and to which credits are recorded for all monies received by the Board from sales of commodities.

The transactions recorded through the Agricultural Commodities Stabilization Account during the year ended March 31, 1960, as shown in the Public Accounts, page A-56, are summarized as follows:

Trading losses:		
Pork	$ 27,862,000	
Dry skimmed milk	8,108,000	
Eggs	4,810,000	
Butter	3,409,000	
Other	697,000	
		$ 44,886,000
Stabilization payments:		
Milk	9,844,000	
Sugar beets	2,657,000	
Wool	1,219,000	
Soya beans	1,217,000	
Other	396,000	
		15,333,000
		$ 60,219,000

The above loss for 1959-60, which represented the direct cost of stabilization measures taken by the Board, together with a residual balance of $107,000 brought forward from 1958-59, exceeded the amount of $57,661,000 provided by Vote 640 by $2,665,000, and this amount remained to be carried forward as a charge to Expenditure in 1960-61.

Various indirect costs were also incurred in relation to the stabilization program. The administrative expenses of the Agricultural Stabilization Board totalling $224,000 were charged to the appropriation for "Agricultural Stabilization Act Administration" (Votes 10 and 490) as shown on page A-16 of the public Accounts. In addition special accounting services with respect to the stabilization program are rendered by the Office of the Comptroller of the Treasury, as a charge to the appropriation for the costs of that Office (Vote 107, 1959-60). Interest on the funds employed is not taken into consideration.

At March 31, 1960 inventories held by the Board amounted to $117,796,000, comprising: pork, $74,085,000, butter, $42,256,000; and other inventories, $1,455,000.

141. *National Film Board.* The National Film Board was established by the National Film Act, c. 185, R.S. in order to promote the production and distribution of films in the national interest. The expenditures of the Board are charged to the National Film Board Operating Account provided for by Section 18 of the Act, and the Account is credited with income from the sale of films and miscellaneous revenues, and with amounts transferred from annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (Vote 234 in 1959-60).

Under provisions of the Act, the Board maintains an accounting system on the accrual basis, additional to the accounts maintained by the Comptroller of the Treasury with respect to cash transactions. The financial statements for

the year ended March 31, 1960, prepared from the Board's accounts, are included in the Public Accounts, pages T-9 to T-11. The following is a summary of the transactions for the year as shown in the Statement of Income and Expense:

Expense:		
Production of films	$ 2,441,000	
Distribution of films	1,912,000	
Administration and general services	782,000	
Cost of production of films and other visual materials for government departments and others	1,158,000	
Acquisition of equipment	194,000	
		$ 6,487,000
Income:		
Sales of film and other visual materials to government departments and others	1,359,000	
Rentals and royalties	576,000	
Miscellaneous	21,000	
		1,956,000
Net expense		$ 4,531,000

The net expense for the year as thus determined is without including charges for amortization of building construction costs and office furniture and furnishings, maintenance services provided by the Department of Public Works, interest on funds employed, etc.

142. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, c. 315, R.S., which requires that facilities be provided for making coins of the currency of Canada and for melting, assaying and refining gold.

Revolving fund accounts are maintained for the purchase of the gold, silver and other metals used by the Mint in its operations, and inventories acquired through these accounts totalled $11,380,000 at the beginning of the year under review. Metal purchases charged to the several "purchase accounts" during the year totalled $95,172,000, comprising: gold, $88,311,000; silver, $6,441,000; nickel, $162,000; bronze, $257,000, and steel, $1,000. Credits to the purchase accounts totalled $100,036,000, comprising: $90,384,000 for sales of gold to the Bank of Canada and sundry purchasers; $8,219,000 for sales of silver coin; $25,000 for sales of silver bullion; $570,000 for nickel coins, and $838,000 for bronze coins. The inventories on hand at March 31, 1960 amounted to $11,503,000 after a downward adjustment of $83,000 for year-end gold revaluation.

Amounts credited to the purchase accounts for sales of coin were at face value, and the excess of such amounts over the cost of metals used together with the gold refining gain, was transferred to the credit of the Department of Finance, as follows: gain on coinage operations, $5,040,000; and gold refining gain, $30,000. In addition, there were revenues of $171,000 for gold refining charges and $189,000 for gold handling charges, making total revenues of $5,430,000.

Expenditures totalling $1,223,000 were charged to parliamentary appropriations, as follows: administration, operation and maintenance, $1,156,000; and construction or acquisition of equipment, $67,000.

The net result of these charges and credits, as reported in the Department of Finance section of the Public Accounts, was an excess of revenue over expenditure of $4,207,000. Costs not reflected in the accounts include amortization of building and equipment costs, interest on funds employed, etc.

143. *Post Office activities.* The activities of the Post Office are carried on in accordance with the Post Office Act, c. 212, R.S.

The following is a summary of the Post Office transactions, reported as revenues, and as charges against parliamentary appropriations, in the Post Office section of the Public Accounts:

Gross postal revenue		$ 193,593,000
Less: Expenses paid from revenue		26,031,000
Net postal revenue		167,562,000
Miscellaneous revenue		67,000
		167,629,000
Deduct: Expenditure paid from parliamentary appropriations		
Operations	$ 101,351,000	
Transportation	59,803,000	
Administration, financial services, etc.	4,638,000	
		165,792,000
Excess of Revenue over Expenditure		$ 1,837,000

This recorded excess of revenue over expenditure does not, however, take into consideration charges for:

(*a*) amortization of building construction costs (the cost of constructing new buildings is borne by appropriations for the Department of Public Works);

(*b*) maintenance and operation of buildings (this cost is undertaken as a charge to appropriations for the Department of Public Works);

(*c*) amortization of furniture and equipment cost (in lieu of charges presently included for purchases, against either Public Works or Post Office appropriations);

(*d*) share of the Government's contributions towards employees' superannuation;

(*e*) interest on funds employed;

(*f*) interest on Post Office Savings Bank deposits (presently recorded as a charge to interest on the public debt);

nor credits for:

(*a*) mail franked by and sent to Members of Parliament and government departments;

(*b*) interest on Post Office Savings Bank funds on deposit with the Receiver General.

144. *Public Printing and Stationery activities.* The activities of the Department of Public Printing and Stationery are governed by the Public Printing and Stationery Act, c. 226, R.S., which places responsibility on the department for the execution of printing and lithographing and the acquisition and distribution of papers, books and other articles of stationery required by the Senate

and House of Commons and the various departments. In addition the department is responsible for the sale of all books and publications issued by order of either or both Houses of Parliament or by any department.

The basic operating expenses of the Department of Public Printing and Stationery are charged to the Queen's Printer's Advance Account, and credits are made to the Account for the value of the printing work executed for and charged (at "factory cost") to the various government departments, and for the value of stationery supplied and charged (at purchase cost) to the departments. The following is a summary of the transactions in the Account for the year ended March 31, 1960:

Revenue:		
Printing work executed	$ 15,522,000	
Stationery supplied	2,686,000	
		$ 18,208,000
Expenditure:		
Salaries	1,189,000	
Wages	4,513,000	
Paper, printing material, etc., (including $448,000 reduction in inventory)	3,683,000	
Outside printing, etc.	5,710,000	
Stationery purchased (including $66,000 reduction in inventory)	2,667,000	
Other	266,000	
		18,028,000
Excess of revenue over expenditure, comprising $161,000 on printing operations and $19,000 on stationery transactions		$ 180,000

In addition to the expenditure thus recorded through the Advance Account, there were expenses totalling $3,467,000 charged to appropriations, as follows:

Departmental administration	$ 642,000
Purchasing, stationery and stores (largely for salaries of purchasing personnel, and repairs to office equipment)	1,152,000
Distribution of official documents	429,000
Printing and binding of publications for sale and distribution to departments and the public	689,000
Printing of Canada Gazette	131,000
Printing and binding the annual Statutes	45,000
Plant equipment and replacements	379,000
	$ 3,467,000

Credits to Revenue, in addition to the $180,000 excess of revenue over expenditure on printing operations and stationery transactions (recorded through the Queen's Printer's Advance Account, as noted above) amounted to $1,121,000, of which sales of publications to the general public accounted for $863,000.

The net result of all the transactions thus reported in various places in the Public Accounts was an excess of expenditure over income of $2,166,000 for the year ended March 31, 1960. This, however, was without taking into

consideration any charges for building maintenance, amortization of building cost, amortization of equipment (in lieu of purchase cost), interest on funds employed, etc.

145. *Board of Grain Commissioners.* This Board operates under the authority of the Canada Grain Act, c. 25, R.S., as amended, for the purpose of regulating the grain trade in Canada, and it provides inspection, weighing and other services to owners of grain.

Revenues of the Board, included as Department of Trade and Commerce revenues, totalled $2,605,000 for the year ended March 31, 1960, as follows: inspection, $1,674,000; weighing, $851,000; and other revenues, $80,000. Expenditure paid from parliamentary appropriations during the year totalled $4,403,000, consisting of $3,817,000 for salaries and $586,000 for other operating expenses. The excess of expenditure over revenue was, therefore, $1,798,000.

In 1951-52 there was an excess of revenue over expenditure paid from annual appropriations of $108,000, and in 1952-53 there was a similar excess of $351,000. In 1953-54 there was a comparatively small excess of expenditure over revenue of $188,000—but each year since then there has been an excess of expenditure over revenue of more than $1 million.

We feel that further consideration should be given to the advisability of revising the tariff of fees payable for services rendered by the Board, with a view to closing the gap between the cost of the services and the fees charged.

146. *Canadian Government Elevators.* The Canadian Government Elevators are operated by the Board of Grain Commissioners under the provisions of Section 166 of the Canada Grain Act and comprise five interior terminal elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and two terminal elevators located at Port Arthur and Prince Rupert.

The following is a summary of the elevator operations for the year ended March 31, 1960, as shown in the Operating Statement given in the Public Accounts, page AG-29:

Revenue:		
Storage	$ 1,196,000	
Elevation	310,000	
Drying	229,000	
Cleaning	101,000	
Other	112,000	
		$ 1,948,000
Expenditure:		
Salaries and wages	804,000	
Maintenance	446,000	
Other	303,000	
		1,553,000
Operating profit		395,000
Add: Miscellaneous revenue		9,000
Net Profit		$ 404,000

The net profit of $404,000 is without taking into consideration amortization of elevator construction costs, interest on the funds employed, etc.

147. *Operation of airports.* Ninety-two airports were in operation by the Department of Transport at the close of the year under review. The capital investment in these facilities totalled $340,046,000, of which $44,454,000 was added during 1959-60.

The following is a summary of the revenues for the year ended March 31, 1960 recorded as departmental revenues:

Aircraft landing fees:		
Domestic	$ 1,804,000	
Trans-border	510,000	
Trans-oceanic	2,322,000	
Other	10,000	
		$ 4,646,000
Rentals:		
Hangar	211,000	
Living quarters	398,000	
Office, shop and garage space	612,000	
Other	417,000	
		1,638,000
Concessions:		
Gasoline and oil	1,150,000	
Other	697,000	
		1,847,000
Miscellaneous		886,000
Total revenues		$ 9,017,000

Charges to the parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" totalled $16,678,000 for the year.

The excess of the expenditure (excluding new construction) on the operation of airways and airports over the revenues received, as thus reflected in the Department of Transport section of the Public Accounts, was therefore $7,661,000 for the year under review. But this was without recording charges for amortization of airport construction costs, interest on funds employed or other costs (including portions of expenditure charged to general Air Services appropriations) which would have to be taken into consideration if it were desired to determine the actual net cost of operating the facilities.

148. In order that parliament may gain a clear understanding of the true financial results of departmental operating activities, without disturbing the present basis of providing appropriations or of reporting expenditure charged thereto, consideration should be given to the inclusion, in a separate section of the public accounts, of financial statements of the various activities designed to reflect the operating results in a clear and concise manner. Such operating statements could be adjusted to an accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment acquisition costs, interest on funds employed, services provided by other government departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by the related departmental revenues and charges to parliamentary appropriations. Balance sheets could then be prepared which, among other things, would indicate the value of the assets employed by the several activities at the year-end. If statements of this type were produced, the Auditor General would be prepared to examine and certify them.

Apart from their interest to Parliament each year in the Public Accounts, preparation of such statements annually would mean that they could be available at monthly or other short intervals, to the departmental managements responsible for the different operating activities, and as such they would be of considerable value to these managements in their internal administration. This has already been demonstrated in the case of airport operations where bi-monthly statements (which include charges for depreciation) are prepared on the accrual basis for administrative purposes throughout the year.

Mr. HENDERSON: Gentlemen, I would like to say that I appreciate your sticking with this so that we can deal with this item on departmental operating activities. I do not want to go through it in any detail, but there is a point here on which your views would be extremely helpful and might in fact enable us to make some progress with regard to accounts for the forthcoming year.

This section of the report, "Departmental operating activities" is a new section which I introduced into the 1959-60 report. It deals with various departmental trading or servicing activities that are similar in nature to those of crown corporations, but where the corporate device is not used.

It is noted in paragraph 139 that, unlike crown corporations, there are no statutory directions regarding the preparation of financial statements in respect of the departmental trading activities. As a result, reference ordinarily has to be made to several places in the public accounts in order to get information regarding the transactions of such an activity, and then it is to be found, on the expenditure side, only with respect to direct costs arising out of cash outlays by the department concerned.

In paragraphs 140 to 147 summaries are given of the transactions of several of the departmental trading activities as recorded in the public accounts, and references are made to additional non-cash costs that are not reflected in the public accounts. Paragraph 143, for example, after showing the excess of revenue over expenditure of $1,837,000 for Post Office activities, for the year ended March 31, 1960, lists six classes of costs, and two classes of credits which were not taken into consideration in arriving at the result.

My views on accounting for departmental operating activities are summarized in the first sub-paragraph of paragraph 148, as follows:

> 148. In order that Parliament may gain a clear understanding of the true financial results of departmental operating activities, without disturbing the present basis of providing appropriations or of reporting expenditure charged thereto, consideration should be given to the inclusion, in a separate section of the Public Accounts, of financial statements of the various activities designed to reflect the operating results in a clear and concise manner. Such operating statements could be adjusted to an accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment acquisition costs, interest on funds employed, services provided by other government departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by the related departmental revenues and charges to parliamentary appropriations. Balance sheets could then be prepared which, among other things, would indicate the value of the assets employed by the several activities at the year-end. If statements of this type were produced, the Auditor General would be prepared to examine and certify them.

I might say that I have here the blue book of the United Kingdom government wherein the accounts and balance sheets are certified by the Comptroller and Auditor General of the United Kingdom, for each of these semi-commercial activities which we are discussing.

Apart from their interest to Parliament each year in the Public Accounts, preparation of such statements annually would mean that they could be available at monthly or other short intervals, to the departmental managements responsible for the different operating activities, and as such they would be of considerable value to the managements in their internal administration. This has already been demonstrated in the case of airport operations where bi-monthly statements (which include charges for depreciation) are prepared on the accrual basis for administrative purposes throughout the year.

I have here a letter from the Queen's Printer who has sent to me a financial statement, and says that his office has prepared the financial position of the Department of Public Printing and Stationery concerning the Queen's Printer's advance account, and he asked me to check and certify it. I think it is a most constructive step, and I intend to do my utmost to co-operate with him. This shows the profit and loss position, and there are certain costs that are not yet complete. I think it is a constructive step forward to present his operation in this way.

Finally, let me say that I do take time to follow *Hansard* daily, and in reading the report for Saturday, I was interested at page 6511 where the Department of Public Works estimates were being discussed, and when Mr. Bourque was questioning the Minister of Public Works and he stated—I do not think I have to read it, but he stated in order that there might be a basis for a fairer comparison between the costs of private industry and those of the government-owned printing plant would it not be possible for the minister in some way to arrive at a charge that could be made for these services so that there would be some method of arriving at the costs of the government plants? He meant that there might be some way by which they would be able to take a government activity and compare it against the yardstick of a commercial activity. This is a point which came up the other day when Mr. Drysdale spoke about the T.C.A. balance sheet.

The CHAIRMAN: That was on the financial paragraph and the statement of the Minister of Public Works.

Mr. HENDERSON: Mr. Bourque continued, and said: "They do not seem to have any basis whatever now."—he was speaking of the Queen's printer's figures:

> They do not seem to have any basis whatever now. If there is no charge made to them for their plant, lighting, heating, or the machinery they buy, it seems unjust for the government plant to say that they can manufacture more cheaply than private industry because the bureau has no basic figures in order to arrive at their costs. If you have a plant worth $5 million and do not have to pay rent or interest or carry anything on your books, it seems obvious that you cannot have any basic figures to indicate that you could manufacture more cheaply. The government will never know whether or not it is losing money in this plant.

As your auditor, I am not so much interested in the comparison with private enterprise as I am that consideration should be given to the inclusion in a separate section of the public accounts, of financial statements of the various activities. I would like to express the hope, sir, that you would feel that there was some merit in the case I put forward in paragraph 148 and, if you see fit to give it your blessing in your report, then it seems to me that we could make an immediate start towards this very desirable goal. This is a matter the comptroller of the treasury and I have discussed. He shares many of my views on this. I wish he were here to speak for himself. But, the whole case is set down. I do not want to take too much of your time to dwell on it. What we, in effect, are saying is that under departmental trading activities—the best

example I could give you is the British government approach; they surmounted the problem, and the financial statements are contained in a special book. In our case, they would be included in a special section of our public accounts. They have them all in here: National Stud, Department of Agriculture for Scotland—all these things. In this way, you can see the profitability or otherwise of the operation and, thereby, measure its results in an intelligent manner.

Mr. SPENCER: Has the Queen's Printer set up an item for the plant?

Mr. HENDERSON: Not thus far. He has not gone as far as we would hope, but, at least, it is a start.

Mr. MORTON: I have two questions. I presume that the type of operation is confined to the type as set out in section 138—not in every department, but in the type of departments as you have set out here.

Mr. HENDERSON: That is right. They are not crown corporations as we know them. However, they are similar. They are engaged in commercial activities and collecting revenues. We should have some yardstick to measure the results.

Mr. MORTON: Has any consideration been given to the cost of the staff required to obtain this information from the various departments together with the time put in by the departments in bringing out the result you want?

Mr. HENDERSON: I would regard that as not a serious impediment at all. Here, we have the Queen's Printer doing it. Mr. Baldwin's department has been seeking to achieve this in connection with the operation of airports. There are only six or seven, and I would not expect to see any extra help engaged in this regard. They have the information there and, with their present staff, it is largely a matter of rearrangement.

Mr. MORTON: I have a more technical question, perhaps, in regard to depreciation of buildings and the form of depreciation. Some public buildings are built more elaborately than others. Would that be taken into consideration?

Mr. HENDERSON: Well, this depends on whether buildings are a factor in this case of these agencies. As we already know from our discussions in Mr. Spencer's subcommittee, and more recently, in Mr. Smith's subcommittee, the secretary of the treasury board and the comptroller of the treasury are seeking to obtain the estimated costs in order that they might at least be shown for informational purposes in the estimates. It may well be that we will not be able to reflect the matters as accurately as we would like in the first two or three years. But, we will get it set up and, after a short time, we hope to straighten this out.

Mr. MORTON: I have in mind particularly the printing bureau. It would be quite unfair, in your appreciation of the costs of that building to equalize that to the cost of a normal building.

Mr. HENDERSON: If the principle of what we are seeking to achieve were approved, it would lead to discussion of these individual cases. In the case of the printing bureau, I think you would approach it by seeking to ascertain the functional cost and start from there. We would have to carry some footnote for these to make it complete, but at least we would know a great deal more about them than we know now.

Mr. WINCH: Mr. Chairman, I hope this committee is going to meet again.

The CHAIRMAN: Certainly; we will meet anytime.

Mr. WINCH: I think Mr. Henderson has some very important matters at page 63 and onward. We could perhaps resolve them tonight, but there is one matter which I have not mentioned. It is a matter which to my knowledge

never has been raised in the seven or eight years I have been a member of the public accounts committee and which I think should be discussed by the public accounts committee. I was hoping that perhaps at our meeting now we might at least get some interim investigation into it, or at least have a statement from Mr. Henderson. After going through the Auditor General's report, the only place where I could possibly raise this appears to be at the bottom of page 63 and onward.

By legislation the treasury of Canada is paying out hundreds of millions of dollars directly or indirectly in subsidies to railways, agriculture, wheat farmers, the coal industry, gold, ships and everything. I have never yet seen a breakdown in anyway whatsoever as to the Auditor General making a report on the terrific amount of money paid out by governments in subsidies. Does the Auditor General—I do not think he does—have any examination into what I say must run into hundreds of millions of dollars paid out of the treasury? This is a question which I have been waiting to ask for a long time. I was hoping that at this meeting of the public accounts committee we might be able to go into this matter and receive a report on it from the Auditor General.

Mr. HENDERSON: I have shown it in the report.

Mr. WINCH: Only one phase of it.

Mr. HENDERSON: It is in a special section. If it were headed up as subsidies there would need to be a careful definition of a subsidy.

Mr. WINCH: I am thinking of coal, gold and others.

Mr. HENDERSON: The closest I came to it this year is in appendix 4 on page 81. You will see the major items listed there. It shows the items of expenses compared to the cost for the preceding fiscal year. If you would give me a clear cut definition of what is a subsidy—

Mr. WINCH: This is one thing which has always intrigued me in all my years as a member of the public accounts committee.

Mr. HENDERSON: I think it would be a very interesting exercise to compare Canada's record in that regard with that of some other countries.

Mr. WINCH: Let us take not welfare, but direct or indirect subsidies which come out of the treasury in a year.

Mr. HENDERSON: You would have to settle on a definition first in order not to be unfair. If you take the major items listed in 81, I will give you some; I have them marked here. You have items for contributions, grants, subsidies, and so on, not calculated elsewhere; that is $479 million. These are the standard objects of expenditure categories employed in the public accounts, and we felt we should not go any further than that at this stage. Then we have the pension, superannuation and other benefits totalling $109 million, subsidies and special payments to the provinces—that is $518 million, compared to $467 mfillion last year. Then family allowances; a lot of people call them subsidies.

Mr. WINCH: Do you audit all these payments?

Mr. HENDERSON: Not all the payments, but we do make test checks on the departments administering them.

Mr. WINCH: It is now eight minutes to six, but this is something which I think the committee, if possible, should spend an hour or two on.

Mr. DRYSDALE: Subsidies?

The CHAIRMAN: I would like to say that sometime ago I asked the Auditor General if he could possibly prepare something along that line for me, and that I now have on my desk several pages of details concerning very substantial sums.

Mr. WINCH: Apparently great minds think alike.

Mr. DRYSDALE: That is one way of looking at it, Harold.

The CHAIRMAN: We would welcome you in our party.

Mr. HENDERSON: Comparisons can be quite invidious unless they are brought out in some specific terms.

Mr. WINCH: I would like to have you think this over and decide whether or not we can have a little discussion on the matter, because I think it is most interesting, and perhaps we should bring in a recommendation at some time or other, provided we all come back again about something which ought to be considered or put in the Auditor General's report, because it involves hundreds of millions of dollars.

The CHAIRMAN: I would be glad to show you the statement which I have on my desk now.

Mr. HENDERSON: The chairman asked me if I would make a list of these, and my officers and I did go through the public accounts and attempt to do so, but it became clear, as we proceeded, that the lack of any definition of what we mean by subsidy could prove to be quite unfair in the presentation of that material. So for that reason I suggest it should not be—it would seem to me to be inappropriate to circulate it unless it were done within a clear framework of terms of reference which you would approve as a committee.

Mr. WINCH: But you are the Auditor General.

Mr. HENDERSON: Yes, but I would not like to be in a position of tabling a set of figures which might cause wrong conclusions, or from which you might draw unfair conclusions—I should not say wrong conclusions. You give me the terms of reference as to what you would like to have done.

Mr. DRYSDALE: Does it not come down basically to an almost uniform system of accounting? In other words, you as Auditor General set up a cost system or a definition of subsidy, so that you are sure that all these departments would be included under the term "subsidy".

Mr. HENDERSON: I might say that the manner in which the books of the country are kept is a prerogative not of the Auditor General but of the Minister of Finance.

Mr. WINCH: Have you any authority or interpretation to permit you to go beyond this table on page 81?

Mr. HENDERSON: Only to the extent where I find that the accounting procedures followed are not producing a clear and concise statement, or are not resulting in a clear presentation of the figures.

Mr. DRYSDALE: Is there a uniform system of accounting at the present time?

Mr. HENDERSON: I would say yes, with certain qualifications. Actually I think the system of accounting we are following for all the things with which I have to deal in this report for Canada is good. The balance sheet is not a balance sheet in the commercial sense of the word but at least we bring everything out in the form of this statement of assets and liabilities, as indicated by the schedule sheet beginning at page 76. That is why I place the appendices at the end of my report—in order that you might see the major financial statements. To this extent, I think our system places us ahead of some of the other countries I have seen.

Mr. WINCH: Could I put it on some basis, then, of some money which has not yet been spent? This year our estimate is for $10 million on shipbuilding, as a subsidy. Is it not a matter for the Auditor General, when you come to this year's accounts, to report on the amount of moneys spent, your auditing of that subsidy, and whether it falls within all the regulations.

Mr. HENDERSON: It is my responsibility to see that it is spent in the manner that parliament has voted. However, it has been the practice, as you can see from this report, and from the reports of my predecessor—only to report these instances where it is not being spent or administered in accordance with parliament's intentions.

The CHAIRMAN: We come now, gentlemen, to the last paragraphs.

SPECIAL STATUTORY AUDITS AND EXAMINATIONS

149. In addition to the examinations of departmental accounts and the audits of the accounts of various Crown corporations, the following special audits and examinations were made by the Audit Office during the year in accordance with directions contained in various Statutes: Army Benevolent Fund, Canada Council, Exchange Fund Account, National Gallery of Canada, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Royal Canadian Mint stocks and Yukon Territorial Government.

150. *Army Benevolent Fund.* The accounts of this Fund were examined for the year ended March 31, 1960 in accordance with the requirement of Section 11 of the Army Benevolent Fund Act, c.10, R.S., and the relative report was addressed to the Member of the Army Benevolent Fund Board constituted by the Act. The anual report of the Board is required to be laid before Parliament by the Minister of Veterans Affairs.

The receipts of the Fund for the year ended March 31, 1960 amounted to $230,000, comprising $217,000 for interest on the balance on deposit with the Receiver General and $12,000 for interest on investments held for the Fund, together with approximately $1,000 for sundry receipts. The expenditures totalled $548,000, consisting of $480,000 of grants to or on behalf of World War II veterans and $68,000 for service and administrative expenses. The last-mentioned amount was after applying a grant of $18,000 from an appropriation of the Department of Veterans Affairs.

After absorbing the $318,000 excess of disbursements over receipts, the balance at credit of the Fund at the close of the year under review was $6,863,000.

151. *Canada Council.* The accounts and financial transactions of the Canada Coucil were audited for the year ended March 31, 1960, and the relative report was addressed to the Council and to the Prime Minister in accordance with the direction contained in Section 22 of the Canada Council Act, c.3, 1957. The annual report of the Council, containing the audit report, is required to be laid before Parliament under Section 23 of the Act.

Income earned on investments held for the Endowment Fund amounted to $2,856,000 during the year under review. Expenditures totalled $2,929,000, comprising $2,512,000 for authorized grants and awards, $354,000 for administration, $34,000 for outlays made on behalf of the Canadian National Commission for UNESCO and $29,000 for the Canada Council Train. After deducting the $73,000 excess of expenditures over income during the year from an opening balance of $570,000, there remained a surplus of $497,000 available at the year-end for expenditure under Section 16 of the Act.

The following is a summary of the transactions relating to the University Capital Grants Fund for the year ended March 31, 1960:

Balance at April 1, 1959		$ 42,433,000
Add:		
Interest earned on investments	1,967,000	
Less: Net loss on disposal of securities	458,000	
		1,509,000
		43,942,000
Deduct: Authorized grants made Section 9 of the Act.....		9,344,000
Balance at March 31, 1960		$ 34,598,000

152. *Exchange Fund Account.* The amounts of the Exchange Fund for its financial year ended December 31, 1959, were examined pursuant to the requirement of Section 27 of the Currency, Mint and Exchange Fund Act, c.315, R.S., 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 certified that the transactions in connection with the Account for the year ended December 31, 1959 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the Account at the year-end. Section 26 of the Act requires that the Minister of Finance report annually to Parliament on the operations of the Account.

The following is a summary of the transactions of the Exchange Fund Account for its financial year ended December 31, 1959:

Balance at January 1, 1959.....		$ 2,010,125,000
Deduct:		
Paid into the Consolidated Revenue Fund in respect of 1958 earnings .....$	18,625,000	
Repayment of advances (net) ..	47,500,000	
		66,125,000
		1,944,000,000
Add:		
Earnings on investments for the year ended December 31, 1959 (to be paid into the Consolidated Revenue Fund)		25,513,000
Balance at December 31, 1959..		$ 1,969,513,000

153. *National Gallery of Canada.* The accounts and financial statements of the Gallery for the year ended March 31, 1960 were examined in accordance with the requirement of Section 9 of the National Gallery Act, c.186, R.S. The annual report of the Board of Trustees, including the Auditor General's report, is required to be laid before Parliament by the Minister of Citizenship and Immigration.

The expenditures of the Gallery are largeley met from annual parliamentary appropriations provided for the purpose. However, there is provision

in the Act for a Special Operating Account to which may be credited money received by the Board of Trustees by way of donation, bequest or revenue, and out of which expenditures may be made additional to those paid from appropriations. There is also an account called the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for the purpose of acquiring works of art, and to which are charged expenditures for the acquisition of such works.

The expenditures of the Gallery for the year under review totalled $751,000, of which $739,000 was provided from parliamentary appropriations, $10,000 from the Special Operating Account and $2,000 from the National Gallery Purchase Account. These expenditures comprised $723,000 for operating expenses, $27,000 for purchases of works of art, and $1,000 for expenditures from trust funds.

Revenue amounting to $27,000 consisting of sales of $17,000, fees of $8,000 and miscellaneous receipts of $2,000 was credited to the Special Operating Account, which had a balance of $31,000 at the year-end.

154. *Public Printing and Stationery stores.* Section 34 of the Public Printing and Stationery Act, c. 226, R.S., 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 the year under review, tests were made to establish that the controls exercised by the department with respect to stores were operating satisfactorily. In addition, we participated in the annual physical stocktaking made by departmental personnel. A report on the examination was addressed to the Secretary of State.

The stocks of stationery, printing materials and supplies held by the department at March 31, 1960 amounted to $2,571,000, including: supplies, $711,000; typewriter and office machine parts, $109,000; and miscellaneous items, $29,000 (on charge to the Stationery Branch), and: paper, $470,000; work in process, $333,000; printing and maintenance supplies, $513,000 field unit stock, $343,000; and miscellaneous items, $63,000 (on charge to the Printing Branch).

155. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* This Fund was established on July 8, 1959 by the Queen Elizabeth II Canadian Research Fund Act, c.33, 1959, and the accounts of the Fund were audited in accordance with Section 14 of the Act. Section 15 requires that the annual report of the Board of Trustees, including the Auditor General's report, be laid before Parliament by the Prime Minister.

As provided by Section 4 of the Act, a sum of $1,000,000 was paid into the Fund by the Minister of Finance. Interest earned on investments totalling $14,000 and gifts by the public amounting to $3,487 were received and credited to the Fund during the period ended March 31, 1960. After providing $29,000 for awards authorized under Section 3 of the Act, a balance of $988,000 remained at the credit of the Fund at March 31, 1960.

156. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenues and expenditures are accordingly audited as part of the departmental revenues and expenditures. However, Section 20 of the Currency, Mint and Exchange Fund Act, c.315, R.S., 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 during the year under review and a report thereon is being addressed to the Minister of Finance.

The stocks of bullion and metals at cost, and coin at face value, held by the Mint at March 31, 1960 amounted to $11,503,000, comprising: gold, $4,393,000; silver, $6,622,000; nickel, $193,000; bronze, $290,000; and steel $5,000.

157. *Yukon Territorial Government.* The accounts relating to the receipt and expenditure of Yukon Territorial Funds and to expenditures from parliamentary appropriations for the Territory were examined for the year ended March 31, 1960 in accordance with the requirement of Section 26 of the Yukon Act, c. 53, 1952-53. An audit report is being addressed to the Commissioner in Council of the Yukon Territory, with a copy being forwarded to the Minister of Northern Affairs and National Resources, in accordance with established practice.

The revenues of the Yukon Territorial Government for the year ended March 31, 1960 totalled $2,456,000, including: liquor profits, $808,000; tax revenue, $535,000; federal subsidies and grants, $458,000; school attendance fees, $194,000; and licence revenues, $171,000. Net expenditures, after offsetting recoveries, totalled $2,671,000, including: projects classed as "capital", $902,000; education, $632,000; health and welfare, $343,000; roads, bridges and public works, $328,000; and municipal and town administration, $206,000. The excess of expenditures over revenues for the year was $215,000. Loans payable to the Government of Canada at March 31, 1960 amounted to $2,281,000, a decrease of $106,000 in the year.

Mr. HENDERSON: May I draw your attention to paragraph 149, a summary of transactions for the year?

Paragraph 149 to the end of the report has to do with the special statutory audits and examinations in connection wth the army benevolent fund; the Canada Council, which you have examined; the exchange fund account, on which we have had some discussion; the National Gallery of Canada; public printing and stationery; the Queen Elizabeth II Canadian fund to aid in research on the diseases of children; the Royal Canadian Mint stocks and the Yukon Territorial government.

Mr. BEECH: Are we meeting tomorrow morning?

The CHAIRMAN: It depends entirely on the committee. We are just about through, Mr. Beech. We have a matter of Mr. Winch's which we cannot conclude by tomorrow morning.

Mr. HENDERSON: If I could return to paragraph 145, where we speak of the board of grain commissioners, you will notice that in the last sub-paragraph of 145, at page 68, that I suggest that further consideration might be given to the advisability of revising the tariff of fees payable for services rendered by the board, with a view to closing the gap between the cost of the services and the fees charged.

Mr. WINCH: Was that not in the report last year?

Mr. HENDERSON: I do not think this was in last year's report, Mr. Winch. This was under the departmental operating trading activities. I felt you should know the statements that we have now which indicate a need for closing this gap. However, decision to close it is a matter of policy.

The CHAIRMAN: Do you mean the fees are way under the cost?

Mr. HENDERSON: The figures appear to indicate that.

The CHAIRMAN: That applies to the post office as well. However, we have our report from the commission, so perhaps it will be fixed up. Is there anything further, gentlemen? If not, will you leave it in the hands of the steering committee as to when the next meeting will be called. We are unable to call it until we get this miscellaneous information in our hands and decide on this question of principle.

Mr. BEECH: We will ignore, then, the notice of the meeting we got in the mail today?

The CHAIRMAN: Yes.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS

No. 20

(Reprinted)

Public Accounts—Volumes I-II—1960

Report of the Auditor General to the House of Commons—1960

Report of the Canada Council—1960

THURSDAY, JUNE 29, 1961

FRIDAY, JUNE 30, 1961

INCLUDING FIFTH REPORT TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25585-1—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. A. D. Hales

and Messrs.

Beech	Grenier	Pigeon
Bell (*Carleton*)	Hanbidge	Pratt
Benidickson	Hellyer	Robichaud
Bissonnette	Keays	Rouleau
Bourbonnais	Lahaye	Smith (*Lincoln*)
Bourget	Macdonnell	Smith (*Simcoe North*)
Brassard (*Chicoutimi*)	McGee	Smith (*Winnipeg North*)
Broome	McGrath	Spencer
Bruchési	McGregor	Stefanson
Campeau	McMillan	Stewart
Danforth	Morissette	Tucker
Denis	Morton	Valade
Deschatelets	Muir (*Lisgar*)	Villenueve
Drysdale	Murphy	Winch
Dupuis	Noble	Woolliams
Fisher	Nugent	Wratten—50.

(Quorum 10)

J. E. O'Connor,
Clerk of the Committee.

CORRECTIONS

Minutes of Proceedings and Evidence No. 18
Wednesday, June 14, 1961.

page 518—line 23; should read

"The superannuation account is an account in the consolidated revenue fund."

line 26; should read

"and the matching contributions of the employers"

page 520—line 1; should read

"These cases are in the context of a total of about 30,000 to 35,000 annuities."

REPORT TO THE HOUSE

SATURDAY, July 1, 1961.

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

FIFTH REPORT

1. On Friday, December 2, 1960, your Committee was constituted by an Order of the House of Commons, and on Wednesday, February 15, 1961, the House passed the following resolutions:

Ordered—That the Report of the Canada Council for the fiscal year ended March 31, 1960, laid before the House on July 3, 1960, 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 and II, and the Report of the Auditor General for the fiscal year ended March 31, 1960, and the financial statements of the Canada Council and the Report of the Auditor General thereon for the fiscal year ended March 31, 1960, be referred to the Standing Committee on Public Accounts.

2. Your Committee held its organization meeting on Wednesday, February 1, 1961, and unanimously elected as Chairman for the fourth year, Mr. Alan Macnaughton, a member of Her Majesty's Loyal Opposition. Mr. A. D. Hales was elected Vice-chairman. At the next following meeting, on Wednesday, February 22, 1961, the Chairman announced the composition of the subcommittee on agenda and procedure as follows: Messrs. A. D. Hales, Gordon Chown, Emilien Morissette, Hon. J. W. Pickersgill, R. D. C. Stewart and Harold E. Winch.

3. Your Committee held 24 meetings, in the course of which there were in attendance:

from the Auditor General's Office:

Mr. A. Maxwell Henderson, Auditor General
Mr. Ian Stevenson, Assistant Auditor General
Mr. J. R. Douglas
Mr. G. R. Long
Mr. B. A. Millar
Mr. G. A. Morrison
Mr. D. A. Smith
Mr. A. B. Stokes, Audit Supervisors

from the Canada Council:

Dr. Claude Bissell, Chairman
Dr. A. W. Trueman, Director
Mr. Eugene Bussiere, Associate Director
Mr. Douglas Fullerton, Treasurer
Mr. P. M. Dwyer, Supervisor of Arts Program
Miss L. Breen, Secretary

25585-1—1½

from Polymer Corporation Limited:

Mr. E. R. Rowzee, President and Managing Director
Mr. R. W. Todgham, Director
Mr. Stanley Wilk, Vice-President—Finance
Mr. J. R. Millar, Assistant to the President

from government departments,

Mr. S. C. Barry, Deputy Minister of Agriculture
Mr. D. A. Golden, Deputy Minister of Defence Production
Mr. G. W. Hunter, Assistant Deputy Minister of Defence Production
Mr. E. B. Armstrong, Deputy Minister of National Defence
Mr. G. A. Boyle, Deputy Postmaster General
Mr. J. A. MacDonald, Director, Financial Branch, of the Post Office Department
Major General H. A. Young, Deputy Minister of Public Works
Mr. J. R. Baldwin, Deputy Minister of Transport
Mr. Lucien Lalonde, Deputy Minister of Veterans Affairs
Mr. L. A. Mutch, Deputy Chairman of the Canadian Pension Commission
Honourable S. H. S. Hughes, Q.C., Chairman of the Civil Service Commission
Miss Ruth Addison, Commissioner
Mr. Paul Pelletier, Commissioner
Mr. H. O. Moran, Director General of External Aid
Mr. Robert Bryce, Clerk of the Privy Council
Mr. K. W. Taylor, Deputy Minister of Finance
Mr. H. R. Balls, Comptroller of the Treasury
Mr. G. G. E. Steele, Assistant Deputy Minister and Secretary of the Treasury Board
Mr. J. A. MacDonald, Assistant Secretary, Treasury Board
Mr. C. A. L. Murchison, Commissioner, Unemployment Insurance Commission
Mr. James McGregor, Director, Unemployment Insurance and
Mr. R. Humphrys, Assistant Superintendent Department of Insurance and Consulting Actuary, Unemployment Insurance Fund

4. In the course of its meeting 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 Third Report, 1960;

(*b*) the report of the Auditor General for the fiscal year ended March 31, 1960;

(*c*) the operations of the Canada Council;

(*d*) the operations of Polymer Corporation Limited.

ACTION TAKEN BY DEPARTMENTS AND OTHER AGENCIES AS A RESULT OF RECOMMENDATIONS MADE BY THE COMMITTEE IN ITS THIRD REPORT, 1960

A memorandum was filed with the Committee by the Auditor General on February 22, 1961 (Minutes of Proceedings and Evidence, pages 27 to 33) reporting upon the action that had been taken by departments and other agencies in this regard, and various administrative officers were examined by the Committee.

The Form of the Public Accounts

5. A subcommittee was appointed on March 1, 1961, under the chairmanship of Mr. N. L. Spencer, to review the form and contents of the Public Accounts and to confer with the Comptroller of the Treasury and the Auditor General.

6. The subcommittee submitted its report on April 12, 1961 (Minutes of Proceedings and Evidence, pages 166 to 171). On April 19, 1961, the subcommittee's report was considered by the Committee and formed the basis of its Second Report to the House. This report which was tabled in the House of Commons on April 19, 1961 is reproduced in the Minutes of Proceedings and Evidence (pages 207 to 212). It was unanimously adopted by the House on April 26, 1961.

Second Class Mail

7. The Committee noted in its Third Report, 1960, that it had been informed that the handling of second class mail had been estimated by the Post Office Department as having cost $28 million in 1958-59 (up $4 million from 1956-57) while revenues were $6 million (the same as in 1956-57), and while "having in mind the desirability of continuing to assist the distribution of Canadian publications" it recommended that the department "review the problem to the end that a more realistic policy be adopted".

8. The Committee was informed by the Deputy Postmaster General that note had been taken of the recommendation and the question of increased postal rates had been raised with the Postmaster General. However, the Royal Commission on Publications having by then begun its studies, which it was thought might include a study of postal rates, the Minister had decided that the Department should await the Commission's report to see what their recommendations to the government would be before changes in legislation were proposed. The Committee notes that the recent report of the Commission included a recommendation with respect to postal rates and recommends, that the Department give active consideration to the matter.

Treatment of Receipts for Services Rendered

9. In its Third Report, 1960, the Committee stated that in its view the proposition that appropriations be voted on a net basis, and that Estimates Details show gross estimated requirements, less forecast revenues, should be seriously considered. This matter was among those studied by a subcommittee appointed on May 16, 1961, under the chairmanship of Mr. H. E. Smith, to consider the form of the Estimates.

Interest on Temporary Investment of University Grants Fund

10. The Committee's Third Report, 1960, noted that income earned on funds invested by the National Conference of Canadian Universities, between the date of receipt of funds from the Minister of Finance and the date of the payment of grants to universities, had been retained by the Conference, and the Committee had enquired whether, since the agreement made no provision for the disposition of investment income, the income mentioned should not have been returned by the Conference to the Receiver General.

11. The Deputy Minister of Finance advised the Committee that, shortly after its report had been tabled in the House in July 1960, the point had been drawn to the attention of the Canadian Universities Foundation, the successor to the National Conference of Canadian Universities, and that the law officers of the Crown had also been asked for an opinion. The opinion of the law officers was that, on balance, the money ought to be returned to the Receiver General. A formal demand was then made to the Canadian Universities Foun-

dation, requesting the return of approximately $109,000. However, the Canadian Universities Foundation had, in its reply, put forward further facts and views and the Committee was informed that the matter had again been referred to the law officers for a further opinion.

12. The Committee, taking note of this situation, requests the Deputy Minister of Finance to report to it next year on the situation that may then exist with respect to this matter.

Superannuation Account

13. In its Third Report, 1960, the Committee referred to the $139 million which was included in the balance shown at the credit of the Superannuation Account at March 31, 1959, as a result of a bookkeeping entry made a number of years ago. The report stated that the Committee had noted that this bookkeeping entry had been made without parliamentary authority, and the opinion was expressed that "credits to the account should be limited to amounts provided under the Public Service Superannuation Act or by parliamentary appropriations".

14. The Deputy Minister of Finance filed with the Committee an opinion that had been given by the Deputy Attorney General regarding the authority for the manner in which the Superannuation Account is presented in the Public Accounts. This opinion referred to section 63 of the Financial Administration Act, which 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. The opinion concluded with the observation that "whether the statements appearing in the Public Accounts constitute sufficient compliance with the Financial Administration Act is a matter upon which the opinion of the Minister of Finance is the governing factor".

15. The way in which the balance of the Public Service Superannuation Account is recorded in the Public Accounts was dealt with again in paragraphs 100 and 107 of the Auditor General's Report for 1959-60. When these paragraphs were under consideration by the Committee the Auditor General stated that, without questioning the foregoing legal opinion of the authority conferred upon the Minister by section 63, he would point out that its effect was to leave the Department of Finance free to reflect any liability at whatever amount it might choose. He therefore felt obliged to include a comment in his annual report to the House of Commons whenever an item had been included in the Statement of Assets and Liabilities in a manner which, in his opinion, lacked conformity with accepted accounting principles having regard for specific statutory requirements.

Permanent Services Pension Account

16. The same considerations are associated with the way in which the balance at credit of this account is recorded in the Statement of Assets and Liabilities, as in the case of the Superannuation Account discussed in the preceding paragraphs.

Crown Assets Disposal Corporation

17. In its Third Report, 1960, the Committee made reference to a report dated December 11, 1959, of Price Waterhouse & Co., containing 57 recommendations designed to improve the efficiency of the Corporation and result in gross savings estimated to total $80,600—and the Committee recommended that the President of the Corporation and the management consultants should meet with the Auditor General "to determine the validity of the various

recommendations and to implement those recommendations decided upon". The Committee also recommended that "consideration be given by the government as to whether the function of disposing of surplus Crown assets could be more efficiently performed by a division of the Department of Defence Production".

18. The Auditor General informed the Committee that he had had discussions with the President of the Corporation and with the management consultants along the lines suggested by the Committee and as a result 45 of the original recommendations were agreed to and had been adopted; one was under trial; one was no longer applicable; and ten were set aside as unsuited to the Corporation's purposes. A schedule prepared by the management consultants which showed revised estimated savings at $33,950 was filed with the Committee (Minutes of Proceedings and Evidence, pages 35 and 36) and the Committee express the hope that the results of these savings will be reflected in the accounts for 1960-61 and subsequent years.

19. The Deputy Minister of Defence Production, on being questioned as to whether the disposal of Crown assets could be more efficiently performed by a division of the Department of Defence Production, stated that the matter was undecided. He mentioned it as his understanding that this is one of the matters which the Royal Commission on Government Organization is considering. The Committee will watch with particular interest the result of the Commission's enquiry into this matter.

The Canada Council

20. The Committee noted in its Third Report, 1960, that it had been informed that profits and interest earned by the University Capital Grants Fund had not been allocated to the provinces or to the universities. It expressed the view that decision should be reached on the question of this allocation without further delay. This matter was among those considered by the Committee when officers of the Canada Council appeared before it as witnesses on April 12, 18 and 25, 1961 (see paragraphs 91 to 93).

AUDITOR GENERAL'S REPORT, 1959-60

21. Your Committee considered, paragraph by paragraph, the Auditor General's Report for the year ended March 31, 1960, and was provided with all the information and explanations required. As a result of this consideration, the Committee makes the following comments and recommendations:

The audit approach (Paras. 6-9)

22. The Committee received an explanation from the Auditor General regarding the basis upon which the audit examinations were conducted during the year and noted that the Audit Office is developing what may be termed the comprehensive audit approach.

The Committee noted also that detailed reports were being addressed to the heads of departments, Crown corporations and other agencies covering the results of the audit examinations, outlining the scope of the audit, analysing the financial results in comparison with those of previous years and making available to the management comments and suggestions regarding internal control, savings that might be achieved and other matters noted during the course of the audit.

23. While realizing that the Auditor General's prime responsibility is to the House of Commons the Committee feels that the Audit Office is to be commended for approaching its work and reporting upon the results in the manner outlined above.

Form of the Estimates (Paras. 15 and 16)

24. A subcommittee was appointed on May 16, 1961, under the chairmanship of Mr. H. E. Smith, to confer with officers of the Treasury Board and the Auditor General and review the form of the Estimates. The subcommittee submitted its report on June 14, 1961 (Minutes and Proceedings and Evidence, pages 511 to 514). Based upon this report, the Committee made its Fourth Report, tabled in the House of Commons on June 20, 1961.

Prairie Farm Emergency Fund deficit (Para. 41)

25. The Committee gave consideration to the comment by the Auditor General that the deficit of $12,529,000 which had resulted from the Fund's operations in 1959-60 was again charged to expenditure notwithstanding a "lack of specific parliamentary authority". The Comptroller of the Treasury gave evidence on this point and presented an opinion from the Solicitor to the Treasury and that there was authority for making the charge. The opinion included: "having in mind the provisions of the Prairie Farm Assistance Act, particularly section 11 which contains an appropriation of Parliament, and the provisions of the Financial Administration Act, particularly those provisions relating to the accounts of Canada, I am of opinion, with respect to the above question, that nothing further is required from Parliament in order to charge the advance as a budgetary expenditure in the year in which the advance is made".

26. The Auditor General was invited to file a statement enlarging on his view. In this, he expressed it as his opinion that subsection (8) of section 11 of the Prairie Farm Assistance Act simply authorizes the Minister of Finance to make advances to the Fund to the extent that may be required when the receipts credited to the Fund are insufficient to cover the payments charged against it—but that when repayment of an advance could not be made out of subsequent receipts, specific parliamentary authority is required to write off the amount of the advance as a charge to expenditure.

27. The Committee, having regard for the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, recommends,

> that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund.

Delay in accounting for counterpart funds (Para. 44)

28. The Committee noted the comment in the Report that audit certificates had not yet been furnished by the Auditors General of the recipient countries, as required by the various agreements, with respect to counterpart funds established in respect of many millions of dollars worth of commodities shipped in previous year extending back to 1954-55.

29. The Committee recommends,

> 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, and requests the Auditor General to report on the results in due course.

Expenditure charges to adjust insurance account balances (Para .45)

30. The Committee noted the Auditor General's comment that in the absence of interest credits to the accounts for the Civil Service Insurance Fund, Returned Soldiers Insurance Fund, and Veterans Insurance Fund, the

estimated actuarial deficits which arise in the accounts are made good by means of annual bookkeeping charges to expenditure, with the charges being reported as special "statutory" items in the Public Accounts, although "in no case does the governing legislation contain provision for the making of such charges".

31. The Comptroller of the Treasury was invited to comment on this matter and stated that the Solicitor to the Treasury had been asked whether or not, in the case of the Civil Service Insurance Fund, an amendment to the governing Act or an item in the Estimates would be necessary or if a regulation issued under section 18 of the Act would be sufficient to make the entries. The Comptroller presented an opinion from the Solicitor that "the Governor in Council could authorize a bookkeeping entry to be made from time to time, crediting the account with the amount necessary to make the balance in the account equal to the estimated liability, under the authority of paragraph (*f*) of section 18 of the Civil Service Insurance Act".

32. The Auditor General was invited to file a statement enlarging on his view. In his statement he quoted paragraph (*f*) of section 18 of the Civil Service Insurance Act, as follows:

> The Governor in Council may, for the purposes of this Act, from time to time make regulations for
>
> (*f*) prescribing the accounts to be kept and their management.

and expressed it as his view that this was simply a general provision—not a clear-cut authority to write up an understated liability by charging expenditure.

33. The Committee recommends,

> that the Minister of Finance give further consideration to the appropriateness of the existing statutory authority.

Proceeds of fines not accounted for (Para. 46)

34. The Report stated that it had been observed that records of the Department of Fisheries indicated that a former magistrate had failed to remit fines totalling approximately $2,400, imposed and collected by him during the years 1956 to 1958 for offences under the Fisheries Act and regulations made thereunder. When the matter was under consideration by the Committee the Auditor General stated that he had written to the Minister of Finance and he, in turn, had written to the Minister of Fisheries with the result that the Department of Justice had been requested to take legal action to recover the amount outstanding. The Department of Justice was understood to have prepared the necessary documents for the filing of the information in the Exchequer Court.

35. The Committee requests that the Deputy Minister of Fisheries report to next year's Committee on the then current situation with respect to this matter.

Construction cost of house at R.C.A.F. Station (Para. 48)

36. The Report explained that, early in 1958, Treasury Board approval had been obtained by the Department of National Defence for the construction of a house for the use of a senior R.C.A.F. officer at a cost of $25,000, plus $9,950 for utilities and landscaping; and that when the project was completed during 1959-60 an analysis of the cost records by the Department's chief auditor indicated that the cost actually incurred had been $56,716 plus $22,915 for utilities and landscaping.

37. The Committee examined the Deputy Minister of National Defence at length in connection with this matter and was informed that the authority given by the Treasury Board was intended to cover construction of the house

at a cost of $25,000 exclusive of departmental supervision and the normal use of service equipment. However, the Department's construction and maintenance unit had misinterpreted the directions given it and cost incurred for service labour and for materials supplied from stores were not regarded as included within the approved limit. It was explained to the Committee that the function of the construction and maintenance unit was to carry out emergency construction work particularly in the north country, and that accordingly standard cost accounting controls that are applied in other construction units were not applied. The Committee was also informed that the functions of the unit had been re-examined and the established strength considerably reduced.

38. The Committee felt that some of the expenses that had been incurred, including the cost of transporting 18 men by air from Calgary to Montreal were beyond reason and it was accordingly pleased to be informed by the Deputy Minister that this had been the only house that had ever been built by the construction and maintenance unit and that there was no intention of having them build another.

39. The Committee recommends,

> that when authorization is given by the Treasury Board for a project to cost a stated estimated amount, it should be clearly understood by all concerned that the amount authorized is intended to include not only cash outlays but also the cost of service labour, materials supplied from stores, service equipment utilized and departmental supervision directly associated with the work—and departmental submissions to Treasury Board should clearly indicate that all such costs have been included in the estimate.

Non-recovery of expenses incurred in lending Crown-owned property (Para. 49)

40. The Committee noted that, to the extent of $4,925, expenses that had been incurred by the Department of National Defence in connection with an informal arrangement to lend landing barges to the Canadian National Exhibition Association had not been recovered from the Association which had, however settled a previous billing for other expenses that had been incurred.

41. The Deputy Minister of National Defence explained to the Committee that, following a discussion with the President of the Association a re-examination had been made of the detailed items in the bill and that he had written the President informing him of the result. Although payment had not yet been received, he was hopeful that the matter would be settled without difficulty.

42. The Committee requests that the Deputy Minister of National Defence report to next year's Committee regarding the final result of the matter. The Committee recommends,

> that where public property is being loaned to private organizations or individuals, there be a formal written agreement setting forth the terms under which the loan is being made.

Medical expenses incurred for accidental injuries suffered by a deserter (Para. 50)

43. In the course of its consideration of this item in the Auditor General's Report, the Committee noted that the Navy carries deserters on strength indefinitely, whereas the practice has been followed by the Army and the Air Force of striking personnel off strength automatically after their desertion, thereby avoiding financial responsibility for medical expenses that might afterwards be incurred. The Committee was glad to be informed by the Deputy

Minister of National Defence that regulations have since been revised and that the three services now have a common practice of striking a man off strength six months after his desertion.

Subsidization of medical student officers (Para. 51)

44. The Committee gave consideration to the question of officers who had received subsidized education during their final years of study in medical courses and who were released from the service at their own request before they had completed the agreed three years' service period after being licensed to practice.

45. The Committee recommends,

> that the recovery of the cost of subsidization should be in cash unless the circumstances are exceptional. In such circumstances, the period of payment should not extend beyond three years. The Committee is also of the opinion that when an officer is released under an instalment payment arrangement, any amount of deferred pay that had accumulated to his credit should be applied against the indebtedness.

Unusual exercise of executive discretion in awarding of annuity under Canadian Forces Superannuation Act (Para. 52)

46. Using the case referred to under this heading in the Report, the Committee considered the practice that is followed by the Department of National Defence, with Treasury Board authority, when an officer is released from the service on grounds of inefficiency. The Committee was concerned that under the authority provided by subsection (4) of section 10 of the Act, the Treasury Board has discretionary authority which could have the effect, as in the case reported upon, that a person retired upon grounds of inefficiency could get 95% of his normal pension when, had he retired voluntarily, he would have been entitled to receive only 45%.

47. The Committee recommends,

> that consideration be given to amending the wording of subsection (4) of section 10 of the Canadian Forces Superannuation Act in such a way that in no case should a pension be awarded to a person released on grounds of inefficiency that would be greater than that to which he would have been entitled had he retired voluntarily.

Travelling and removal expenses (Para. 54)

48. The Committee noted the five examples of cases involving unnecessary or excessive costs that had come to the attention in the course of the audit. It was glad to know that all such cases were being drawn to departmental attention promptly by the Auditor General's staff, with the object of achieving recovery where possible, as well as bringing about improvement in the regulations.

Interim allowances for lodgings and meals on transfer (Para. 55)

49. The Committee was glad to note that when the two classes of cases referred to in items 1 and 2 under this heading in the Auditor General's Report had been drawn to the attention of the Department, instructions were issued calling for greater care in future before such reimbursements were made.

50. Consideration was given by the Committee to the case mentioned in item 3, where an officer who had rented his home during a tour of duty outside Canada had been paid interim allowances during a period of 19 days following his return while he had the house repaired and redecorated. In this case the

Department continues to consider that the officer was entitled to the allowance in question. The Committee expresses its disagreement with this view and recommends,

> that in future, expenses incurred under similar circumstances should be treated as personal expenses with no reimbursement being made out of public funds and that the regulations be clarified accordingly.

Reimbursement to servicemen for lease termination payments (Para. 56)

51. The Committee is concerned at the large amount—approximately $500,000—that is spent annually by the Department of National Defence in reimbursing, in amounts of up to three months' rent, members of the Forces who are required to terminate their leases for housing accommodation.

52. The Committee was informed that, although the circumstances might not be identical, the lease form used by officers af the R.C.M.P. provides for only a 30-day termination clause. Having this in mind, and believing that the situation with regard to rental accommodation has improved significantly in recent years, the Committee recommends,

> that the maximum period with respect to which reimbursement be made to members of the Forces, in the circumstances mentioned, be reduced to the equivalent of one month's rent in future.

53. With reference to the subject matter of all the paragraphs contained in the Auditor General's Report bearing on the Department of National Defence, the Committee has the following observation: On the basis of its experience in prior years with armed forces expenditures, and on the basis of the evidence given at this year's meetings, the Committee has noted with concern the continuing tendency on the part of some branches of the armed services toward incurring ill considered and wasteful expenditures. Notwithstanding the frank and helpful testimony given by the Deputy Minister of National Defence, the Committee recommends,

> that the Minister of National Defence enquire into this situation with a view to assuring that there is an appropriate improvement in administrative regulations and procedures.

Determination of "sale price" for sale tax purposes (Para. 59)

54. This paragraph of the Auditor General's Report refers to the long-established administrative practice of computing sales tax on less than the actual sale price when goods are sold by manufacturers directly to retailers or consumers, and by wholesalers directly to consumers.

55. In the course of its consideration of this situation the Committee was provided with a memorandum by the Auditor General. In this, the Auditor General quoted from: (i) paragraph 22 of the Auditor General's Report for 1945-46, (ii) the Minister of Finance's budget speech of April 5, 1955, and (iii) the report of an advisory committee to the Minister of Finance and the advisory committee, as well as the former Auditor General, that the authority provided by the Act, and relied upon for the practice referred to above, was not adequate for the purpose.

56. The Committee does not suggest that the Department be required to change its long-established practice but it recommends,

> that the existing method of valuation be provided with statutory sanction.

Inadequate settlement re damages to wharf (Para. 65)

57. The Committee noted that in the case reported upon under this heading, a settlement had been accepted from the private company concerned on a basis which took into consideration the extent to which the wharf was regarded as having depreciated. However, the Committee was informed by the Deputy Minister of Public Works that the repairs were of such a nature as to have the effect of extending the useful life of the wharf, and the Committee agreed with his view that this justified the acceptance of a settlement in an amount less than the full cost of restoring the damaged wharf. The Committee was glad to be assured by the Deputy Minister that in all cases of damage to public property the Department does its best to recover the full cost of the repairs.

Contracts with Colombo Plan experts (Para. 68)

58. The Committee recognizes the administrative difficulties which must arise in settling the remuneration of Colombo Plan experts, in particular the present practice of establishing their fees on the assumption that the income therefrom will be subject to tax, and then seeking to recover portions of the fees in those instances where the income is not subject to tax.

59. The Committee recommends,

> that consideration be given to revising the persent practice to one under which lower fees would be paid to the experts in the first instance on the assumption that income tax would ordinarily not have to be paid by them, and reimbursement would be made in a case where it transpires that the expert does in fact have to pay income tax.

Questionable charges for aids to navigation (Para. 71)

60. This paragraph in the Auditor General's Report raises the question of whether expenditures incurred by the Department of Transport for the construction or acquisition of aids to navigation to define the boundaries of the deeper water navigation sections of the Canadian portion of the St. Lawrence Seaway, should have been included among costs to be recovered by the St. Lawrence Seaway Authority, through tolls, instead of being charged to the appropriation for "aids to navigation".

61. The Committee was informed by the Deputy Minister of Transport that the problem had been under consideration ever since the Seaway was built, and that the departmental legal staff had advised that argument could be made both for and against bringing the expenditures in question under the Seaway Act. He explained that the matter had accordingly been placed before the Treasury Board who had suggested that the Department continue to provide the aids but record them in a separate account.

Awards under the Pension Act (Para. 72)

62. Under this heading in the Auditor General's Report attention was drawn to several classes of cases where it appeared that unusual administrative practices had developed. The Deputy Chairman of the Canadian Pension Commission was examined with respect to these, and after considering explanations provided the Committee recommends,

> (*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 sub-paragraph 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).

Extinguishment of debt due to the Crown for overpayment of allowance (Para. 75)

63. The Committee noted that in the case mentioned in this paragraph of the Report, a full and unequivocal discharge had been given to the widow of a War Veterans Allowance recipient, and to her heirs, executors and administrators, by the Department of Veterans Affairs, in accepting a compromise settlement offer of $3,000 in respect of a debt due to the Crown of $12,469.

64. The Committee expresses it as its view that a discharge of such a nature should not be given by any department except when specific authority has been given to that end by means of a special appropriation or by mention in a general appropriation, and only after approval of the settlement by the Department of Justice has been obtained.

Payments to Civil Servants additional to Salary (Para. 76)

65. The question at issue here is whether it is permissible to rely on section 60 of the Civil Service Act to exempt a position from the operation of section 16 of the Act so as to make a payment to a public officer additional to his salary. A member of the Civil Service Commission was examined by the Committee with regard to this question and stated that, in the Commission's view, payments of the sort mentioned in paragraph 76 of the Auditor General's Report were in order, having regard for an opinion rendered to the Commission by the Deputy Minister of Justice on March 23, 1948.

66. In view of the fact that thirteen years have elapsed since the opinion referred to in the preceding paragraph was given, the Committee recommends,

> that the Civil Service Commission request another ruling from the Deputy Minister of Justice, unless it transpires that the new Civil Service Act clarifies the situation.

Unauthorized salary payments beyond retirement age (Para. 78)

67. Under this heading in the Report of the Auditor General preference is made to the practice of setting up as receivable, amounts equivalent to the salaries earned by employees during periods when they had been employed beyond retirement age without due authority, and later deleting the balances from the accounts as "uncollectible".

68. Authority has now been provided by Parliament to the Governor in Council, by means of a dollar vote (Vote 686) in supplementary estimates (5) of 1960-61, to regularize employment during periods of unauthorized employment, and this will render unnecessary in future the illogical practice previously followed. The Committee recommends,

> that consideration be given to requiring departments, by regulation, to verify the age of their employees before they near retirement age, and prescribing some form of penalty to be assessed against

employees who have deliberately concealed their age while continuing to work beyond the normal retirement age without appropriate authority.

Unpaid accounts charged to new fiscal year (Para. 80)

69. The Committee received explanations from the Deputy Minister of Transport, the Deputy Minister of Agriculture and the Clerk of the Privy Council regarding the circumstances which resulted in unpaid accounts being charged to the new fiscal year in the three cases listed under this heading in the Auditor General's Report.

70. The Committee, while recognizing that in certain circumstances it is not possible to arrange for supplementary appropriations sufficient to absorb all charges applicable to the fiscal year, nevertheless considers the matter as one of importance, and recommends,

> that every effort be made by departments to seek appropriations in amounts sufficient to absorb charges likely to come in course of payment for goods and services required to be supplied by the fiscal year-end. It requests the Auditor General to continue to report instances involving significant amounts where it has come to his notice that this has not been done, and will expect to be provided with satisfactory explanations by the departments concerned in any such cases.

Non-productive payments (Para. 81)

71. 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.

Losses reported in the Public Accounts (Para. 82)

72. This paragraph of the Auditor General's Report draws attention to the requirement of section 98 of the Financial Administration Act 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". Attention was drawn to the fact that although a supplementary listing was included which listed charges that had been made to the Post Office Guarantee Fund during the year, in respect of losses that had been suffered in previous years, the statement of losses included in the Public Accounts for 1959-60 did not include losses suffered by the Post Office Department during the year.

73. The fact that losses suffered by the Post Office Department during the year were not listed in the public accounts, as in the case of other departments, was considered by the Committee with an officer of the Post Office Department in attendance. The Committee recommends,

> that, in future, statements be included annually in the Public Accounts, listing Post Office losses and showing recoveries effected, in a manner similar to other departments.

Responsibility for loss of public funds (Para. 83)

74. When this paragraph of the Auditor General's Report was under consideration by the Committee, the Auditor General drew attention to the closing sub-paragraph where it was stated as being his understanding that the Department of National Defence had had under consideration amending the regulations to make it plain that an officer or man who has public funds in his custody is responsible to make good any loss that may occur, unless he is able to give a satisfactory explanation of the loss.

75. Such an amendment seeming to be an entirely reasonable one, the Committee recommends,

> that appropriate action be taken by the Department without further delay.

Unusual payment from a special account of Canadian Wheat Board (Para. 84)

76. The Committee received from the Deputy Minister of Agriculture a detailed explanation of the unusual payment of $775,000 from the statutory "Separate Account" of the Board, in settlement of a portion of the loss that had been suffered by an elevator company when one of its elevators collapsed and substantial quantities of wheat, oats and barley were tumbled into Lake Superior. The Committee was glad to learn that the Board of Grain Commissioners is now moving to have all elevators carry all-risk insurance which would include coverage of an eventuality of the kind in question.

Advances to the Exchange Fund Account (Paras. 89 and 106)

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.

Unemployment Insurance Fund (Para. 109)

79. The Committee studied the summary of expenditure and revenue transactions of the Fund as given in paragraph 109 of the Auditor General's Report, and noted the large decrease that had taken place each year in the balance at the credit of the Fund. The Committee had as witnesses a Commissioner of the Unemployment Insurance Commission, Mr. C. A. L. Murchison,

the Director of Unemployment Insurance, Mr. James McGregor, and the Fund's consulting actuary, Mr. R. Humphrys, Assistant Superintendent of the Department of Insurance, and questioned them regarding changes in the Act and regulations, referred to in the paragraph, which had resulted in broadening the coverage given by the Fund and in decreasing the emphasis on insurance principles recognized when it was established.

80. The Committee views with alarm the sharp reduction in the balance at the credit of the Fund, and recommends,

> 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.

In this connection the Committee feels that the following quotations from the evidence (appearing at pages 582-3 and 591) given by the witnesses will be of assistance to the House in gaining an understanding of this problem:

(*a*) on the question of the difficulties involved in dealing with certain classes of recipients—

Mr. MURCHISON: "At one time we had what we called seasonal regulations. Let us take the example of a Great Lakes seaman who when he signs on about the first week in April knows full well he is going to be out of a job come freeze-up sometime early in December. All through the summer he knows that later on he will have a period of idleness—anticipated idleness. It should be clearly understood that unemployment insurance as such was intended to cover only those periods of unemployment which fall upon a person unexpectedly. At that time we had seasonal regulations which, in effect, said that the seaman could not draw benefit during his off-season unless, in the previous two off-seasons, he had shown participation in the labour market. That regulation also applied to logging and lumbering, stevedoring and transportation by water. In 1950, however, when the seasonal benefits were brought into effect, it was found impossible for us to maintain seasonal regulations. So they were revoked. Now a Great Lakes seaman may sail all summer long and return home at the end of the season and draw his benefits throughout the off-season. The same applies to stevedores and other seasonal industries. That is the position we are in in respect of seasonal employment.

Then there is another regulation which we once had; and it concerned married women. I believe this is mentioned in the Auditor General's Report. The regulation was criticized severely from time to time, but it served a very useful purpose in screening out those cases where the female applicant was not really in the labour market and was not looking for work. That regulation however, has been withdrawn and the consequence is married women may draw benefits without having to show too much interest in the world of work.

Briefly, Mr. Chairman and gentlemen, that is the story behind unemployment insurance, and it indicates in very broad terms the reasons why the Fund is in such a serious condition. I suggest to you that if we had not had supplementary or seasonal benefits the fund would still be in a reasonably sound condition.

There is another item mentioned in the Auditor General's Report; that is the payment of pensions to people who have retired from the world of work. At the present time there is nothing to prevent such a person drawing benefits for a period up to seventy-

six weeks—nothing at all to stop him. A locomotive engineer who has served well and faithfully his company for forty or more years. He may on reaching the age of 65, the age of retirement, apply for benefit. He is in good health; he is quite capable of employment. It is impossible for us to get this man a job as a locomotive engineer because he was laid off for the reason that he had reached a certain age. Therefore, that man draws a benefit for a considerable period of this fund. We recognize, however, that there are many people who have been retired on substantial pensions are taking advantage of this fund. We recognize, however, that there are many people who retire on small pensions who should not be dealt with in the same way as those who retire on larger pensions. We have what we call the allowable earnings feature in our act which would take care of such cases."

(*b*) on the wide disparity between contributions received and benefits paid in the cases of certain industries—

Mr. HUMPHRYS: "Personally I do not have the figures, because we do not maintain the accounts. It is drawn to my attention, however, in the Auditor General's report, that the benefits from April 1957 to March 31, 1960, paid out to fishermen amounted to $26,700,000, and that the contributions received from fishermen and their employers, as well as the government, was $2,900,000. That established a loss of about $24 million."

Mr. MURCHISON: "Because we have special contribution stamps for fishermen and in this way we can keep a fairly accurate account on income and outgo for this industry. We have estimates on some of the other industries. They are estimates based on information received from the bureau of statistics who, incidentally, keep our statistics. As I say these are estimates fairly carefully calculated. In 1959 the logging and lumbering industry made contributions of $4,046,952 and in that same year drew $30,289,000. That was a drain on the fund of over $26 million; or, they drew $7.48 for every dollar they contributed. The workers in transportation on inland waters in 1959 contributed $489,600 and drew in benefits of $4,358,000; so there was a loss there of $3,368,000."

(*c*) on the question of the decreasing emphasis on insurance principles in recent years—

Mr. HUMPHRYS: "At the time of the 1955 amendments, the calculations were done again on the basis of the experience which had actually developed under the act as it existed prior to that time. This was important, because in a scheme of unemployment insurance, the claim load depends not only on the rate of employment but also on the rate of claim, so that the rules of the plan are very significant so far as the benefit load is concerned. We had some fifteen years experience under the plan at that time. We used that experience in trying to strike contribution rates for the 1955 plan. As I mentioned earlier, that was based on a recent period of employment and unemployment experience. To that extent it could be said that the plan adopted in 1955 was on an actuarial basis; but it later developed that the actual unemployment experience was very much higher in the years following 1955 than it had been earlier. Also changes were made since 1955 which had the effect of increasing the benefit loads. So, the present situation is that, on the basis of unemployment experience we are now going through, on the basis

of the unemployment experience we have been going through in the past four or five years and on the basis of the present benefits, the income is no longer sufficient to meet the outgo.

It is falling short by very large amounts. Those are the facts of the situation. I would rather put it that way than say that the fund is or is not on an actuarial basis. Actuaries have been involved in the calculations; but we must make some assumptions concerning the level of unemployment that is going to be experienced. We cannot predict it, so we have tried to base it on some recent period of experience and leave it to others to judge whether or not this particular base period we use is likely to be a good illustration of the actual experience in the near future. I think, however, inevitably it requires adjustment from time to time, because so far as we know no one can make any reliable predictions as to the levels of unemployment for more than a short period in the future.

81. The Committee recommends,

that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field.

82. The Committee, having taken note of the comment in paragraph 109 of the Auditor General's Report that the Unemployment Insurance Commission is not required by statute to prepare annual financial statements subject to audit, recommends,

that the preparation of such statements, along the lines of those published at page P-19 of the Public Accounts for 1959-60, be made a statutory responsibility of the Commission, and that they be required to be reported upon by the Auditor General.

Crown Corporations (Paras. 110 to 137)

83. In reporting last year on its examination of the affairs of Crown Assets Disposal Corporation and Export Credits Insurance Corporation, the Committee announced its intention of continuing its examination into the operations of additional Crown corporations in the future. It is regretted that time has permitted examining of only one more this year, namely, Polymer Corporation Limited. The Committee's comments on its examination into this Corporation's operations are set down in paragraphs 94 to 99 of this report.

84. The Committee is impressed by the fact that while Crown corporations are similar to government departments in that the funds of both are public funds, the conduct of Crown corporations along commercial lines permits them a much freer hand in the management of their affairs, particularly in the spending of public funds in their charge. While recognizing that the high standards of the Canadian public service apply in equal measure to the officers and employees of Crown corporations, the fact remains that the efficiency of their managements depends in large measure on the competence of their boards of directors and the relationship of each with the responsible Minister.

85. The Committee has noted that the composition of boards of directors varies widely. A year ago, when the Committee had Crown Assets Disposal Corporation before it for examination, it learned that all the corporation's directors were members of the Public Service, while in the case of Export Credits Insurance Corporation, the other corporation examined at that time, there was a mixed board of directors, half from the Public Service and half from private industry. When the Committee examined Polymer Corporation Limited this year, it learned that all the directors were from private industry. This variation raises the question as to what is the most desirable way of

organizing Crown corporation directorates in given sets of circumstances so as to facilitate their operation to the greatest possible extent along commercial lines, while at the same time retaining an appropriate measure of ministerial and parliamentary control. It is a question which the Committee regards as of considerable importance and which it recommends as meriting careful study next year.

86. The Committee was glad to be informed by the Auditor General that he intends to include in his future reports to the House of Commons more detailed information covering the financial operations, and related data, of Crown corporations.

Departmental Operating Activities (Paras. 138 to 148)

87. 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 statments included in the Public Accounts without undue cost or staff increases.

88. Board of Grain Commissioners. The Auditor General drew the Committee's attention to the comment in paragraph 145 of his Report that in each year since 1953-54 the Board's expenditures had exceeded its revenues by more than $1,000,000. The Committee, feeling concerned at the existence of such a wide gap between revenues and expenditures, recommends,

> that steps be taken to bring revenues and expenditures into balance.

Subsidies

89. In the course of its discussions, reference was made by the Committee to the hundreds of millions of dollars of public funds paid out annually by way of subsidies in connection with railway transportation, agriculture, coal mining, gold mining and other activities, and the Committee recommends,

> that a study be made next year of the various classes of subsidies, or payments in the nature of subsidies, that are provided, directly or indirectly, out of public funds.

90. In order to assist the Committee in this study, the Committee requests the Minister of Finance to prepare a statement summarizing the various subsidies paid from public funds during the year, and showing the comparable amounts for the two preceding fiscal years.

THE CANADA COUNCIL

91. The Auditor General made a statement to the Committee regarding his examination of the accounts and financial transactions of the Canada Council for the year ended March 31, 1960.

92. The Committee heard evidence from the Chairman, the Director and other officers of the Council outlining its responsibilities, policies, aims and operations, including the reasons why increased income is needed to help meet the growing demand being made on the Council. The Committee was informed that profits and interest earned on the University Capital Grants Fund have not as yet been allocated to the provinces or to the universities and that the matter still remains under consideration by the Council. The Committee recommends,

> that the Council seek to conclude this matter without further delay.

93. In the course of his evidence, the Chairman placed particular emphasis upon the need of more scholarships, fellowships and grants-in-aid as one of the most effective ways of providing greater stimulation to Canadian universities and to Canada's national life generally. To accomplish this, more resources and increased income are essential, and he stated that in the opinion of the Council the minimum additional annual income needed was to the order of $500,000. The Committee noted that the Council is in fact set up to receive and administer benefactions from outside sources and recommends,

> that this be made more widely known to corporations, individuals and foundations in Canada and abroad. It believes that strenuous efforts along these lines should be undertaken both by the Council as a body and by the individual members of the Council.

POLYMER CORPORATION LIMITED

94. The Auditor General made a statement to the Committee regarding his examination of the accounts and financial transactions of Polymer Corporation Limited for the year ended December 31, 1959. In addition, reference was made to the results from operations for the Corporation's most recent financial year which ended on December 31, 1960.

95. The Committee was furnished by the President and senior officials of the company with detailed information and explanations covering operations from inception of the Corporation, including its investment in 1960 in the equity capital of Polymer Corporation (S.A.F.), a subsidiary company formed in France of which 95 percent of the equity capital is held by Polymer Corporation Limited and 5 percent by the Banque de Paris et des Pays-Bas.

96. The members of the Committee were unanimous in their approval of the manner in which management and the Board of Directors have discharged and are continuing to discharge their responsibility. The Corporation's record shows that not only have no public funds been voted for many years towards its operations, but that the Corporation has, since its inception, paid to the Receiver General of Canada over $100 million in the form of repayments of advances, dividends, retirement of bonds, interest and taxes.

97. It was decided by the Committee that the Crown's continued ownership of Polymer Corporation Limited constituted a question of government policy outside the scope of the Committee's terms of reference.

98. Dealing with the Corporation's recent incorporation of a subsidiary company overseas for the purpose of manufacturing within the European Common Market area, the Committee recognizes this to be a management decision of a type dictated by the demands of an increasingly competitive international market situation requiring the safeguarding of the Corporation's export market position. The importance of this is evidenced by the fact that over 70 percent of the Production of this Crown corporation is sold to customers overseas.

99. The Committee noted that the audit arrangements proposed by the management for Polymer Corporation Limited (S.A.F.), contemplate the employment of an outside firm in France instead of the appointment of an auditor under the provisions of section 77 of the Financial Administration Act. Since the Auditor General of Canada is the auditor of the parent Crown corporation, the Committee is of the opinion that he should also be the auditor of the French subsidiary. Accordingly, it recommends,

> that the Auditor General be appointed either the auditor or joint auditor of Polymer Corporation Limited (S.A.F.).

AUDITOR GENERAL'S OFFICE

100. In its Third Report, 1960, the Committee recommended that consideration be given to authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff under a plan of organization necessary for the proper functioning of his office.

101. The Committee was informed by the Auditor General that the government had approved an increase, from 141 to 159, in the establishment of his office for the fiscal year 1961-62. Discussions had been held in January, 1961, with officers of the Civil Service Commission with a view to having the extra positions filled as soon as possible after they became available on April 1, 1961. However, in spite of the best efforts of the Commission, while carrying out the normal recruitment procedures, only one of eight senior auditors required had reported for duty by June 12, 1961, and the total staff stood at only 139 at that date. The Committee is seriously concerned at this state of affairs which is not only subjecting the Audit Office to heavy pressure to complete its audit assignments but is affecting the scope of its work.

102. The Chairman of the Civil Service Commission informed the Committee that Clause 39 of the Bill to amend the Civil Service Act would give the Commission the power to delegate to any deputy head the right to select his employees, but he explained that he was unable to state to what extent this section, if enacted, would be used by the Commission.

103. The Auditor General, in the discharge of his broad auditing responsibilities, is responsible directly to Parliament. It is fundamental to the effective discharge of these responsibilities that the Auditor General's Office be strong, capable and efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee therefore recommends,

> that the Civil Service Commission either reach agreement with the Auditor General on some mutually satisfactory staff arrangement or that following enactment of the new Civil Service Act the Commission delegate to the Auditor General the right to select his employees in order that he may carry out the responsibilities placed on him by statute.

GENERAL

104. The importance of maintaining parliamentary control over financial matters is the paramount concern of this Committee. It is therefore expected that its recommendations will be given close attention by the departments, Crown corporations and other agencies.

105. In accordance with the practice followed by the Committee in its Reports to the House for the past three years, the Auditor General is again requested to report to the Committee on the action taken by the various government departments, Crown corporations and other agencies, toward implementing recommendations contained herein.

A copy of the Minutes of Proceedings and Evidence of the Committee is appended.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, June 29, 1961.
(22)

The Standing Committee on Public Accounts met *in camera* at 2.40 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Deschatelets, Drysdale, Hales, Macnaughton, McGee, Muir (*Lisgar*), Noble, Pratt, Tucker and Winch—13.

Following discussion of a "draft" Report to the House and the tabling of a further statement concerning the construction of the Rivière-du-Loup Airport (*See Appendix "A"*), the Committee adjourned at 3.00 p.m. to meet again later this day.

EVENING SITTING
(23)

The Committee reconvened *in camera* at 8.10 p.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Broome, Deschatelets, Drysdale, Hales, Macnaughton, Muir (*Lisgar*), Spencer, Tucker and Winch—11.

The Committee considered a "draft" Report to the House.

At 8.30 p.m., the Members having been called to the Chamber, the Committee recessed.

At 9.00 p.m. the Committee reconvened and following further consideration of the Report, its amendment and its adoption in principle, adjourned at 11.00 p.m. to meet again on Friday, June 30, 1961.

FRIDAY, June 30, 1961.
(24)

The Standing Committee on Public Accounts met *in camera* at 12.30 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bissonnette, Bourget, Broome, Deschatelets, Drysdale, Hales, Lahaye, Macnaughton, Robichaud, Rouleau, Smith (*Simcoe North*), Spencer, Tucker, Winch and Wratten—15.

On motion of Mr. Winch, seconded by Mr. Drysdale, the "draft" Report was adopted and the Chairman was instructed to present the "draft" Report as the Committee's Fifth Report to the House.

At 12.35 p.m. the Committee adjourned.

J. E. O'Connor,
Clerk of the Committee.

APPENDIX "A"

DEPUTY MINISTER OF TRANSPORT

OTTAWA, CANADA

JUNE 29, 1961.

Mr. ALAN MACNAUGHTON, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

Dear Mr. MACNAUGHTON:

As a result of my further appearance before the Public Accounts Committee on June 19 in connection with the Rivière-du-Loup Airport contract, I enclose herewith additional detailed information as requested by the Committee. This information consists of the following:

(*a*) Detailed information on each tender received.

(*b*) Summary of original departmental estimate with regard to this job.

(*c*) Summary statement with regard to financial settlement made with the contractor. As indicated in Committee, this last statement could not be provided on the same basis as the tenders received because the financial settlement was made on the basis of a Treasury cost audit in accordance with actual costs incurred and, therefore, cannot be broken down under the headings used in the tenders received.

In the meeting, an additional question was asked which I was unable to answer at the time. This was whether, in view of the wide range of the tenders received, the Department had noted anything particular in connection with the low tender and had done anything about this. It is not unusual in our experience to find the range of prices between a low and a high tender varying greatly or deviating substantially from our estimates. In this particular case, I find that we did note that on the low tender, a principal item which made it low, namely unit prices for excavation, seemed much lower than we had expected. There was oral communication with the contractor in which this fact was brought to his attention, and he was asked whether he was satisfied he could do the work at this price. He indicated he was satisfied that he could. (Although, as explained in Committee, this reply was probably based upon the fact that he had walked over the trial line which had been erroneously staked out.)

On the basis of this statement from the contractor that he was satisfied, the recommendation to Treasury Board was made for approval of the contract. I may add that one of the most difficult problems we have is that of a tender which appears to be too low. We know from our own experience that, in dealing with Treasury Board, there is a strong requirement to accept the low tender unless excedingly clear evidence of something wrong can be submitted. The fact that a tender may be substantially below our own estimates and that we may have doubts about prices quoted, is not normally considered sufficient evidence on which to discard the tender if the tenderer is fully satisfied he can do the job at these prices; and if we have warned him that we will insist on performance at this price and that he may suffer financial penalties if he fails to do the job as contracted. For this reason, when we have drawn the attention of the contractor to a price we consider exceedingly low, we accept his position if he states he is fully satisfied he can do the job. Even in cases where we have rejected a low tender because of some very specific evidence (other than our

own opinion on prices), such as a record of unsatisfactory performance on an earlier job, we have found ourselves subsequently under strong criticism from the low tenderer.

I have gone into this problem at some length because it is one which troubles us, particularly where it is a matter of the Department's opinion as to likely unit costs as compared with the contractor's opinion. If this should be the sort of issue upon which the Public Accounts Committee could express an opinion or make a recommendation, this could be helpful to us in dealing with this type of problem.

Yours sincerely,

J. R. BALDWIN,
Deputy Minister.

Statement re Basis of Settlement with Contractor

After completion of work, the contractor submitted a statement of claim as follows:

Items 1, 2 & 3	Clearing, Stumping and Fence Removal.	no extra
Item 4	Common Excavation. Extra claimed for removal of muskeg.	$ 107,485
	Overhaul of material and borrow.	91,803
Item 5	Rock. Extra on rock hummock (not indicated or known about when tendered).	21,500
Item 6	Smoothing and Rolling—no dispute, no profit.	
Item 7	Open Ditch—no dispute.	
Item 8	Solid Rock in trench—no dispute.	
Items 9-13	Drainage, $2,000 slight profit if paid at unit prices.	
Items 14-15	$270 less on concrete catch-basins, etc.	
Items 16-17	Not listed (these are additions or deletions to manholes and catch-basins).	
Item 18	Rip-rapping, small item not mentioned.	
Item 19	Sealing drains—no claim.	
Item 20	Compaction subsoil base. Loss of $16,128 due work over "fill" areas not contemplated when "Staked" line on ridge walked by contractor.	
Item 21	Granular sub-base. Loss due overhaul and purchase of pit when rights to material on site not substantiated.	33,145
Item 22	Overhaul gravel base.	16,491
Item 23	Primer—no claim.	
Item 24	Asphalt Hot Mix—shows a loss of—	5,500
	This was sublet.	
Item 25	Concrete slab—shows a loss of— due to lack of pit rights on the site.	10,000

Item 26	Concrete joints—nil.
Items 27-28	Nil.

These would have brought total cost to about $765,000.00

Treasury audit indicated that from the contractor's accounts individual costs could not be substantiated in relation to individual items according to unit price breakdown; what could be determined according to the contractor's accounts was that he had suffered an overall loss. The audit set cost at $690,934.93, after deducting certain types of cost identified as overhead. In the opinion of the Department these deductions were actual cost items and, therefore, Treasury in authorizing settlement at $725,000 allowed an additional $34,065.07 on behalf of these items as representing 4.93% of audited cost.

Comparison of Tenders—
Rivière du Loup Airport, Que.

Item N°	Description	Unit	Quantity	Lewis Bros. Asphalt Paving, Mount Royal, Que.		Ryanmoir Excavation & Contractors, Montreal, Que.		North Shore Construction, Montreal, Que.		La Compagnie d'Equipment & Const., Rimouski, Que.		Michaud & Simard Inc., St. Sauveur, Que.		North Shore Builders Ltd., Rimouski, Que.		E. Morin & Frères Ltd., Rivière du Loup, Que.		Les Constructions du St. Laurent Ltée., Villeneuve, Que.		McNamara (Quebec) Ltd., Montreal, Que.		Union des Carrières & Pavages, Quebec, Que.		E. J. Persons, Sweetsburg, Que.		Sir Robert McAlpine & Sons (Canada), Westmount, Que.		La Société d'Entreprises Générales, Amos, Que.		D.O.T. Pre-Tender Estimate	
				Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount
				$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
1	Clearing	a.c.	95	210.00	19,950.00	100.00	9,500.00	100.00	9,500.00	325.00	30,875.00	150.00	14,250.00	150.00	14,250.00	100.00	9,500.00	225.00	21,375.00	150.00	14,250.00	150.00	14,250.00	125.00	*2,625.00	170.00	16,150.00	200.00	19,000.00	150.00	14,250.00
2	Stumping & grubbing	a.c.	65	220.00	14,300.00	150.00	9,750.00	150.00	9,750.00	250.00	16,250.00	150.00	9,750.00	150.00	9,750.00	200.00	13,000.00	250.00	16,250.00	300.00	19,500.00	175.00	11,375.00	280.00	18,200.00	306.00	19,890.00	266.00	17,290.00	180.00	11,700.00
3	Removal of existing fences	rad.	2,500	1.00	2,500.00	.10	250.00	.10	250.00	1.50	3,750.00	.40	1,000.00	1.00	2,500.00	.80	2,000.00	.75	1,875.00	.50	1,250.00	.80	2,000.00	.50	1,250.00	3.23	8,075.00	.70	1,750.00	.80	2,000.00
4	Common excavation	c.y.	360,000	.11	39,600.00	Av.* .2222	80,000.00	Av.* .2722	98,000.00	.30	108,000.00	.34	122,400.00	.35	126,000.00	.45	162,000.00	.47	169,200.00	.59	212,400.00	.40	144,000.00	.58	208,800.00	.37	133,200.00	.70	252,000.00	.45	162,000.00
5	Solid rock excavation	c.y.	5,000	2.50	12,500.00	3.50	17,500.00	3.00	15,000.00	2.50	12,500.00	3.00	15,000.00	2.70	13,500.00	3.00	15,000.00	2.50	12,500.00	2.00	10,000.00	3.50	17,500.00	2.30	11,500.00	1.12	5,600.00	4.00	20,000.00	4.00	20,000.00
6	Smoothing & rolling	a.c.	55	100.00	5,500.00	50.00	2,750.00	50.00	2,750.00	100.00	5,500.00	60.00	3,300.00	50.00	2,750.00	75.00	4,125.00	100.00	5,500.00	38.00	2,090.00	700.00	38,500.00	250.00	13,750.00	44.50	2,447.00	80.00	4,400.00	60.00	3,300.00
7	Open ditch—common excavation	c.y.	6,000	1.50	9,600.00	1.00	6,000.00	.50	3,000.00	.50	3,000.00	.75	4,500.00	1.00	6,000.00	.60	3,600.00	.60	3,600.00	.80	4,800.00	.65	3,900.00	1.00	6,000.00	.82	4,920.00	1.00	6,000.00	.75	4,500.00
8	Solid rock, pipe trenches & ditches	c.y.	2,000	4.00	8,000.00	5.00	10,000.00	5.00	10,000.00	3.00	6,000.00	4.00	8,000.00	3.20	6,400.00	6.00	12,000.00	5.00	10,000.00	4.00	8,000.00	4.50	9,000.00	3.05	6,100.00	5.00	10,000.00	7.00	14,000.00	7.00	14,000.00
9	8″ perf. pipe drains	l.f.	1,800	4.00	7,200.00	3.00	5,400.00	3.00	5,400.00	2.50	4,500.00	3.10	5,580.00	7.00	12,600.00	1.70	3,060.00	2.58	4,644.00	3.60	6,480.00	3.25	5,850.00	3.25	5,850.00	4.92	8,856.00	5.50	9,900.00	3.30	5,940.00
10	10″ perf. pipe drains	l.f.	2,200	5.00	11,000.00	4.00	8,800.00	4.00	8,800.00	3.60	7,920.00	4.30	9,460.00	8.15	17,930.00	2.70	5,940.00	3.76	8,272.00	5.43	11,946.00	4.00	8,800.00	4.00	8,800.00	5.62	12,364.00	6.15	13,530.00	4.50	9,900.00
11	12″ non perf. pipe drains	l.f.	200	4.80	960.00	4.50	900.00	3.50	700.00	3.85	770.00	4.65	930.00	6.35	1,270.00	3.00	600.00	4.03	806.00	6.25	1,250.00	4.65	930.00	5.60	1,120.00	4.19	838.00	5.92	1,184.00	4.80	960.00
12	36″ non perf. pipe drains (bedded in concrete) cement by Dept.	l.f.	75	33.00	2,475.00	13.00	975.00	24.00	1,800.00	22.60	1,687.50	28.80	2,160.00	34.00	2,550.00	28.50	2,137.50	31.75	2,381.25	33.00	2,475.00	20.00	1,500.00	33.70	2,527.50	19.64	1,473.00	32.00	2,400.00	15.00	1,125.00
13	36″ non perf. pipe drains (common backfill)	l.f.	125	27.00	3,375.00	11.00	1,375.00	13.00	1,625.00	15.71	1,963.75	16.80	2,100.00	18.60	2,325.00	22.00	2,750.00	15.48	1,935.00	18.00	2,250.00	16.00	2,000.00	23.60	2,950.00	13.67	1,709.00	17.90	2,237.50	11.00	1,375.00
14	Concrete manholes (M-57) cement by Dept.	c.a.	7	350.00	2,450.00	200.00	1,400.00	250.00	1,750.00	350.00	2,450.00	300.00	2,100.00	355.00	2,485.00	250.00	1,750.00	268.81	1,881.67	370.00	2,590.00	230.00	1,610.00	415.00	2,905.00	366.00	2,562.00	300.00	2,100.00	350.00	2,450.00
15	Concrete catch basins (M-48) cement by Dept.	c.a.	6	275.00	1,650.00	100.00	600.00	150.00	900.00	250.00	1,500.00	200.00	1,200.00	235.00	1,410.00	200.00	1,200.00	222.00	1,332.00	300.00	1,800.00	150.00	900.00	375.00	2,250.00	313.00	1,878.00	250.00	1,500.00	260.00	1,560.00
16	Additions or deletions to 6′-0″ overall depth of manholes	l.f.	10	40.00	* —	1.00	10.00	1.00	10.00	50.00	500.00	10.00	100.00	43.00	430.00	20.00	200.00	27.00	270.00	47.00	470.00	25.00	250.00	63.00	630.00	47.00	470.00	25.00	* —	30.00	300.00
17	Additions or deletions to 6′-0″ overall depth of catch basins	l.f.	9	30.00	* —	1.00	9.00	1.00	9.00	30.00	270.00	8.00	72.00	20.00	180.00	20.00	180.00	21.00	189.00	39.20	352.80	12.50	112.50	7.00	513.00	40.00	360.00	15.00	* —	20.00	180.00
18	Rip rap protection works	c.y.	40	3.00	120.00	5.00	200.00	10.00	400.00	5.00	200.00	12.00	480.00	5.00	200.00	10.00	400.00	5.00	200.00	5.00	200.00	15.00	600.00	5.00	200.00	10.00	400.00	10.00	400.00	10.00	400.00
19	Sealing porous drains	gal.	700	.70	490.00	.05	35.00	.10	70.00	.12	84.00	.15	105.00	.10	70.00	.08	56.00	.10	70.00	.20	140.00	.15	105.00	.32	224.00	.35	245.00	.50	350.00	.15	105.00
20	Consolidating sub-soil base	s.y.	112,000	.18	20,160.00	.10	11,200.00	.06	6,720.00	.03	3,360.00	.05	5,600.00	.08	8,960.00	.10	11,200.00	.13	14,560.00	.05	5,600.00	.15	16,800.00	.05	5,600.00	.02	2,240.00	.12	13,440.00	.17	19,040.00
21	24″ & 6″ granular sub-base course	ton.	200,000	.22	44,000.00	Av.* .425	85,000.00	Av.* .45	90,000.00	.50	100,000.00	.49	98,000.00	.45	90,000.00	.50	100,000.00	.64	128,000.00	.66	132,000.00	.90	180,000.00	.60	120,000.00	.59	118,000.00	.80	160,000.00	.85	170,000.00
22	9″ & 6″ crushed gravel or stone base course	ton.	80,000	.94	75,200.00	Av.* 1.03125	82,500.00	Av.* 1.125	90,000.00	.88	70,400.00	.84	67,200.00	.75	60,000.00	1.00	80,000.00	1.05	84,000.00	1.10	88,000.00	1.20	96,000.00	1.28	102,400.00	2.06	164,800.00	1.30	104,000.00	1.50	120,000.00
23	Application of primer (asphalt by Dept.)	gal.	57,000	.05	2,850.00	.05	2,850.00	.05	2,850.00	.035	1,995.00	.05	2,850.00	.035	1,995.00	.08	4,560.00	.08	4,560.00	.05	2,850.00	.15	8,550.00	.06	3,420.00	.11	6,270.00	.06	3,420.00	.10	5,700.00
24	3½″ hot mix top (asphalt by Dept.)	ton.	27,000	4.15	112,050.00	5.00	135,000.00	5.10	137,700.00	4.62	124,740.00	4.90	132,300.00	4.30	116,100.00	5.00	135,000.00	4.80	129,600.00	4.39	118,530.00	4.96	133,920.00	5.00	135,000.00	8.35	225,450.00	5.75	155,250.00	4.60	124,200.00
25	9″ Portland cement concrete slab (cement by Department)	c.y.	5,700	12.50	71,250.00	7.00	39,900.00	9.00	51,300.00	10.00	57,000.00	10.00	57,000.00	14.50	82,650.00	18.00	102,600.00	10.00	57,000.00	7.60	43,320.00	9.00	51,300.00	16.00	91,200.00	18.45	105,165.00	12.00	68,400.00	13.50	76,950.00
26	Forming & Sealing Joints	l.f.	21,000	.25	5,250.00	.20	4,200.00	.16	3,360.00	.02	420.00	.15	3,150.00	.15	3,150.00	.25	5,250.00	.23	4,830.00	.20	4,200.00	.22	4,620.00	.45	9,450.00	.39	8,190.00	.20	4,200.00	.20	4,200.00
27	2–4″ ducts	l.f.	440	4.00	1,760.00	2.25	990.00	2.25	990.00	5.00	2,200.00	4.50	1,980.00	2.65	1,166.00	3.50	1,540.00	4.71	2,072.40	3.22	141,680.00	4.00	1,760.00	2.10	924.00	4.90	2,156.00	3.50	1,540.00	3.60	1,584.00
28	4–4″ ducts	l.f.	1,050	5.50	5,775.00	4.00	4,200.00	4.00	4,200.00	6.00	8,400.00	6.80	7,140.00	4.49	4,714.50	5.00	5,250.00	7.44	7,812.00	8.07	8,473.50	7.00	7,350.00	3.00	3,150.00	5.94	6,237.00	4.20	4,410.00	5.80	6,090.00
	TOTAL AMOUNT OF TENDER				479,965.00		521,294.00		556,834.00		576,235.25		577,707.00		591,335.50		684,898.50		694,715.32		706,634.10		763,482.50		767,338.50		869,945.00		882,701.50		783,809.00

Items *16—400.00, 17—270.00 (480,635.00)

Items *4,21,22—Scale of prices averaged

Items *4,21,22—Scale of prices averaged

Items *16—250.00, *17—135.00 (883,086.50)

Checked M.E.B.