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HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Public Accounts (1959), Volumes I and II and The Auditor General's Report Thereon

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THURSDAY, MARCH 3, 1960
WEDNESDAY, MARCH 23, 1960

WITNESSES:

Mr. A. Maxwell Henderson, Auditor General; and Mr. Ian Stevenson, Assistant Auditor General.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

22688-6—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)
and Messrs.

Beech,
Bell (Carleton),
Benidickson,
Bissonnette,
Bourget,
Brassard (Chicoutimi),
Broome,
Bruchési,
Campbell (Lambton-Kent),
Campeau,
Chown,
Coates,
Denis,
Deschatelets,
Dorion,
Drysdale,
Dupuis,
Fraser,
Grenier,
Hales,
Hanbidge,
Hellyer,
Keays,
Lahaye,
Macdonald (Kings),
Macdonnell,
McGee,
McGrath,
McGregor,
Morissette,
Morton,
Murphy,
Pickersgill,
Pratt,
Regier,
Robichaud,
Rouleau,
Smith (Calgary South),
Smith (Simcoe North),
Spencer,
Stefanson,
Stewart,
Tucker,
Valade,
Villeneuve,
Winch,
Woolliams,
Wratten—50.

(Quorum—10)

E. W. Innes,
Clerk of the Committee

Note: The name of Mr. Nugent replaced that of Mr. Smith (*Calgary South*) following the March 3 meeting and prior to the March 23 meeting.

HOUSE OF COMMONS,

TUESDAY, February 16, 1960.

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

Messrs.

Beech,	Dupuis,	Pickersgill,
Bell (Carleton),	Fraser,	Pratt,
Benidickson,	Grenier,	Regier,
Bissonnette,	Hales,	Robichaud,
Bourget,	Hanbidge,	Rouleau,
Brassard (Chicoutimi),	Hellyer,	Smith (Calgary South),
Broome,	Keays,	Smith (Simcoe North),
Bruchési,	Lahaye,	Smith (Winnipeg North),
Campbell (Lambton-Kent),	Macdonald (Kings),	Spencer,
	Macdonnell,	Stefanson,
Campeau,	Macnaughton,	Stewart,
Chown,	McGee,	Tucker,
Coates,	McGrath,	Valade,
Denis,	McGregor,	Villeneuve,
Deschatelets,	Morissette,	Winch,
Dorion,	Morton,	Woolliams,
Drysdale,	Murphy,	Wratten—50.

(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, March 3, 1960.

Ordered.—That the Standing Committee on Public Accounts 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; that its quorum be reduced from 15 to 10 members, and that Standing Order 65(1)(*e*) be suspended in relation thereto.

TUESDAY, March 15, 1960.

Ordered.—That the Report of the Canada Council for the fiscal year ended March 31, 1959, laid before the House on July 10, 1959, be referred to the Standing Committee on Public Accounts in order to provide for a review thereof pursuant to section 23 of the Canadian Council Act.

Ordered.—That the Public Accounts, volume I and II, and the Report of the Auditor General for the fiscal year ended March 31, 1959, and the financial statements of the Canada Council and the Report of the Auditor General thereon for the fiscal year ended March 31, 1959, be referred to the said Committee.

MONDAY, March 21, 1960.

Ordered.—That the name of Mr. Nugent be substituted for that of Mr. Smith (Calgary South) on the Standing Committee on Public Accounts.

Attest.

L. J. RAYMOND,
Clerk of the House.

22688-6—1½

REPORT TO THE HOUSE

THURSDAY, March 3, 1960.

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

FIRST REPORT

Your Committee recommends:

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

2. That 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

THURSDAY, March 3, 1960.
(1)

The Standing Committee on Public Accounts met, for organization purposes, at 11.30 a.m. this day.

Members present: Messrs. Beech, Bell (*Carleton*), Benidickson, Bissonnette, Bourget, Brassard, (*Chicoutimi*), Broome, Bruchesi, Campbell (*Lambton-Kent*), Campeau, Deschatelets, Drysdale, Hales, Keays, Lahaye, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGrath, McGregor, Morissette, Morton, Pratt, Robichaud, Stefanson, Stewart, Tucker, Valade, Winch and Wratten.—(30).

Mr. Bell (*Carleton*) moved, seconded by Mr. McGrath,

That Mr. Alan Macnaughton take the Chair of this Committee as Chairman.

Mr. Bell's motion was resolved in the affirmative, *unanimously*. Mr. Macnaughton, having been duly elected Chairman, took the Chair and thanked the Committee for the honour conferred on him for the third successive year.

The Clerk of the Committee read the Order of Reference.

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

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

Mr. Morton moved, seconded by Mr. Broome,

That a recommendation be made to the House to reduce the quorum from *15* to *10* members. *Carried on division.*

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

Resolved,—That a subcommittee on Agenda and Procedure, comprised of the Chairman and *6* Members to be named by him, be appointed.

The following suggestions were placed before the Committee and then referred to the subcommittee on Agenda and Procedure:

(1) That Mr. Watson Sellar, the former Auditor General, be invited to appear before this Committee.

(2) That the Committee follow up the recommendations made by the Standing Committee on Public Accounts during the 1959 session to ascertain what action has been taken by the departments concerned to implement those recommendations.

At 11.50 a.m. Committee adjourned to the call of the Chair.

WEDNESDAY, March 23, 1960.
(2)

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*), Bissonnette, Brassard (*Chicoutimi*), Bruchesi, Campbell (*Lambton-Kent*), Drysdale, Hales, Keays, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, McGregor, Morissette, Morton, Pickersgill, Pratt, Regier, Robichaud, Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Stefanson, Stewart, Tucker, Villeneuve, Winch, Woolliams, Wratten. (31).

In attendance: *From the office of the Auditor General*: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; Mr. B. A. Millar and Mr. G. R. Long, Supervisors; and Mr. E. Cook.

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

Resolved,—That Mr. Murray Smith be appointed Vice-Chairman of this Committee.

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

Resolved,—That pursuant to the Order of Reference of March 3, 1960, the Committee print 750 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

The Chairman referred to certain correspondence between himself and Mr. Watson Sellar, the former Auditor General. Mr. Sellar's letter was read into the record.

Mr. Macnaughton announced that the following persons have been chosen to act with him on the Subcommittee on Agenda and Procedure: Messrs. Murray Smith, Morissette, Morton, Pickersgill, Winch and Woolliams.

The following recommendations were submitted by the Subcommittee on Agenda and Procedure as its First Report:

1. That the Committee meet on Wednesday mornings at 9.30 o'clock, preferably in Room 112 N.
2. That there be a "follow-up" on the action by the various departments respecting the Committee's recommendations in previous years.
3. That the Committee examine the Annual Report of the Canada Council and the Auditors' Report thereon on March 30, 1960.

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

Resolved,—That the First Report of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

Mr. A. Maxwell Henderson, the recently appointed Auditor General, was introduced to the Committee by Mr. Macnaughton, Mr. Henderson in turn thanked the Chairman and addressed the Committee. During the course of his remarks he introduced his colleagues.

The Auditor General submitted a memorandum respecting "suggestions and recommendations made by the 1958 and 1959 Committees in their Reports to the House of Commons, together with curernt comments by the Auditor General regarding action taken by the departments concerned".

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

Resolved,—That the above-mentioned memorandum, which is an important submission to this Committee, be printed as *Appendix "A" to this day's Evidence*.

The Committee studied the Auditor General's Memorandum, by paragraphs. The witness and Mr. Stevenson commented on various points and were questioned thereon.

Further information was requested, for a future meeting, respecting architects fees, a new scale of charges for second class mail, and the possibility of removing some of the anomalies mentioned in Section 17 of the Auditor General's Memorandum.

Agreed,—That the Committee resume consideration of the abovementioned Memorandum on Wednesday, March 30.

At 11.00 a.m. the Committee adjourned to the call of the Chair.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, March 23, 1960.

The CHAIRMAN: Gentlemen, we have a quorum.

I wish to welcome you here to our first active meeting of this committee. It is true we had to change our room for today's meeting. We hope to be back in our old room next week. However, there are so many committees meeting it is difficult.

We have a certain amount of unfinished business. The first is the election of a Vice-Chairman.

Mr. BELL (*Carleton*): I would like to nominate the hon. member for *Winnipeg North*, Murray Smith, as Vice-Chairman of the committee.

Mr. MCGEE: I second the motion.

The CHAIRMAN: Are there any other nominations?

Mr. MORTON: I move that nominations cease.

Motion agreed to.

The CHAIRMAN: Mr. Smith is the Vice-Chairman of the committee.

The next item on our agenda is a motion in respect of the printing of certain numbers of copies of the evidence and proceedings in English and French. We have that authority by virtue of the first report presented to the house. May I suggest that someone move and someone second a motion that "pursuant to its order of reference dated March 3, 1960, the committee print 750 copies in English and 250 copies in French of its minutes of proceedings and evidence".

Moved by Mr. McGee, seconded by Mr. Drysdale.

Motion agreed to.

The CHAIRMAN: At the last meeting Mr. Winch suggested Mr. Watson Sellar be invited to attend our meetings on account of his great experience and his previous help to this committee. In accordance with that wish I took it up with the steering committee and wrote Mr. Watson Sellar. I now have received a reply from Mr. Sellar which I would ask the clerk to read.

(Letter read by the committee clerk)

The CHAIRMAN: Is it the wish of the committee that this letter be included in the evidence?

Agreed.

28 Monkland Avenue,
Ottawa,
20th March 1960.

Dear Mr. Macnaughton,

With all sincerity I appreciate the compliment extended to me by the invitation, at the instance of Mr. Winch, to attend meetings of the Public Accounts Committee—it is one without precedent. It may be that I have accumulated some knowledge and experience in connection with the accounts of Canada that may be of use to your committee this year, but might I venture to suggest that the invitation in your letter of the 16th be regarded as "stand-by".

In the late fall of 1958 it was agreed with the Minister of Finance that I would not take any retiring leave, the reasoning being that I should be available to explain and justify the audit report shortly to be tabled over my name.

It followed that, while I took an active part in the interim audits of 1958-59 accounts, I did not participate in the year-end examinations —the more important—nor did I share in the preparation of the audit report now before your committee. In the circumstances, while I hope it would never happen, I could be an irresponsible, and perhaps, mischievous non-official witness.

I can never forget that over the years the Public Accounts Committee has invariably been considerate towards me, so what I suggest is that I do not accept your invitation but regard myself as on call at any time by the subcommittee on agenda and procedure, should it be thought that, by reason of my past experience, I can be of use in dealing with some particular problem.

Yours sincerely,
Watson Sellar.

Mr. Alan Macnaughton, M.P.,
Chairman of the Public Accounts Committee,
House of Commons,
Ottawa.

The CHAIRMAN: It is my pleasure to report on the steering committee. In accordance with the resolution of this committee passed at our last meeting on March 16, the steering committee has been appointed consisting of Messrs. Smith, *Winnipeg North*, Morissette, Morton, Woolliams, Winch, Pickersgill, and myself.

With your permission I would like to give a verbal report. The steering committee met last week and decided in principal we should meet each Wednesday for the remaining weeks of the session from 9:30 until 11 o'clock, preferably in room 112N if we can secure it.

It was also decided we should have an immediate follow-up on the various suggestions and recommendations which this committee has made in its last two reports to the House of Commons, that is the report of 1958 and the report of 1959. I will have more to say about that in a minute.

The steering committee also suggests that at the next meeting, or as soon as possible, we proceed to the examination of the Canada Council report and the auditor's report thereon. That presumably would be at the next meeting on Wednesday, March 30.

Those are the suggestions of the steering committee. May I have approval in principal, if you agree.

Mr. WINCH: I so move.

Mr. BELL (*Carleton*): I second the motion.

Agreed.

The CHAIRMAN: It is now my great pleasure and privilege to introduce to you our new Auditor General. The appointment of Andrew Maxwell Henderson, O.B.E., C.A., as Auditor General of Canada was announced in Ottawa on February 1, by Prime Minister Diefenbaker.

On March 1, this month, Mr. Henderson assumed his new position, replacing Watson Sellar, C.M.G., C.A., who retired last August.

Born in England, Mr. Henderson came to Canada at an early age and worked with Crowell-Balcom and Company, Halifax, from 1924-29 when he obtained his certificate qualifying him as a chartered accountant.

He then joined Price, Waterhouse and Company in Toronto for five years, before becoming controller of Hiram Walker, Gooderham-Worts Limited in Walkerville, Ontario.

From 1946-56 he was secretary treasurer of Distillers Corporation, Seagrams Limited, Montreal, and director of its Canadian and foreign subsidiaries, except those in the United States.

Mr. Henderson is no stranger to government. Until his recent appointment he was controller and chief financial officer of the Canadian Broadcasting Corporation, the accounts of which he will now be required to examine with a critical eye.

During World War II he was on loan to the federal government as chief of the manufacturing section on the foreign exchange control board, and also as assistant to the chairman and comptroller of the wartime prices and trade board.

He was president of the association of Canadian distillers from 1949 to 1954 and during the 1950-56 period was a member of the council and chairman of the foreign trade committee of the Canadian chamber of commerce. He was chairman of the chamber's executive council in 1957.

Mr. Henderson is a member of the institutes of chartered accountants of Nova Scotia, Ontario and Quebec; a member of the Quebec institute; and chairman of the institute's public relations committee.

As you know, the Auditor General cannot be removed by this government or any subsequent one. This can only be done by passage of a joint address by both houses of parliament.

Sometimes referred to as "the watchdog of the treasury", the Auditor General is parliament's scrutineer on how the government spends the money parliament has voted.

Perhaps Mr. Henderson would care to say a few words to the members of the committee.

Gentlemen, Mr. Henderson.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Thank you very much Mr. Chairman.

Mr. Chairman and gentlemen, I appreciate the generous introduction you have given me, Mr. Chairman, on this my first appearance before the standing committee on public accounts. As you have stated, I took office only on March 1 and consequently I am not as familiar as I would like to be with the details you will be examining and the information you will want. However, I have sought to brief myself as adequately as time would permit, and I am indebted to Mr. Ian Stevenson, the assistant Auditor General, for the help and assistance he has given me in this effort.

At the outset, Mr. Chairman, may I pay a personal tribute to Mr. Watson Sellar, C.M.G., C.A., my predecessor in office, who, as you know, retired last August after occupying the position of Auditor General for almost twenty years.

It was my privilege to meet Mr. Sellar first during the difficult war years when I served as assistant to the chairman and comptroller of the wartime prices and trade board. He was of great assistance in helping us to solve the initial problems we had to face in setting up offices quickly and in forming crown corporations for wartime purposes.

Mr. Sellar set an example during his many years in office which I shall be proud to try to equal. He earned a reputation of reporting fearlessly when he found irregular transactions while at the same time being scrupulously fair to the responsible departmental administrative officers. During his tenure of office tremendous changes took place, not only in the volume of public expenditures but in their pattern, with each change adding to his responsibilities. In the short time I have had to study the background of the audit office, I have

been impressed by the way in which the office has been organized and also by the value of the Audit Office Guide. This manual for the guidance of the audit staff was revised by Mr. Sellar shortly before he retired, and contains instructions to the staff in the performance of their audit duties which are well calculated to ensure the effectiveness of their work. I feel, Mr. Chairman, that you and your associates on the committee would like to know this because it is rendering my task at the present time so much easier.

During the period from August 5 to February 29, Mr. Ian Stevenson was acting Auditor General, and the Auditor General's report you will be considering this year bears his signature. As you are aware, Mr. Chairman, I have discussed this report with Mr. Stevenson and we come before you prepared to discuss the comments made therein and to endeavour to give you any additional information that may be required. Where we do not have information readily available, I shall be glad to arrange to obtain it and report at a later meeting of the committee.

In paragraph 5 of the report, appreciation is expressed for the cooperation extended to audit officers by treasury and departmental officers, and I would like to add my personal appreciation of this, for no audit can be effectively performed if such cooperation is lacking.

The relatively small number of what might be termed critical observations in the report—no more numerous than in the preceding year—bears testimony, I feel, to the conscientious manner in which treasury and departmental officers have continued to satisfy themselves as to the regularity and propriety of the multitudinous financial transactions of the government.

Mr. Stevenson has informed me that the practice of previous years was followed of giving departments concerned the opportunity of reviewing and commenting upon drafts of proposed report observations. I am glad of this because I feel that this practice gives assurance, as far as possible, that facts have been correctly stated and observations fairly presented in the report.

As you may already be aware, the Auditor General's office is divided into five branches. Two of these are responsible for the audits of groups of large spending departments, a third is responsible mainly for the audit of the defence services, one is engaged mainly in the audit of the large revenue collecting departments, and the remaining branch is charged with responsibility for the audit of crown corporations. Each audit branch is headed by an audit supervisor who, with a senior assistant, directs the work of staff divided into several audit sections, each of which is responsible for the audit of a department or of a group of departments or crown corporations. With your permission, Mr. Chairman, I have arranged for our supervisors to be present at some of these meetings, and today I should like to introduce two of them to you, and perhaps they would rise: Mr. B. A. Millar, whose principal responsibility is the audit of the defence services, and Mr. G. R. Long, who is mainly responsible for the audit of the large revenue collecting departments.

The CHAIRMAN: Will you come up and sit at the front, gentlemen, so we can really have a good look at you.

Mr. BELL (*Carleton*): Hear, Hear.

Mr. HENDERSON: It would be premature at this stage for me to comment at any length on the functions of the Auditor General of Canada. I believe, Mr. Chairman, that you and your associates on the committee are familiar with the definition of his duties and responsibilities contained in the Financial Administration Act, and you know from your discussions with Mr. Sellar in this committee over the past two years something of the concept he had of those duties and responsibilities. I have no hesitation in saying to you that I subscribe to the views he has expressed before this committee on previous occasions. One of these views in particular was that the observations and

comments made by this committee in the course of its deliberations and the suggestions and recommendations included in its reports to parliament are calculated to have a profound influence towards containing public expenditure. I need hardly stress the great importance of this to the Auditor General in the performance of his duties.

I am conscious that the operations of the government of Canada through its various departments, agencies and crown corporations in plain terms of receipts and expenditures since World War II have reached unprecedented heights. In fact, government has emerged as the biggest business in the country.

Consequently, I am entering upon my new duties fully aware of the signal responsibility resting on the Auditor General of Canada in his capacity as an officer of parliament under legislation which enables him to take an independent and objective view of the results of public service operations. I shall be approaching my responsibilities always with the object of understanding and assessing the basic or underlying reasons causing all expenditures of public funds.

We must appreciate I think, that the public service lacks what I might loosely call the private enterprise or profit incentive without which a private business cannot survive. This acts as an all-powerful incentive to private managements to increase revenues and cut costs. The public service must develop its own incentive yardsticks in administering public funds, not only to ensure that expenditures remain controlled, but that built-in costs, which can so often escape the notice of the best intentioned managements, come under constant scrutiny and revision.

The expenditure of public funds imposes a great responsibility both on the managements administering it and those who are charged with examining the results, like this committee and myself. Unlike private business, no portion of these expenditures can be charged to any taxable income. It is not a "fifty cent" or "tax" dollar we are working with: it is expenditure of the taxpayer's whole dollar. To my way of thinking, this presents a challenge and responsibility of no mean proportions.

The contribution which the Auditor General of Canada can bring to this task, in my opinion, is similar to the one brought every day by independent auditors to the operations of private corporations. They must seek to ensure not only that there is adherence to the provisions of the Companies Act and to related legislation, but, in cooperation with management, that there is a positive and constructive appraisal or diagnosis of the operations so that the shareholders may be assured that they are receiving their money's worth. I believe that such an approach is especially appropriate in examining the affairs of our crown corporations today. As a result of his detailed knowledge of the operations of his client obtained in the course of his regular audit duties, the auditor can work constructively with management in evaluating not only the system of internal control, organization, methods and procedures and related matters in the corporation, but also the results achieved thereunder, particularly in terms of their cost. Only in this way can the shareholders—in this instance the government of Canada—be assured that maximum efficiency is being achieved at minimum cost.

Mr. Sellar has passed on to me a record of excellent relations with parliament, with your committee, Mr. Chairman, and with all branches of the public service, and so, in carrying on the job, I know that I, along with Mr. Stevenson, our supervisors and their staffs, can count on government managements at all levels continuing to work with us in the challenging task that lies ahead.

Thank you, very much.

The CHAIRMAN: Thank you, Mr. Henderson, for a very interesting statement of principle.

Now that we are talking of principles, gentlemen, it seems to me that this committee should always strive to progress towards more efficient operation. In that respect your steering committee, at its last meeting, thought it would be not only useful but extremely necessary that we have a follow-up on those suggestions and recommendations that this committee has made during the last two years' sittings, especially in their last two reports, the report of 1958 and the report of 1959.

Acting on the suggestions of the steering committee, I wrote to Mr. Henderson, the Auditor General, and asked him if he could give us an up-to-date report—and I believe it is up-to-date as of yesterday morning at 9 o'clock—on what the various departments of government had done with respect to those suggestions your committee has made during the last two years.

If this committee is to be effective, it seems to me that our suggestions should be carefully read, digested, listened to, and acted upon, if they are worthy of consideration. If we have made any mistakes, it is up to the various departments to come and tell us we have gone off the rails; and then, shall we say, we can "arbitrate" the matter.

In any event, I have before me the official report of the Auditor General. It is the follow-up report on the suggestions this committee has made during the last two years, and I believe you have copies of this report before you.

How would the committee like to proceed with this report?

Mr. WINCH: Mr. Chairman, that is exactly the question I was going to ask you—had you any proposals in mind—because I must admit I am a little bit disturbed at finding in this report that a great many of the anomalies that were drawn to the attention of the house—and, therefore, the departments—in the last two reports still remain.

I was going to ask if you have any proposal as to what we should do; as to whether we should take it up seriatim; and as to whether you would then permit us to call the department that might be concerned, to ask them just why they have not acted on the recommendation.

The CHAIRMAN: Any other suggestions?

Mr. PICKERSGILL: Mr. Chairman, I would suggest we take these items seriatim—deal with each one, then go on to the next one.

It may be there will not be any need to deal with some of them, but in order to avoid reading the whole item, I think we could skip the reading of our recommendation and have the clerk read what has happened since. If anyone wants to make any comment on it, we can deal with that item. Then, when we have finished with that one, we can go on to the next.

Mr. BELL (*Carleton*): In order that out record be complete, ought not this report to be inserted?

Mr. PICKERSGILL: I suggest the whole thing be printed as though the clerk had read the whole of each item, but that he only start reading the pertinent parts of it.

Mr. BELL (*Carleton*): Agreed.

The CHAIRMAN: First of all, gentlemen, I take it the committee is extremely interested in this report and directs that it should be printed as an appendix; or shall we take it step by step?

Mr. PICKERSGILL: I think probably it would be convenient to have it included as an appendix as well, the whole thing, so that for future consultation of the records it would be there in a single document.

The CHAIRMAN: Just in order to make sure it forms part of our present up-to-date record will somebody move it be printed as an appendix. (*See Appendix "A".*)

Mr. PICKERSGILL: I so move.

The CHAIRMAN: With one or two words to indicate the committee is very pleased to receive this report and to proceed to consider it? In other words, I suggest to you we make this a very official part of our proceedings. It is the follow-through of our previous recommendations.

Mr. PICKERSGILL: I so move.

Mr. SMITH (*Winnipeg North*): I second that.

The CHAIRMAN: I think you are the best witness, Mr. Henderson. These are the words for which you are being made responsible.

Have the members of the committee had time to read the opening part of this report, this memorandum?

Mr. PICKERSGILL: I suggest we start at paragraph 6.

The CHAIRMAN: I should just point out to members that paragraphs 1 to 3 are merely a summary of the activities of this committee in the last two years, and it is background information.

This memorandum has been made up, first quoting the recommendation of the committee and then current comment—is that right, Mr. Henderson?

Mr. HENDERSON: Yes, we thought there were several ways of handling it. One would have been to have dealt with them verbally; but there is quite a mass of material here, and I suggested to your chairman, when he made this request to me, it might be better to put it all down with what are virtually notes behind each of the comments.

Some of the explanations are longer than I would have liked to see and probably than you would have liked to read; but we thought it better at this time that we set it out like this. Then you would have a chance to study it, and base your questions with a firm knowledge of the facts.

The CHAIRMAN: Did someone move and second, and was it agreed that this report be tabled?

Mr. PICKERSGILL: Moved by me and seconded by Mr. Smith.

The CHAIRMAN: Is it carried, gentlemen?

Agreed.

—See Appendix "A".

Expenditures on construction projects in excess of anticipated amounts.

4. In its third report, 1958, the committee made reference to the considerable extent to which expenditures incurred under the Printing Bureau construction contracts exceeded the anticipated amounts as detailed in the estimates—and it was indicated as the committee's view that the Department of Public Works should endeavour to avoid such a situation in future.

5. *Current comment by the Auditor General.* Votes 329 to 340 of 1958-59, under the Department of Public Works, read:

> Construction, acquisition, major repairs and improvements of, and plans and sites for, public buildings listed in the details of the Estimates, provided that treasury board may increase or decrease the amount within the vote to be expended on individual listed projects.

Mr. HENDERSON: In dealing with the first item, taking the 1958 report, that comes up, as the Chairman says, under item 5. Each section is headed "Current comment." The first one is expenditures on construction projects in excess of anticipated amounts.

I take it you do not want me to read the committee's reference—or do you? In some cases we did not quote it verbatim, but did a sort of summary.

Mr. WINCH: I think the important thing, so far as the committee is concerned—or, at least, as far as I am concerned—is as to whether the Auditor General has obtained an explanation as to why, in two instances, you have work which exceeded the anticipated cost, in one case by 74 per cent and in the other case by 34 per cent. I think it is an explanation of these items that would be of interest to the committee.

Mr. HENDERSON: Do you want me to read it, or comment?

Mr. BELL (*Carleton*): Just comment.

CHAIRMAN: Comment.

6. A review was made of the exepnditures incurred during 1958-59 under the above noted Votes, as augmented by supplementary Votes, with a view to ascertaining if there had been instances where expenditures under construction contracts had exceeded anticipated amounts as detailed in the estimates by significant amounts. Only two instances were noted where this seemed to have been the case:

1. Where $300,000 had been included in the details of the estimates for the testing laboratory for the Department of Public Works on Riverside Drive, Ottawa, an amount of $523,000, or 74 per cent in excess of the anticipated amount, had been expended.
2. Where $750,000 had been included in the details of the Estimates for a public building in Kingston, an amount of $1,006,000, or 34 per cent in excess of the anticipated amount, had been expended.

7. In the interest of greater parliamentary control, consideration might be given to the question of whether the treasury board's authority to increase amounts to be expended on individual listed projects, be limited to a specified percentage over the amount included in the details of the estimates.

Mr. HENDERSON: It was observed, in looking through the votes, that there were two cases where the amount in the estimates had been exceeded by transfers between allotments to the order, in one instance, of 74 per cent, and, in the other instance, of 34 per cent.

As I understand it—and I would like Mr. Stevenson to correct me on this, if I am wrong—he is following the proceedings, and I must naturally refer to him on a number of these points for more information.

As I understand it, under the present methods such excesses are possible, unless, in order to achieve a greater parliamentary control, there is established some percentage limit beyond which they should not go.

For example, you might say it would be reasonable to allow the excess to go to a figure of the order of 25 or 30 per cent, or something like that; and that beyond that point they could not go without reference back to parliament. Under the present system they are apparently able to go as high as the two cases you have before you.

On the othe side of the coin, in discussing this with the supervisors, I can appreciate there might be some extraordinary circumstance, such as building program that has to be gone ahead with during the winter and which has to be finished for some very important reason, in which a 25 or even 30 per cent ceiling would be an unnecessary restriction.

Mr. Stevenson, is there anything further you would like to add to that?

Mr. IAN STEVENSON (*Assistant Auditor General*): In the review referred to in paragraph 6 of the memorandum, notice was taken only of instances where expenditures under construction contracts had exceeded the anticipated

amount in the estimates by over 25 per cent. These two cases that are referred to in paragraph 6 were cases where the difference was more than 25 per cent.

This percentage was the one we felt might be regarded as representing a reasonable variation from the anticipated amounts.

The CHAIRMAN: Your major suggestion is in paragraph 7 though, is not it?

Mr. HENDERSON: That is correct.

Mr. WINCH: Could I ask if any explanation has been obtained as to why in that first instance it was exceeded by 74 per cent? It strikes me as a very unusual excess over an estimate.

Mr. STEVENSON: No, we did not ask for any explanation. Actually, of course, what was done was perfectly legal. Under the wording of the present appropriation, treasury board has the authority to make transfers to any extent that might be regarded as desirable, and I think it was felt that the committee might wish to call before it representatives of the department, who would be able to give that explanation.

Mr. WINCH: From the point of view of the audit department, as long as the matter is within the powers of the department or branch, then is it not the responsibility of the audit department to ask them just, "How come"?

Mr. STEVENSON: No, I think our view has been that it is not, but that we should draw it to your attention.

Mr. HENDERSON: I would like to amplify that, if I might, Mr. Winch. I think we obviously should now obtain the reason. I am sorry we have not added a few words in here indicating perhaps there was—I am sure—some very good and sufficient reason for the excess in these cases. After all, it is not unusual for estimates to be exceeded.

Mr. MACDONNELL: It is unusual for them to be exceeded by 74 per cent though, surely?

Mr. HENDERSON: I quite agree. It seems to me the point here is the question of whether you might not feel it advisable to suggest some limit be placed. It is perhaps not unreasonable to put a ceiling of 25 or 30 per cent, beyond which point you would have to return to parliament.

Mr. SMITH (*Simcoe North*): Would it not be useful if we knew whether or not these expenditures were caused by some absolutely unforeseen circumstance, in relation to the building, or whether or not they were caused by less careful estimating than ought to take place in a project of this size? If this is only bad estimating, I think there ought to be an outside limit beyond which treasury Board should not go. But if it is for some absolutely unforseeable contingency, then they should be given a certain amount of leeway.

It would seem to me that here we have a chance of possibly bringing the estimating procedures of the various departments up to scratch. Sometimes, it has occurred to me, estimates are made in accordance with exigencies of circumstance rather than in accordance with the realities of the projected building.

Mr. PICKERSGILL: Mr. Chairman, as the members of the committee know, I had quite a good deal of experience in treasury board, and I really think that it would be a very undesirable thing, both from the point of view of the administration of the government and from the point of view of real parliamentary control, to carry out the recommendation of the Auditor General in the form in which it is made here. I would like to explain very briefly why.

These votes are deliberately made to include all the public buildings in the province, precisely so that the errors or misjudgments or accidents, or anything else, in estimating in one case and in another, will iron themselves out so that we will not have grossly inflated estimates in the aggregate. I can recall a good many cases where extraordinarily good progress was made.

Often you will get a good fall and you can get a lot of building done in one part of the country, hereas you get a poor fall in another part of the country and the building is delayed. The estimates will reflect much more truly the real state of affairs if this practice is continued.

I agree with the Auditor General completely, that anything as much as 74 per cent needs some real explanation by the department; but why I think this particular method would not be helpful from the point of view of parliamentary control is that it would mean putting a whole lot of items in some years into supplementary estimates, having even further delays in the supplementary estimates and perhaps delaying the building and adding considerably to the cost while those supplementary estimates were being debated.

What I think would be very much better would be to put a provision in the Appropriation Act—perhaps put it in once and for all so that it would be part of the law of Canada—that if one of these estimates was exceeded by more than a certain amount, that should be included in the Auditor General's report and the reasons given in the report. In that way we would have any difficulty drawn to our attention right in the report and there would not be these delays in getting parliamentary approval, which can be and very often are fairly exasperating to the opposition.

We had a very recent case—with which I will not waste the time of the committee—where because some item was wanted to be passed urgently, pressure was put on us to curtail our freedom of speech in regard to other items. I feel that the flexibility of having these provincial votes in the present form gives us a much truer estimate and a much better picture of the real state of finances. But I quite agree that this is a problem which—

Mr. HENDERSON: Mr. Chairman, may I ask Mr. Pickersgill if he would not perhaps agree to go further and couple with that the suggestion that the departments themselves, right in the public accounts where the votes are exceeded, furnish the explanation? It would seem to have a place there.

Mr. PICKERSGILL: I have never had anything to do with the public accounts. Mr. Bell has, and I would be interested to know what is the special advantage of that. I am not anxious to get more material printed in blue books than is necessary, if it can be helped: I like to be able to try and read them.

Mr. HENDERSON: The reason I suggest that is that it is better to give the department responsible for it the opportunity to explain the reason for the increase in the first instance in tabling its accounts. Then you could have the auditor himself come along and give that explanation.

Mr. PICKERSGILL: Except that more public attention is drawn to things that are in the Auditor General's accounts.

Mr. MACDONNELL: Mr. Chairman, Mr. Pickersgill has referred to the possibility of weather affecting these things, the progress and what we anticipate being done in this way. It seems to me that is one thing. Then there is another thing, and that is an actual error, gross error, in the original estimate.

It seems to me that in one case we should be very ready, as Mr. Pickersgill says, to concede almost any amount of authority to people to enable them to deal with unexpected situations; but not if there has been some entirely inefficient estimate. The other point seems to me to be different, and I am wondering whether each case should be treated differently. In other words, gross—

The CHAIRMAN: Mismanagement.

Mr. MACDONNELL: Yes, gross inefficiency—that seems to me to be very different.

Mr. PICKERSGILL: Mr. Macdonnell and I both served in government. I suggest this would involve a qualitative judgment, which would be very difficult for treasury board to make in respect of one of its colleagues. I suggest that

it would be very much better for treasury board merely to have to draw attention to the fact that the estimate was exceeded by 74 per cent and then let parliament deal with the minister. The minister is responsible to parliament; he is not responsible to treasury board; and he is making the qualitative decisions.

Being a colleague of other ministers, I know how hard it is to make these qualitative decisions, and the responsibility of the minister is not to treasury board; it is to the House of Commons.

Mr. WINCH: The only tough spot there is that the house, as a house, does not deal with public accounts as public accounts.

Mr. PICKERSGILL: But we do here in this committee.

Mr. WINCH: You cannot call witnesses before parliament, and therefore you have to have this information given before the committee.

Mr. MCGEE: Mr. Chairman, are we not reaching the point where there is agreement that any change above 25 per cent be noted and that this committee be required, at their pleasure, to summon any official to explain these things? Certainly in the original instance the possibility of being called to explain will have the effect mentioned by the Auditor General in his opening remarks.

Mr. MCGREGOR: I would like to ask, why 25 per cent? If it were run by any private concern, the minute they went over their estimates somebody would get into trouble. I do not see why we should allow this thing to drift on from 25 per cent to 74 per cent, and I think there certainly should be some explanation as to how this got out of hand to 74 per cent. Who okayed it; did this pass treasury board; if so, why?

Mr. HENDERSON: Mr. Chairman, we could bring those facts back to the committee, if you so wished, in answer to your question, and give you the reasons on these two cases. In the time at our disposal in putting this together, I regret that we did not add a few sentences by way of explanation which would have lent a lot more intelligence to the point. But we could contact the departments, get a report and then bring it back in this case, if you would like to see the precise reasons behind it.

Mr. MCGREGOR: I think we should have a complete report from the department as to how these two cases got out of hand.

Mr. MCGEE: Do not we want these individuals here, rather than the summary which we have?

Mr. HENDERSON: Mr. Chairman, that brings me to this point. I noticed, in doing my homework on the background of the committee, and of my duties of office, and so on, that Mr. Sellar was the principal witness in a great many of the meetings of this committee. I would like to express the hope that some of the departmental officers, who, after all, are responsible for these matters, be called before the committee as occasion demands, and when you feel it in order, to explain some of the points that have been raised.

The present system puts the auditor of the government in the position of being called upon, in effect, to explain the actions of his client. It would be better if in this committee the client could be put on the stand a little more often than has been the case in the past. I would like to express the hope that as you proceed in this committee some of these departmental officers be called.

Mr. PICKERSGILL: I would like to raise a point of order here, Mr. Chairman. It seems to me that the point Mr. McGregor has raised—and I am not objecting to it; I agree with him completely—is introducing a new subject. As I read it, these two other estimates are concerned with the 1958-59 Auditor General's report, which we are not now considering and which we are going

to consider later. What we are considering now is what was done about the recommendations we made regarding previous reports, and I think we should really hold this point in abeyance until we come to it in the present Auditor General's report.

I think we should go on and deal with the generalized point in paragraph 7, as to what we think ought to be done in principle about these things, and we should come back to the other point when we reach it.

Mr. McGREGOR: Before we reach that point, I think it should be made clear just who made these mistakes. Was it because there was not sufficient time for planning, or were the plans wrong, or was it something else from there up that caused all this trouble, because this is certainly something that needs an explanation?

The CHAIRMAN: Gentlemen, the suggestion was made by the Auditor General—and I think most of us agree in principle—that we should, wherever possible, get the best evidence. That means calling a witness from the department concerned, rather than asking our friend, the Auditor General, to pass judgment all the time on things which were done by other people. It would be a very salutary thing for all of us: if there is an explanation, we would have it. That would satisfy your point?

Mr. McGREGOR: Does that mean we would be out of order in asking the auditor to make a survey of this particular case? I do not think we would.

The CHAIRMAN: I do not think so either, but I do think it would be much better to bring a witness in to explain it.

Mr. McGREGOR: I do not agree with that at all, because I think it is going to involve a lot of political manoeuvering, and if the auditor comes in with a statement that we all believe, we would know it is the truth—and that is what we are looking for.

The CHAIRMAN: This is a matter that should be given considerable thought. Will you leave it to the steering committee; I do not want to give a ruling one way or the other?

Mr. McGREGOR: I do not suppose we have any option but to leave it to the steering committee.

Mr. WINCH: I suggest this is a very simple matter, along the lines suggested, that it is the responsibility of the Auditor General's department to report to this committee, and if the committee wants an explanation it could ask the Auditor General to get it. But if, in his opinion, he would prefer to have it enlarged upon by some member of some other department, he could bring in a member of that department.

Mr. SMITH (*Simcoe North*): Mr. Chairman, to get back to general principles for a moment, rather than dealing with these specific cases, and for the possible guidance of the Auditor General: do you not think it would be wise in all cases where the cost has exceeded the estimate by, say 15 per cent, that he should report that fact in his report in regard to each contract, and include in that the tender price, the actual cost and a summary of the explanation of the department? Then from there it is a matter of each individual committee.

I do not think it will take much space because it would be just a paragraph. Then it would be up to the committee whether or not they wanted further explanations and whether or not they wanted to call witnesses. But if it were drawn to the attention of the committee, it seems to me that that is one of its prime functions. If we get to know about these things, then the committee itself is left to decide the course of action which should be followed.

Mr. DRYSDALE: On the same point, Mr. Chairman, I object to this idea of putting the matter purely on a percentage basis, because 15 per cent or 25

per cent of one dollar is one thing, but 25 per cent of several million dollars is a very different and substantial amount. If it is decided to have a percentage basis, I think consideration should be given also to establishing an absolute amount, whether it be $5,000 or $10,000, because 15 per cent or 25 per cent could still amount to several hundred thousand dollars.

The CHAIRMAN: Gentlemen, may we leave it this way, that we ask the Auditor General to get the facts and report at the next meeting?

Mr. REGIER: I take it that preceding this discussion, in our minutes—so that our minutes have a meaning—there will be a reproduction of this item?

The CHAIRMAN: Yes.

Mr. PICKERSGILL: That is a very good suggestion, otherwise anybody reading the minutes will not have the faintest idea what we have been talking about. Paragraphs 6 and 7 could be reprinted just ahead of the discussion.

Mr. BELL (*Carleton*): Do we understand that not only is the Auditor General going to get the details of the two instances he has referred to, but he is also going to discuss techniques of additional control with officers of the treasury?

Mr. PICKERSGILL: That is the main point.

Mr. BELL (*Carleton*): The principle is the more important matter here, I think. In general I agree with the statement made by Mr Pickersgill, but I confess I have not sufficient information, as of this stage, to formulate an opinion as to the adequacy of any particular technique in achieving the type of parliamentary control that I think all members of the committee want.

The CHAIRMAN: May we go on to agreements with architects?

Mr. MACDONNELL: Mr. Chairman, I have only one comment. It seems to me that this is a $64 question and we should not hurry It. It seems to me it is immensely important.

Mr. MCGEE: Agreed.

Mr. BELL (*Carleton*): Agreed.

Mr. MACDONNELL: I do not disagree with what has been said, but I just think we should register that comment.

Mr. DRYSDALE: One point that was raised in the discussion was the matter of the Auditor General making the decision as to witnesses. I disagree with that viewpoint. I think the Auditor General could give his explanation of the particular item and it is the decision of the committee from there, I would suggest, as to whether or not a witness should be called to amplify, rather than leaving it within the discretion of the Auditor General. Also, I suggest that it puts him in a rather embarrassing position, as to whether or not be should call individuals.

The CHAIRMAN: There must be a misunderstanding, Mr. Drysdate.

Mr. DRYSDALE: Somebody suggested that.

Mr. WINCH: That was I; but I said that if he thought he required them, then he should bring them down.

Mr. DRYSDALE: I still think the discretion should be in the committee, rather than in the Auditor General.

The CHAIRMAN: There is no doubt about the committee having the right, the sole right.

Mr. DRYSDALE: I just wanted to comment on that.

The CHAIRMAN: Shall we move ahead, gentlemen, to paragraph 8, agreements with architects?

Agreements with Architects.

8. In its third report, 1958, the committee made the suggestion that "whether 5 per cent is invariably a reasonable rate... is a subject which might usefully be explored".

9. Current comment by the auditor general. The committee, in suggesting that this subject be explored, had in mind that a lower rate than 5 per cent might be reasonable in the case of very large construction projects. However, the 5 per cent fee continues to be the one ordinarily allowed, regardless of size. The variation from this rate is upwards: to 6 per cent in the case of complex technical buildings.

10. These rates are lower than architects ordinarily receive from commercial concerns, and it is understood that for many years there has been pressure on the government to permit increased fees, on a decreasing scale, based on the actual overall construction cost, together with reimbursement for the salaries aid to supervising clerks-of-work. We understand that such an upwards revision of fees is currently under consideration the Department of Public Works having made a submission to treasury board, on its own behalf and that of other interested departments.

11. The architect's fee covers the preparation of plans and specifications and the subsequent supervision of the contract through to completion.

Mr. HENDERSON: On paragraph 8, as you observe, in your report to parliament in 1958 you suggested that the 5 per cent fee seemed to be rather the general rate, and that in buildings involving more money a lower fee might be indicated. In investigating and exploring this, which was your request, we found that five per cent was in fact the minimum regardless of size and that sometimes it moved as high as six per cent in the case of complex technical buildings.

In paragraph 10 we go on to say that these rates are lower than architects ordinarily receive from commercial concerns in private business, which I think most of us would recognize to be the case. We now find that the Department of Public Works does have an upward revision of fees in mind and currently has made that recommendation to treasury board. I do not believe treasury board has as yet acted on this. They have had to consider the merits of whatever the decision is based on.

Mr. MCGREGOR: Did I understand you to say that architects' fees in private business are more than six per cent?

Mr. HENDERSON: I believe you would find there are not very many today which run around five per cent. I suggest they are in fact a little bit higher,—six and a half or seven and that sort of thing.

Mr. WINCH: I believe there is a big difference between an architect's responsibility in respect of government construction as compared to private construction. In private construction he handles the whole job. In respect of government jobs the government has a very large architectural staff and nearly all the preliminary or basic work is done by the government. Therefore the work of the outside architect is not the same as in private construction.

Mr. HENDERSON: I believe this comment is based on those cases where the outside architect is doing all the work, and not a case where the department moves in.

Mr. MCGREGOR: From my experience I understand that the architects association fee is six per cent. If we are going to suggest to the government they pay more than six per cent I think we should certainly look into it before we get our foot into it.

Mr. WOOLLIAMS: Is it not a fact that all professional men who work for the government in a professional way probably receive less than they would from commercial concerns. I am thinking, for instance, of the medical profession or the legal profession.

Mr. MCGREGOR: I do not believe it has been proven so far as architects and engineers are concerned. I know it is not a fact in respect of them.

Mr. ROBICHAUD: Your suggestion is that the Department of Public Works has in mind an upward revision of architects fees. Do you know whether or not the department has ascertained, or have you ascertained, that it is because of a shortage of architects or any difficulty in obtaining architects at that rate?

Mr. HENDERSON: No sir. At this stage I have not looked into the economics behind the submission. I only know a submission has been made to the treasury board, the details of which I have not seen.

Mr. REGIER: I understand that when an architect works for a private corporation he is also liable for personal responsibility in the performance of his duties. How much responsibility does an architect actually assume if he works on a government project?

Mr. HENDERSON: I feel that question would have to be addressed to the officials of the Department of Public Works.

Mr. WINCH: Maybe we should call Mr. Cormier and ask him to answer that question.

Mr. REGIER: I remember a four classroom school completely disappearing in the muskeg and the architect could not be held liable because it was being built by a municipality, and the municipality and the taxpayers had to stand the complete loss. If this had happened to a business house in respect of which the architect assumed responsibility, if I were the owner of the property I would be able to make that architect account for the disaster; he would have had to assume responsibility.

Mr. WOOLLIAMS: I think we should reserve decision on this. Unless we have all the facts before us we cannot come up with an answer. It might be a question of the contract being drawn a certain way or it might involve municipal contracts and so on.

Mr. DRYSDALE: Mr. Henderson said these rates are lower than those ordinarily received from commercial concerns. What is the basis for that statement?

Mr. HENDERSON: That is a general statement, Mr. Drysdale.

Mr. DRYSDALE: Based on what?

Mr. HENDERSON: The architects association has a scale of professional fees. When this point was brought to my attention I did seem to recall that the scale was higher. I think Mr. McGregor mentioned it was six per cent. I know many cases in Montreal where it is seven or seven and a half per cent.

Mr. DRYSDALE: For buildings of a similar nature to those put up by the government of Canada?

Mr. SMITH (*Simcoe North*): It runs from six to seven per cent in Ontario I believe.

Mr. MCGREGOR: You mentioned seven per cent in Quebec. Who pays that?

Mr. HENDERSON: I think the scale put out by the Quebec association of architects provides a range, if my memory serves me right, in which the minimum is around seven.

Mr. DRYSDALE: Mr. Chairman, would it be possible to have some examples of the architectural fees from the various provinces and information as to what the fees cover?

The CHAIRMAN: I think so.

Mr. DRYSDALE: So far there is no comparable basis, in other words, buildings being constructed commercially and being constructed by the federal government where there is the same architectural problem.

The CHAIRMAN: We will try to get some information for the next meeting.

Mr. REGIER: Along with that could we also have a comparison of the responsibilities of the architects who work for private enterprise and those who work for the government.

Mr. ROBICHAUD: Could we also have the percentage of the buildings being built by Public Works where the plans are done by government architects and outside architects? I understand a certain percentage of it is done by the department itself.

The CHAIRMAN: I believe that was included in Mr. Regier's question.

Mr. REGIER: It is part of my question.

The CHAIRMAN: May we move on. We are dealing with comments really, and not recommendations.

Second Class Mail

12. The following observations were included under this heading in the committee's third report, 1958:

> The rates for mailing of newspapers and periodicals are fixed by parliament, section 11 of the Post Office Act being the pertinent section. The attention of the committee was drawn to the probability that the cost to Post Office in handling this class of mail may have exceeded $24,000,000 in 1957 while the revenues approximated $6,000,000. This heavy deficit incurred in second class mail is likely to increase in future years. Your committee accepts with reservation these financial statistics provided by Post Office and trusts that its costing program now in progress will be both more comprehensive and informative than that followed in 1955-56.
>
> In his report on 1956-57 accounts, the Auditor General points to anomalies in current application of section 11 of the Post Office Act because of changes that have since taken place in publishing practices and in the fields of distribution and communication, such as new types of publications, new arrangements with respect to places of publication and the growth of magazines where the recipients are members of associations rather than subscribers.

13. *Current comment by the Auditor General.* The handling of second class mail was estimated by the Post Office Department as costing almost $28,000,000 in 1958-59, while revenues were just over $6,000,000. Thus, compared with 1956-57 costs increased by about $4,000,000, or 16⅔ per cent, while revenues remained about the same.

14. We were informed that the cost ascertainment procedures followed in 1958-59, in estimating the expenditures for that year, were the same as those followed in 1955-56, and used as the basis for the corresponding 1956-57 figure—and we were informed that no material change in procedure is contemplated. The 1958-59 costing was based on time and volume studies made at 236 post offices during periods of one week each in May and September, 1958. We understand that the procedures followed by the department's cost ascertainment section are similar to those used in the United States, and that they are still regarded by the department as being reasonable in the circumstances.

15. It might be noted that, by reason of the fact that there has been no material change in the basis of cost ascertainment procedures in the past two years, the estimated cost figure referred to above, namely, $24,000,000 in 1956-57 and $28,000,000 in 1958-59, may be taken as providing a fair basis of comparison.

16. The cost of handling this, or any other class of mail, cannot be recorded in the accounts in exact terms; it can be little more than an informed estimate, based on the results of time and volume studies. It is a matter of deciding to what extent expenditure on time and volume studies—having in mind the associated interference with the handling of mail—is warranted in arriving at estimates that may be regarded as reasonably accurate for the purposes for which they will be used.

17. The anomalies referred to in the second observation made under the heading "Second Class Mail" in the committee's report, as having been pointed to in the Auditor General's report on 1956-57 accounts, included the following:

1. Although a newspaper or periodical is supposed to consist wholly or in great part of political or other news in order to qualify for the special rates, these rates were being extended publications of statistical or reference character.
2. In 1908 it was established that in order to qualify for the special rates, the news content should be 40 per cent or more. Special rates had been provided for the advertising content of daily newspapers but not for magazines, and although the advertising content of these sometimes exceeded 60 per cent, they were still being accepted at the special rate.
3. Periodicals were sometimes mailed to other than "bona fide" subscribers as defined by the department, but the special rate was nevertheless allowed in some cases.
4. Publications were permitted to be mailed in a postal area other than the one in which they were published, providing the postal revenue was not adversely affected—but in some cases the revenue did appear to suffer.

So far as we know, these anomalies still exist.

18. In the course of its 1958 meetings (page 377 of the minutes) the committee considered the question of week-end supplements printed in one locality and then distributed to various newspaper publishers, to be placed within the folds of their newspapers on week-ends. These mailings have, since April 1953, been allowed at the statutory newsdealers' rate of 4 cents per pound. Further consideration might be given to the propriety of accepting the week-end magazine supplements as second class mail, because they do not come within the statutory definition of a newspaper or periodical. For example, they cannot be purchased separately, and no copies are addressed to bona fide subscribers or newsdealers. An alternative method of shipment available to the publishers would be by express, but at considerably higher rates than the present 4 cents per pound; for example, the rate from Montreal to Vancouver is understood to be $14 per 100 pounds.

Mr. HENDERSON: The comment in respect of this in the 1958 report is a fairly lengthy one. I think the principal point made here has to do with the method that the post office has followed in costing up the operations governing second class mail. On the surface it may seem as though they could arrive at the cost fairly quickly, but I think we all know, and perhaps it is easily

understood, that in an operation like the post office where there is a great volume of second class mail, if it is taken as a single operation the only effective way one can arrive at a costing of it is by volume studies. In this particular case you will notice they based their costing on studies of 236 post offices for one week in May and one week in September 1958. These procedures are not dissimilar to those elsewhere, particularly in the United States. We find, in speaking to post office officials, that they have continued this approach throughout. They have not gone to what would have been a very great expense of installing a complete costing system. Therefore, in fairness to them we felt the basis on which they operate should be explained. That is the reason for the comments in paragraphs 14 and 15. I have no information before me at the moment as to why, with the costs going up, the revenue would not go up particularly at a time when there is generally more business abroad. That is the situation at the moment.

In paragraph 17 we refer to certain anomalies which exist. Apparently none of these has been altered. It may be they should be studied and examined further and the committee might wish to make some recommendations on that.

In paragraph 18 there is a point which Mr. Sellar discussed with you at some length at your previous meetings regarding the distribution of these weekend magazine supplements which continue to go through the post office on the basis of second class mail, as distinct to going by the express companies, which would cost three times as much. They continue to be classed as second class mail. As you know they are shipped out and put in the local papers with perhaps an overprint.

Mr. WINCH: I think there is a very important principle here. As past members will remember, the public accounts committee made a very exhaustive study of this question as it relates to the Postmaster General's department. Although the fact is that there is a big loss on certain types, that is not in our purview; that is a matter of policy. I think, however, the important principle is that as a result of that exhaustive study certain anomalies were drawn to the attention of the house and the department—anomalies on he basis that if they are going to be continued they should be continued on a constitutional and legal basis.

It would appear from the report which the Auditor General has just given us that not only is the situation continuing, but it is continuing without authorization to do it. In other words they are breaking the regulations and the law. I think it is a very serious principle, that a department should be conducting itself in a manner in which it is not authorized to do. I think this is a major matter which we have to consider, and as a public accounts committee we cannot be satisfied with a condition being allowed to continue and the anomalies still remain. I believe this is a very important matter for this committee to consider; that is, without going into the question of whether or not first class mail should be carrying the burden of second class mail. It is on the operation of second class mail itself.

The CHAIRMAN: There are two points, one being in paragraph 18. The wording here is:

> Further consideration might be given to the propriety of accepting the weekend magazine supplements as second class mail, because they do not come within the statutory definition of a newspaper or periodical.

Mr. WINCH: Nor do a number of magazines come in because of their advertising content.

The CHAIRMAN: In paragraph 13 he compares 1958-59 with 1956-57. There is a growing annual loss of at least sixteen and two thirds per cent in cost.

Mr. BELL (*Carleton*): I think that figure is deceptive. We had the deputy Postmaster General before us two years ago. From the evidence, I am not at all satisfied that if we were to stop carrying newspapers and periodicals there would be any substantial saving. I think in fact in the form of cost accounting adopted in the post office there is likely far too much attributed to the cost of carrying second class mail. That cost, or a very substantial cost, would still be there if the mail were not carried. I would think we have a totally inadequate system of costing in the post office department.

Mr. WINCH: Even if your contention is correct, would you agree that the method of handling this should be made legal?

Mr. BELL (*Carleton*): I see no actual illegality. I would not be surprised if in subparagraph 3 of paragraph 17 we would find there are publications in which my hon. friend from Vancouver East is very much interested.

Mr. MACDONNELL: Have we given up getting a better cost accounting system? It seems we are arguing in the dark.

The CHAIRMAN: It appears that in 1958 a witness from the post office department said they had instituted a review of their costing system and in 1959 he said it was still continuing. It may take two or three years for all we know. Some time in the future we would like to hear what they have done.

Mr. REGIER: On orders of the day the other day the Postmaster General indicated there had been a change in certain second class mail rates. I wonder whether we could have a report on that, to see whether or not the changes to which he referred in the house have any influence on our major complaints here.

Mr. MCGEE: I think it just referred to things of a householder type.

Mr. PICKERSGILL: Third class mail. As a member of parliament I am much more interested in seeing that third class mail pays its way than second class mail.

Mr. WOOLLIAM: It is a good thing this is not an election year, because some of our mail might go second or third class and increase the cost of the campaign.

The CHAIRMAN: Would you like the Auditor General to inquire and report on this to the next meeting?

Agreed.

Mr. MCGEE: What will be the nature of his enquiry? Will it be as to the progress made on the cost accounting system?

Mr. WINCH: And the removal of the anomalies.

Mr. HENDERSON: The type of system. I would like to find out more precisely what the type of system is and to what extent it can be improved or made more accurate without going to a lot of unnecessary expense. Then there are the other points which were brought up and the situation in respect of the anomalies. I should explain that in putting these comments together I did not have the benefit of any discussion with officials of the post office department at this point.

Mr. MACDONNELL: There is also the question of the statute of limitations running against us. Seriously, does it take two years?

The CHAIRMAN: I am afraid only the Postmaster General can answer that. Is there anything else on this matter of second class mail? If not, shall we go to public accounts.

The Public Accounts

19. The committee's third report, 1958, included the following observation under this heading:

> The financial Administration Act requires that the Minister of Finance settle the 'form' of the public accounts, but long estab-

lished practice is that the book, especially the degree of particularization, be periodically discussed with the public accounts committee. There has been no conference on the subject for several years; therefore it is suggested that the attention of the Minister of Finance be drawn to submissions recently made to this committee, together with associated comments by committee members, to the end that ministerial proposals for improving the public accounts may be considered when this standing committee is again organized.

20. *Current comment by the Auditor General.* This subject was, of course, considered by the committee last year and, as a result, a recommendation was included in that committee's second report, 1959. Reference is made later in this memorandum to the action taken as a result of the recommendation.

SECOND REPORT, 1959

The Form of the Public Accounts

31. The committee recommended in the second report, 1959, that the Minister of Finance give further consideration to the form of the public accounts. The committee suggested that the task of printing the publication might be distributed over a longer period by printing in a separate volume, the financial review by the deputy minister and the certified financial statements. The committee noted that were the listings of salaries to commence at $8,000 instead of $5,000 in Part II, the comptroller of the treasury estimates that the book would be substantially reduced and his work of preparation expedited and money saved.

32. *Current comment by the Auditor General.* The 1958-59 public accounts continues to include Parts I and II in the same volume, but listings of salaries were shortened by the inclusion of salaries of only $8,000 and over.

33. Should the committee wish to make further suggestions to the Minister of Finance regarding the shortening of the public accounts, it might wish to consider suggesting the omission of travelling expenses incurred by employees in the under $8,000 salary range, whose names would then not require to be listed (almost 10 pages, each with three columns of names and amounts, are used for the Agriculture Department alone, in the 1958-59 volume).

34. The committee might also wish to consider further whether the desirability of including, in each departmental section of the public accounts, the payments made to each supplier and contractor to a total of $10,000 or over, justifies the considerable cost that might be involved in the preparation of these listings by the office of the comptroller of the treasury.

35. We have requested from the comptroller of the treasury an estimate of the cost of publishing the 1958-59 public accounts.

36. It is understood that this printing cost may be to the order of $50,000, with the cost of preparing the material approximating $200,000, or a total of about $250,000.

Mr. HENDERSON: In paragraph 31 there is reference to the form of the public accounts. They continue to be published in parts I and II but the listing

of salaries has been shortened in that the salaries included are only those of $8,000 and over. That is in the one published for the year ending March 31, 1959.

You will have noted that travelling expenses, however, were listed with respect to people who were earning under $8,000 and whose names otherwise would not appear. As pointed out in paragraph 34, the committee might also wish to consider the desirability, in each departmental section of these accounts, of including payments made to each supplier and contractor to a total of $10,000 or over.

The cost of preparing this report was the subject of discussion at your last year's meetings, when the comptroller of the treasury appeared before you and gave you the printing costs. He made the statement, I believe, that the cost of preparing the material—that is the time consumed in putting all this together, through the various government departments and offices of the chief treasury officer—was probably four or five times the cost of the printing.

I do not at the present time have the actual cost of the 1958-59 accounts, but the comptroller is very kindly getting it for me. However, notwithstanding the changes that were made this year, we expect it to run around $50,000 for the printing, and about four times that amount for the time and overhead consumed in putting all this voluminous material together. So, you have here a $250,000 job.

The CHAIRMAN: Mr. Auditor General, I understand the position is that the Minister of Finance is charged with the responsibility of deciding as to the form; and that, in point of fact, after listening to some of our recommendations, he has made some changes. Is that not right, Mr. Bell?

Mr. BELL (*Carleton*): Yes.

Mr. WINCH: In following those recommendations and making those changes, what saving has been effected?

Mr. HENDERSON: I would wish to ask Mr. Balls that question. He has not yet got me the cost for 1958-59.

The CHAIRMAN: Have you any comment, Mr. Bell? You know this pretty well.

Mr. BELL (*Carleton*): I think, Mr. Chairman, the attitude of the Minister of Finance is that he would welcome any unanimous view of the committee and would pay, of course, the very greatest of respect to any unanimous recommendations that this committee might make.

I think I should only qualify that by saying that the minister of Finance is anxious to provide to parliament every possible detail of information which this committee or any member of parliament thinks desirable, and he does not wish to restrict that degree of information in the public accounts in any way, unless it is clear that parliament desires such restriction in the information.

If, from any quarter of parliament, there is any view that information should be contained in the public accounts which is not so contained, he would certainly give attention to that view.

This is a matter which is really for parliament, and you will find, in this respect certainly, the Minister of Finance is very sensitive to the views of all members of parliament, in all sections of the house.

Mr. WINCH: Do you think we could extend that attitude a little?

Mr. BELL (*Carleton*): I do not think it needs much extension, Mr. Winch.

Mr. PICKERSGILL: Mr. Chairman, there is just one observation I would like to make.

There are two aspects to this matter. There is the question of saving a little money. I have some grave doubt as to whether very much money is

likely to be saved by any reduction in the amount of detail of public accounts. But I think the very much more important consideration is this, that anybody who weighs the public accounts, or looks at them in their present form, is very apt to open something else. It does seem to me that if they are engulfed with a whole lot of detail of the names of, no doubt, very worthy but obscure people who, for one reason or another, have got a few dollars out of the treasury, the whole effect of that is to discourage people who have a limited amount of time from reading the public accounts at all.

I do think, from the point of view of this committee, from the point of view of the House of Commons and from the point of view of the effective control of public expenditure, the less insignificant detail that goes into the public accounts, the more chance there is there will be real financial control.

I know this is an odd view for a member of the opposition regarding public expenditure, but it is my considered judgment as a member of the opposition.

The CHAIRMAN: Any comment, Mr. Auditor General?

Mr. HENDERSON: I do not think so, Mr. Chairman. I find myself in agreement with those members who have spoken on it.

I agree with Mr. Pickersgill's point that the clearer, the better the presentation of them, the more you are going to have the public pay attention to them and read them.

This is a very forbidding volume, and I have certain ideas about it. Unfortunately, I have not had time to advance too far into it, but I am looking forward to the opportunity of discussing that with the officials of the Department of Finance and treasury board. The responsibility for its preparation is theirs, as Mr. Bell pointed out. If we can render any assistance to them, I would be more than happy to work toward that goal.

Mr. MCGREGOR: Has the Auditor General any recommendations as to what should be done, or do you intend to bring in a recommendation? Would you like this committee to ask you to bring in a recommendation as to what you think should be cut out?

Mr. HENDERSON: At this stage, Mr. McGregor, I really have not had all the opportunity I would like to put together those recommendations, and therefore, if I might be permitted, I would like to withhold my comments on that until some later occasion.

Mr. MORTON: Mr. Chairman, may I suggest, in view of what the Auditor General has said, and in view of the fact that we ourselves are not sure of exactly what we would like to do in this respect, that it would be much more advisable to proceed more cautiously; and, perhaps, the Auditor General might have a year in which to look at the thing, rather than our going off saying something now. Would not it be sounder to wait and let him think his views over for a period of a year; and let us pick out things we would like to consider and re-consider during that period? Then, perhaps next year, we could bring forward some recommendations. Perhaps, meanwhile he could discuss it with the Minister of Finance.

The CHAIRMAN: Paragraphs 21 to 30 are rather technical—

Mr. PICKERSGILL: There is a lot of sense in the very conservative point of view expressed by Mr. Morton, but the Auditor General has had a long experience in private business, and, before he becomes too bureaucratically set in his ways, I hope he would not mind telling us what private business would do about a thing like this, trying to get value for its money.

Mr. MORTON: Of course, we appreciate that Mr. Pickersgill has had long experience in bureaucracy.

The CHAIRMAN: The objective is very simple: how to make public accounts reports more readable and easier to digest by the general public.

Paragraphs 21 to 30 are fairly technical, and I think Mr. Pickersgill was the expert on that aspect last year. Could you summarize it in one minute?

Treatment of Receipts for Services Rendered.

21. The committee's third report, 1958, included the following comment on this subject:

> Practice in some countries and provinces takes one form and in others the opposite. Your committee therefore maintains an open mind but is of opinion that the subject should be thoroughly explored because ever-expanding public activities correspondingly add to the responsibilities resting on parliament when voting supply. It is recommended that the Minister of Finance cause a review to be made of vote structures to provide for the needs of two servicing departments with some distinguishing characteristics in services provided in return for fees or charges—for example, the departments of Veterans Affairs and Secretary of State. It being a fact-finding study of administrative and parliamentary needs, it would be desirable were an officer of the Auditor General to participate.

22. *Current comment by the Auditor General.* The audit office has not been informed of any fact-finding study planned or made by the Department of Finance regarding this matter, although some changes in the treatment of receipts have been observed in the 1960-61 main estimates. For example the "deduction allotment" previously provided with respect to the annual vote for "Indian and northern health services —operation and maintenance" for the Department of National Health and Welfare has been dropped, with all receipts now to be credited as revenue. The "deduction allotment" had previously been used to record, as credits to the vote, amounts recovered for services provided under agreements with Northwest Territories and Yukon Territory.

23. The problem of when to credit a vote and when revenue is a complex one, and it is suggested that further consideration be given to it. Receipts arising out of expenditures made under appropriations might be regarded as falling into two classes:

(a) where all the expenditures charged to an appropriation are related to its basic purpose, and where the receipts are incidental;

(b) where some expenditures are incurred, and charged to the appropriation in the first instance, which are additional to the expenditures incurred in relation to the basic purpose of the appropriation, and the additional expenses are recoverable wholly or in part through receipts.

24. The practice is for receipts in the first of these classes to be credited as revenue, as is done, for example, in the case of the annual appropriation for "Administration of the Food and Drugs and the Proprietary or Patent Medicine acts" (vote 241 in 1958-59). In this case, all expenditures charged to the appropriation are for the basic purposes of the appropriation and are incurred without consideration as to the nature or amount of receipts that might result.

25. Receipts in the second of the above-noted classes are credited to the appropriation concerned, assuming, of course, that such accounting action was contemplated when the estimate was being made of the net amount required.

26. Recoveries of extraneous expenditures are recorded as credits to appropriations in two different ways: (i) through the allotment account concerned, where the amounts recovered are equal to and identifiable with the individual expenditures incurred (e.g., a recovery of an outlay in travelling expenses), and (ii) through a "deduction item" provided for in the estimates details, where the amounts recovered are not identifiable with individual expenditures incurred (e.g., recoveries in respect of treatment services, etc., provided to persons for whom the Veterans Affairs Department is not financially responsible).

27. The first of these two methods presents no problem from the point of view of parliamentary control. After the amount received has been credited to the appropriation it cancels out the charge that had previously been made, leaving the appropriation to record charges associated with the basic purpose of the vote.

28. But when the second procedure is followed it becomes a matter of importance, from the viewpoint of parliamentary control, to consider extent to which the actual receipts exceeded what had been estimated. It would seem that any excess of receipts should be credited as revenue, otherwise funds become available for expenditure beyond what was contemplated by parliament. This point arises in connection with the Veterans Affairs vote for "treatment services—operation of hospitals and administration", and is involved in the comment made in paragraph 39 of the Auditor General's report for 1958-59. It should be mentioned, however, that although the excess amount became available in this case, it was not actually spent by the department.

29. In the case of appropriations under the Secretary of State, to which reference was made in the committee's third report, 1958, the revenues would seem to fall under the first of the two classes referred to above, i.e., all the expenditures charged are related to the basic puposes of the appropriations and the receipts are incidental (even though, in the cases of two votes, the revenues exceed the expenditures) —and they are credited as revenue.

30. The committee's comment on the question of the treatment of receipts included reference to the practice varying in different countries and provinces. In the United Kingdom the practice is followed of granting appropriations-in-aid which, on the face of it, would seem to correspond to permitting the crediting of receipts to appropriations in Canada However, in the United Kingdom funds are provided to and expended by the individual departments, and when an appropriation-in-aid is granted the departmental accounting officer is permitted to retain receipts and use them for the payment of expenditures, only up to the amount of the appropriation-in-aid, paying over to the consolidated fund (corresponding to our consolidated revenue fund) any excess of receipts beyond the amount of the appropriation-in-aid. Parliamentary control is therefore maintained in a way that would not be possible under our system of centralized expenditure payment, were receipts permitted to be credited to appropriations to an extent greater than had been estimated for purposes of calculating the net appropriations required. In British Columbia the practice has been followed of crediting receipts to appropriations to a greater extent than in the case of the federal government, but many classes of sundry receipts, e.g., licences, fees and fines and penalties, are still credited as revenue.

Mr. PICKERSGILL: As a matter of fact, I think it is a very big subject, on which I have a great deal to say. I think this is the most fundamental point in the whole report. I hold very strong and very radical views on this subject.

Mr. BELL (*Carleton*): Oh no!

Mr. PICKERSGILL: Views which I held when I was minister, and I think it is absolutely ridiculous to include in our revenues all these receipts that are not revenues at all, but that are payments for services.

I believe there should be a radical re-casting of the public accounts on the British basis, but I do not think we should start it at three minutes to eleven.

Mr. BELL (*Carleton*): No.

The CHAIRMAN: Gentlemen the next meeting is next Wednesday, March 30, and I think we should continue with this memorandum.

Mr. BELL (*Carleton*): Should we not follow what the steering committee decided, and go on to the Canada Council?

The reason I suggested that is that the other place is also to review the Canada Council, and we do not want to get into a situation where there is a conflict between the two houses.

Mr. PICKERSGILL: We are going on with this, are we not?

Mr. BELL (*Carleton*): I was suggesting we follow the steering committee's decision, of going to the Canada Council, so that there should be no conflict between the two places.

Mr. PICKERSGILL: I understood we made a decision we would complete this document with the Auditor General before going on to Canada Council.

The CHAIRMAN: I think we could complete this in about half of the next meeting, and then start on the Canada Council.

Mr. BELL (*Carleton*): You will probably be in conflict with the other place.

Mr. PICKERSGILL: We have priority.

APPENDIX "A"

MEMORANDUM

Suggestions and recommendations made by the 1958 and 1959 Committees in their Reports to the House of Commons, together with current comments by the Auditor General regarding action taken by the departments concerned

1. The Standing Committee on Public Accounts held 25 meetings between July 29, 1958, and September 5, 1958, for the purpose of examining the Public Accounts, Volumes I and II, and the Auditor General's Report for the fiscal year ended March 31, 1957. In its Third Report to the House of Commons, presented on September 5, 1958, suggestions and recommendations were made regarding action that might be taken by departments with respect to some of the matters that the Committee had considered in the course of its meetings.

2. In 1959 the Committee held 16 meetings between March 3 and June 22, for the purpose of examining the Public Accounts, Volumes I and II, and the Auditor General's Report for the fiscal year ended March 31, 1958. In its Second Report to the House of Commons, presented on July 30, 1958, suggestions and recommendations were again made as to the departmental action that might be taken regarding various matters.

3. Extracts from, or summaries of, the suggestions and recommendations made in the above-noted Reports of the Committee, together with current comments by the Auditor General regarding action that has been taken by the departments concerned, are now given in this Memorandum.

THIRD REPORT, 1958

Expenditures on construction projects in excess of anticipated amounts.

4. In its Third Report, 1958, the Committee made reference to the considerable extent to which expenditures incurred under the Printing Bureau construction contracts exceeded the anticipated amounts as detailed in the Estimates—and it was indicated as the Committee's view that the Department of Public Works should endeavour to avoid such a situation in future.

5. *Current comment by the Auditor General.* Votes 329 to 340 of 1958-59, under the Department of Public Works, read:

> "Construction, acquisition, major repairs and improvements of, and plans and sites for, public buildings listed in the details of the Estimates, provided that Treasury Board may increase or decrease the amount within the vote to be expended on individual listed projects."

6. A review was made of the expenditures incurred during 1958-59 under the above noted Votes, as augmented by supplementary Votes, with a view to ascertaining if there had been instances where expenditures under construction contracts had exceeded anticipated amounts as detailed in the Estimates by significant amounts. Only two instances were noted where this seemed to have been the case:

> 1. Where $300,000 had been included in the details of the Estimates for the testing laboratory for the Department of Public Works on Riverside Drive, Ottawa, an amount of $523,000 or 74% in excess of the anticipated amount, had been expended.

2. Where $750,000 had been included in the details of the Estimates for a public building in Kingston, an amount of $1,006,000, or 34% in excess of the anticipated amount, had been expended.

7. In the interest of greater Parliamentary control, consideration might be given to the question of whether the Treasury Board's authority to increase amounts to be expended on individual listed projects, be limited to a specified percentage over the amount included in the Details of the Estimates.

Agreements with Architects.

8. In its Third Report, 1958, the Committee made the suggestion that "whether 5% is invariably a reasonable rate . . . is a subject which might usefully be explored".

9. *Current comment by the Auditor General.* The Committee, in suggesting that this subject be explored, had in mind that a lower rate than 5% might be reasonable in the case of very large construction projects. However, the 5% fee continues to be the one ordinarily allowed, regardless of size. The variation from this rate is upwards: to 6% in the case of complex technical buildings.

10. These rates are lower than architects ordinarily receive from commercial concerns, and it is understood that for many years there has been pressure on the Government to permit increased fees, on a decreasing scale, based on the actual overall construction cost, together with reimbursement for the salaries paid to supervising clerks-of-work. We understand that such an upwards revision of fees is currently under consideration, the Department of Public Works having made a submission to Treasury Board, on its own behalf and that of other interested departments.

11. The architect's fee covers the preparation of plans and specifications and the subsequent supervision of the contract through to completion.

Second Class Mail

12. The following observations were included under this heading in the Committee's Third Report, 1958:

> "The rates for mailing of newspapers and periodicals are fixed by Parliament, section 11 of the Post Office Act being the pertinent section. The attention of the Committee was drawn to the probability that the cost to Post Office in handling this class of mail may have exceeded $24,000,000 in 1957 while the revenues approximated $6,000,000. This heavy deficit incurred in second class mail is likely to increase in future years. Your Committee accepts with reservation these financial statistics provided by Post Office and trusts that its costing programme now in progress will be both more comprehensive and informative than that followed in 1955-56.
>
> "In his report on 1956-57 accounts, the Auditor General points to anomalies in current application of section 11 of the Post Office Act because of changes that have since taken place in publishing practices and in the fields of distribution and communication, such as new types of publications, new arrangements with respect to places of publication and the growth of magazines where the recipients are members of associations rather than subscribers."

13. *Current comment by the Auditor General.* The handling of second class mail was estimated by the Post Office Department as costing almost $28,000,000 in 1958-59, while revenues were just over $6,000,000. Thus, compared with 1956-57, costs increased by about $4,000,000, or 16⅔%, while revenues remained about the same.

14. We were informed that the cost ascertainment procedures followed in 1958-59, in estimating the expenditures for that year, were the same as those followed in 1955-56, and used as the basis for the corresponding 1956-57 figure—and we were informed that no material change in procedure is contemplated. The 1958-59 costing was based on time and volume studies made at 236 post offices during periods of one week each in May and September, 1958. We understand that the procedures followed by the Department's Cost Ascertainment Section are similar to those used in the United States, and that they are still regarded by the Department as being reasonable in the circumstances.

15. It might be noted that, by reason of the fact that there has been no material change in the basis of cost ascertainment procedures in the past two years, the estimated cost figures referred to above, namely, $24,000,000 in 1956-57 and $28,000,000 in 1958-59, may be taken as providing a fair basis of comparison.

16. The cost of handling this, or any other class of mail, cannot be recorded in the accounts, in exact terms, it can be little more than an informed estimate, based on the results of time and volume studies. It is a matter of deciding to what extent expenditure on time and volume studies—having in mind the associated interference with the handling of mail—is warranted in arriving at estimates that may be regarded as reasonably accurate for the purposes for which they will be used.

17. The anomalies referred to in the second observation made under the heading "Second Class Mail" in the Committee's report, as having been pointed to in the Auditor General's report on 1956-57 accounts, included the following:

1. Although a newspaper or periodical is supposed to consist wholly or in great part of political or other news in order to qualify for the special rates, these rates were being extended to publications of statistical or reference character.
2. In 1908 it was established that in order to qualify for the special rates, the news content should be 40% or more. Special rates had been provided for the advertising content of daily newspapers but not for magazines, and although the advertising content of these sometimes exceeded 60%, they were still being accepted at the special rate.
3. Periodicals were sometimes mailed to other than "bona fide" subscribers as defined by the Department, but the special rate was nevertheless allowed in some cases.
4. Publications were permitted to be mailed in a postal area other than the one in which they were published, providing the postal revenue was not adversely affected—but in some cases the revenue did appear to suffer.

So far as we know, these anomalies still exist.

18. In the course of its 1958 meetings (page 377 of the Minutes) the Committee considered the question of week-end supplements printed in one locality and then distributed to various newspaper publishers, to be placed within the folds of their newspapers on week-ends. These mailings have, since April 1953, been allowed at the statutory newsdealers' rate of 4 cents per pound. Further consideration might be given to the propriety of accepting the week-end magazine supplements as second class mail, because they do not come within the statutory definition of a newspaper or periodical. For example, they cannot be purchased separately, and no copies are addressed to bona fide subscribers or newsdealers. An alternative method of shipment

available to the publishers would be by express, but at considerably higher rates than the present 4 cents per pound; for example, the rate from Montreal to Vancouver is understood to be $14 per 100 pounds.

The Public Accounts

19. The Committee's Third Report, 1958, included the following observation under this heading:

> "The Financial Administration Act requires that the Minister of Finance settle the 'form' of the Public Accounts, but long established practice is that the book, especially the degree of particularization, be periodically discussed with the Public Accounts Committee. There has been no conference on the subject for several years; therefore it is suggested that the attention of the Minister of Finance be drawn to submissions recently made to this Committee, together with associated comments by Committee members, to the end that ministerial proposals for improving the Public Accounts may be considered when this Standing Committee is again organized."

20. *Current comment by the Auditor General.* This subject was, of course, considered by the Committee last year and, as a result, a recommendation was included in that Committee's Second Report, 1959. Reference is made later in this Memorandum to the action taken as a result of the recommendation.

Treatment of Receipts for Services Rendered.

21. The Committee's Third Report, 1958, included the following comment on this subject:

> "Practice in some countries and provinces takes one form and in others the opposite. Your Committee therefore maintains an open mind but is of opinion that the subject should be thoroughly explored because ever-expanding public activities correspondingly add to the responsibilities resting on Parliament when voting Supply. It is recommended that the Minister of Finance cause a review to be made of vote structures to provide for the needs of two servicing departments with some distinguishing characteristics in services provided in return for fees or charges—for example, the departments of Veterans Affairs and Secretary of State. It being a fact-finding study of administrative and parliamentary needs, it would be desirable were an officer of the Auditor General to participate."

22. *Current comment by the Auditor General.* The Audit Office has not been informed of any fact-finding study planned or made by the Department of Finance regarding this matter, although some changes in the treatment of receipts have been observed in the 1960-61 Main Estimates. For example, the "deduction allotment" previously provided with respect to the annual Vote for "Indian and Northern Health Services—Operation and Maintenance" for the Department of National Health and Welfare has been dropped, with all receipts now to be credited as Revenue. The "deduction allotment" had previously been used to record, as credits to the Vote, amounts recovered for services, provided under agreements with Northwest Territories and Yukon Territory.

23. The problem of when to credit a Vote and when Revenue is a complex one, and it is suggested that further consideration be given to it. Receipts arising out of expenditures made under appropriations might be regarded as falling into two classes:

(*a*) where all the expenditures charged to an Appropriation are related to its basic purpose, and where the receipts are incidental;

(b) where some expenditures are incurred, and charged to the Appropriation in the first instance, which are additional to the expenditures incurred in relation to the basic purpose of the Appropriation, and the additional expenses are recoverable wholly or in part through receipts.

24. The practice is for receipts in the first of these classes to be credited as Revenue, as is done, for example, in the case of the annual Appropriation for "Administration of the Food and Drugs and the Proprietary or Patent Medicine Acts" (Vote 241 in 1958-59). In this case, all expenditures charged to the appropriation are for the basic purposes of the appropriation and are incurred without consideration as to the nature or amount of receipts that might result.

25. Receipts in the second of the above-noted classes are credited to the appropriation concerned, assuming, of course, that such accounting action was contemplated when the estimate was being made of the net amount required.

26. Recoveries of extraneous expenditures are recorded as credits to appropriations in two different ways: (i) through the allotment account concerned, where the amounts recovered are equal to and identifiable with the individual expenditures incurred (e.g., a recovery of an outlay in travelling expenses), and (ii) through a "deduction item" provided for in the Estimates Details, where the amounts recovered are not identifiable with individual expenditures incurred (e.g., recoveries in respect of treatment services, etc., provided to persons for whom the Veterans Affairs Department is not financially responsible).

27. The first of these two methods presents no problem from the point of view of Parliamentary control. After the amount received has been credited to the appropriation it cancels out the charge that had previously been made, leaving the appropriation to record charges associated with the basic purpose of the vote.

28. But when the second procedure is followed it becomes a matter of importance, from the viewpoint of Parliamentary control, to consider the extent to which the actual receipts exceeded what had been estimated. It would seem that any excess of receipts should be credited as Revenue, otherwise funds become available for expenditure beyond what was contemplated by Parliament. This point arises in connection with the Veterans Affairs vote for "Treatment Services—Operation of Hospitals and Administration", and is involved in the comment made in paragraph 39 of the Auditor General's Report for 1958-59. It should be mentioned, however, that although the excess amount became available in this case, it was not actually spent by the Department.

29. In the case of appropriations under the Secretary of State, to which reference was made in the Committee's Third Report, 1958, the revenues would seem to fall under the first of the two classes referred to above, i.e., all the expenditures charged are related to the basic purposes of the appropriations and the receipts are incidental (even though, in the cases of two Votes, the revenues exceed the expenditures)—and they are credited as revenue.

30. The Committee's comment on the question of the treatment of receipts included reference to the practice varying in different countries and provinces. In the United Kingdom the practice is followed of granting appropriations-in-aid which, on the face of it, would seem to correspond to permitting the crediting of receipts to appropriations in Canada. However, in the United Kingdom funds are provided to and expended by the individual departments,

and when an appropriation-in-aid is granted the departmental accounting officer is permitted to retain receipts and use them for the payment of expenditures, only up to the amount of the appropriation-in-aid, paying over to the Consolidated Fund (corresponding to our Consolidated Revenue Fund) any excess of receipts beyond the amount of the appropriation-in-aid. Parliamentary control is therefore maintained in a way that would not be possible under our system of centralized expenditure payment, were receipts permitted to be credited to appropriations to an extent greater than had been estimated for purposes of calculating the net appropriations required. In British Columbia the practice has been followed of crediting receipts to appropriations to a greater extent than in the case of the Federal Government, but many classes of sundry receipts, e.g., licences, fees and fines and penalties, are still credited as Revenue.

SECOND REPORT, 1959

The Form of the Public Accounts.

31. The Committee recommended in the Second Report, 1959 that the Minister of Finance give further consideration to the form of the Public Accounts. The Committee suggested that the task of printing the publication might be distributed over a longer period by printing in a separate volume, the financial review by the Deputy Minister and the certified financial statements. The Committee noted that were the listings of salaries to commence at $8,000 instead of $5,000 in Part II, "the Comptroller of the Treasury estimates that the book would be substantially reduced and his work of preparation expedited and money saved".

32. *Current comment by the Auditor General.* The 1958-59 Public Accounts continues to include Parts I and II in the same volume, but listings of salaries were shortened by the inclusion of salaries of only $8,000 and over.

33. Should the Committee wish to make further suggestion to the Minister of Finance regarding the shortening of the Public Accounts, it might wish to consider suggesting the omission of travelling expenses incurred by employees in the under $8,000 salary range, whose names would then not require to be listed (almost 10 pages, each with three columns of names and amounts, are used for the Agriculture Department alone, in the 1958-59 volume).

34. The Committee might also wish to consider further whether the desirability of including, in each departmental section of the Public Accounts, the payments made to each supplier and contractor to a total of $10,000 or over, justifies the considerable cost that might be involved in the preparation of these listings by the Office of the Comptroller of the Treasury.

35. We have requested from the Comptroller of the Treasury an estimate of the cost of publishing the 1958-59 Public Accounts.

36. It is understood that this printing cost may be to the order of $50,000, with the cost of preparing the material approximating $200,000, or a total of about $250,000.

National Defence Expenditures on Education

37. The following observations are included under this heading, in the Committee's Second Report, 1959:

> "... only where capital expenditures were incurred in constructing schools—the total in the year approximately $5,400,000—is any disclosure made in the Public Accounts of expenditures by the Department

of National Defence in providing educational facilities for children of members of the Service Forces. On inquiry, your Committee was informed that, including the $5,400,000 noted above, approximately $11,500,000 was spent by the Department in the year, and that these expenditures are distributed in the National Defence section of the Public Accounts to 7 standard objects of expenditure: headings for each of the Service Forces, such as Professional and Special Services—travel and removal expenses, municipal or public utility services.

"Your Committee is of the opinion that it would be more informative were these Department of National Defence costs consolidated and suitably disclosed. Whether this may be more efficiently done by use of a special vote or otherwise is regarded as a matter for the Treasury Board to consider."

38. *Current comment by the Auditor General.* It is understood that the Department proposes to consolidate its education costs and to give a summary of such costs, under suitable headings, in the annual Defence White Paper, commencing with that for 1959-60, in order to meet the suggestion made by the Public Accounts Committee.

39. An unofficial summary of the 1958-59 expenses is:

Operating Costs:	
Salaries of teachers	$5,412,000
Travel and transportation	210,000
School supplies	515,000
Maintenance	723,000
Rental of school buildings (Overseas)	243,000
Non-resident school fees	989,000
Sundries	32,000
	8,124,000
Less: Provincial Grants	1,570,000
Total Operating Cost	6,554,000
Capital Costs:	
Construction	2,705,000
Capital Assistance	206,000
Total Capital Costs	2,911,000
Total Education Costs	9,465,000

Non-Productive Payments.

40. The following observation was included under this heading in the Committee's Second Report, 1959:

"The attention of your Committee was drawn to a number of charges where payments were legally made but without any public benefits resulting. Among the cases were rents paid for space unoccupied over extended periods. Your Committee appreciates that payments of this type can never be wholly avoided but is of the opinion that some publicity would be a useful safeguard. It is, therefore, recommended that the Minister of Finance consider directing that, when the accounts of a year include charges of the type now referred to, they be suitably detailed in the Public Accounts."

41. *Current comment by the Auditor General.* No listing of non-productive payments was included in the Public Accounts for the fiscal year ended March 31, 1959.

Suggestion Award Board Expenditures.

42. The Committee's Second Report, 1959, included the comment under this heading that:

> "The Auditor General noted that in recent years it has been annual pratice to charge this vote [Miscellaneous minor or unforeseen expenses] with expenditures incurred by an interdepartmental service known as the Suggestion Award Board. The amount involved is not large, being $21,859 in the year under review as compared with $16,992 in the previous year. However, your Committee is convinced that, in principle, it impairs Parliament's control of Consolidated Revenue Fund when recurring administrative costs are financed by this vote and recommends that, in future, costs of the Board be charged to some other vote."

43. *Current comment by the Auditor General.* In the Main Estimates, 1960-61, the wording of the Vote for salaries and contingencies of the Civil Service Commission (Vote 65) is enlarged to provide for the payment of "compensation in accordance with the Suggestion Award Plan of the Public Service of Canada". In the Details of the Estimate (page 2), an amount of $32,000 is listed opposite a special object of expenditure heading, the effect being that a ceiling is placed on the payments, subject to increase only with the approval of the Treasury Board.

International Relief Payments.

44. The following is included under this heading in the Committee's Second Report, 1959:

> "To establish the present state of affairs, your Committee recommends that the Department of Finance decide whether the Government has any financial responsibility with respect to the undistributed balance held by the Red Cross Society."

45. *Current comment by the Auditor General.* We understand that this matter is under active consideration at the present time.

Agricultural Institute of Canada Publications.

46. The observations made under this heading in the Committee's Report include:

> "Since 1934, the Department of Agriculture has been absorbing the printing costs of certain publications of the Agricultural Institute of Canada. The arrangement was then entered into because of the financial problems of the society. In 1957-58, costs absorbed by the Department exceeded $18,600, with the amount distributed over six votes of the Department.
>
> "It is long established practice to disclose, in the Estimates any grant to a non-governmental body, but that has never been done in this case. Moreover, it is generally regarded as being contrary to the public interest indirectly to subsidize what is represented to the public as a non-public publication. Your Committee is therefore of the opinion that the existing situations should be reviewed and corrected."

47. *Current comment by the Auditor General.* In the 1960-61 Main Estimates the wording of the annual Appropriation for the Information Division of the Department of Agriculture was enlarged as follows:

> Vote 2 Information Division including a grant in the amount of $26,000 to the Agricultural Institute of Canada ..... $638,410.

This enlargement in the wording of the Vote would appear to remedy the situation commented upon by the Committee, by bringing the grant under Parliamentary control.

Service Forces Expenditures.

48. It was noted in the Committee's Report that consideration had been given to "some cases of extremely high transportation and removal expenses incurred by the Service Forces which were decidedly unrealistic", and the following comment was recorded:

> "It is recognized that those subject to military discipline necessarily enjoy limited discretionary powers in raising queries with respect to decisions of superiors but, financial consequences falling on taxpayers generally, it is recommended that, simultaneously with the review of regulations and practices, consideration be given to extending the financial role of the civilians in the Department to prevent the recurrence of similar extravagances in the future."

49. *Current comment by the Auditor General.* One case which had given rise to the comment by the Committee was that mentioned in the Auditor General's Report for 1957-58, where there had been reimbursement of the $313 cost incurred in a short local removal. In a departmental review of practices associated with removals, it was decided that effective financial control would best be attained in the case of local moves, were a cash allowance of a set sum established, to apply regardless of the distances travelled, the rank of the claimant or other circumstances. The Minister of National Defence informed the House of Commons on March 9, 1960 (Hansard, p. 1883) that "under the new regulations servicemen are limited now to an allowance of $75 to cover these costs, but in exceptional circumstances authority may be granted for the reimbursement of expenses in excess of this amount".

50. Action has also been taken by the Department along the lines recommended by the Committee, by arranging with the Chief Treasury Officer in the Department that transportation and removal expense claims submitted to his office for payment, and thought to be excessive or unreasonable, would be held back for review by civilian administrative officers of the Department.

Post Office Savings Bank.

51. Comments were included in the Committee's Second Report, 1959, regarding the changes that had taken place over the past half-century in the relationship between Post Office Savings Bank deposits and deposits in the chartered banks, which might be expected to affect Post Office Savings Bank policy. The Committee suggested that consideration be given to the present-day role of the Post Office Savings Bany—although it indicated that it would be unfortunate were service discontinued at the approximately 450 communities that were wholly dependent on the Post Office for banking service.

52. *Current comment by the Auditor General.* We understand that the Post Office Department has continued throughout 1959 to give consideration to this matter.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Public Accounts (1959), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, MARCH 30, 1960

WITNESS:

Mr. A. Maxwell Henderson, Auditor General

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

22831-2—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaugton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

ORDER OF REFERENCE

FRIDAY, March 25, 1960.

Ordered.—That the name of Mr. Danforth be substituted for that of Mr. Murphy on the Standing Committee on Public Accounts.

TUESDAY, March 29, 1960.

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

Attest

L.-J. RAYMOND,
Clerk of the House.

22831-2—1½

MINUTES OF PROCEEDINGS AND EVIDENCE

WEDNESDAY, March 30, 1960.
(3)

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*), Bissonnette, Campbell (*Lambton-Kent*), Coates, Danforth, Deschatelets, Hales, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGrath, McGregor, Morissette, Morton, Nugent, Pickersgill, Robichaud, Smith (*Winnipeg North*), Stefanson, Tucker, Villeneuve and Winch.—23

In attendance: From the office of the Auditor General: Mr. A Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General. *Fraom the Post Office Department:* Mr. G. A. Boyle, Deputy Postmaster General. *From the Department of Public Works:* Mr. L. V. McGurran, Financial Adviser.

The Committee resumed its consideration of the memorandum submitted to it during the last meeting respecting "Suggestions and recommendations made by the 1958 and 1959 Committees in their Reports to the House of Commons, together with current comments by the Auditor General regarding action taken by the departments concerned".

The Auditor General read into the record certain information relative to *Second Class Mail—Costs* and to *Second Class Mail—Anomalies in Classification.*

The witness also tabled a memorandum re: *Cost Ascertainment Procedures in the Post Office Department.*

Agreed.—That the abovementioned memorandum be included in the Committee's Record; (*See Appendix "A-1" to today's proceedings*).

Mr. Boyle, Deputy Postmaster General, was called and questioned respecting the subject-matter of the memorandum submitted today respecting *second class mail.* He was then permitted to retire.

Mr. Henderson read into the record a memorandum respecting:

(1) Expenditures on construction projects in excess of anticipated amounts; and

(2) Agreements with architects.

The witness was questioned thereon.

Mr. McGurran was called, questioned briefly and permitted to retire.

The Committee considered Paragraphs 21 to 30 of the memorandum submitted by the Auditor General on March 23rd, as they appear on Pages 35-37 in Appendix "A" to the Committee's Proceedings No. 1.

The Auditor General tabled a memorandum re: *Audit Office suggestions for recording receipts for services rendered:* (*See Appendix "B-1" to today's Proceedings*).

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

Resolved.—That the Committee continue, on April 6, 1960, with the points referred to in the Auditor General's memorandum dated March 23rd; and that the hearing of the representatives of the Canada Council be postponed until after the Easter recess.

At 11.00 a.m. the Committee adjourned to the call of the Chair.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, March 30, 1960

The CHAIRMAN: Gentlemen, we have a quorum. If it is possible, I wish we could start at 9.30 prompt. I know that, because there are so many committees at work, the pressure is quite great, but let us try to start at 9.30, if we can.

This morning we are to continue the examination of the memorandum, submitted on March 23, by the Auditor General, with current comments, regarding action taken by the departments concerned on the suggestions and recommendations made by this committee in its last two reports to the House of Commons.

At the last meeting a few questions were asked with regard to the Post Office and also with regard to Public Works. I understand Mr. Henderson has the answers with him. Perhaps you would like to hear those answers now.

First, we could have the answers with regard to the post office?

Mr. A. MAXWELL HENDERSON (*Auditor General*): Mr. Chairman and gentlemen, at the last meeting the committee asked for up-to-date information concerning two things: firstly, the post office's procedure in allocating its costs against the several classes of mail handled and services performed; and, secondly, why the five anomolies listed under items 17 and 18 on page 3 of my March 22 report still prevail.

I have the facts on this, and because there are a number of figures involved, Mr. Chairman, I put them together in the form of a memorandum, which you might care to have distributed.

There are two memoranda being distributed. The first is a sort of summary, and the supporting one is the detail of the cost ascertainment methods, to which reference is made in this item.

Taking the first point, second class mail costs, reference was made to the cost of handling second class mail, estimated by the Post Office at $24 million in 1956-57 and at $28 million in 1958-59, while revenues therefrom remained at the $6 million level in both fiscal periods.

In 1956-57 total Post Office expenditure for all classes of mail and all services was $140 million and total net revenues $145,800,000, giving a surplus of $5,800,000. The second class mail expenditure estimate as stated was $24 million and the revenue $6 million. Thus 14.8 per cent of the expenditures and slightly ever 3.6 per cent of revenues were attributed to second class mail.

In 1958-59, that is, two years later, total Post Office expenditure for all classes of mail and all services was $157,800,000 and total revenues $157,500,000, giving a deficit of $300,000. The second class mail estimated cost for that year is stated to be $28 million with revenues still $6 million. Thus 15.2 per cent of the expenditures and 3.3 per cent of revenues were attributed to second class mail.

In this two-year comparison, the Post Office, whose objective is to be self-supporting, has moved from a surplus position of $5,800,000 in 1956-57 to a deficit of $300,000 in 1958-59. This is due in large part to the deficit in handing second class mail which, as already stated, is estimated to have increased by some $4 million during the two-year period.

The basis on which the costs were estimated by the Post Office engaged the attention of this committee in 1958 and again at its meeting on March 23 last.

I have discussed the procedures employed in making these estimates with senior officials of the Post Office Department and find that it is the generally accepted method of spot time study and costing usually employed to reach estimated or rough costings of this type. This method, which is explained in a general, way, is set out in a separate memorandum for the information of the committee. It is employed in all large operations where an exact costing would in fact necessitate interrupting the service while it is carried out. Large operations like public utilities and transportation services have the same problem—they must make spot time and volume studies unless they are prepared to interrupt their service and install an expensive cost accounting method to obtain an exact costing of the one particular segment of their business.

In this instance, I think the Post Office's estimated figures on second class mail are sufficient to show clearly that not only is second class mail not paying its way, but that it is being subsidized to a considerable extent by users of other mail services.

The second point, on second class mail, related to anomalies in classification.

With reference to the five anomalies listed under items 17 and 18 on page 3, we have been advised by officials of the Post Office as follows:

1. That there are relatively few publications of a statistical or reference character which have been accorded the special reduced rates. These are borderline cases which could fall within the orbit of an opinion received from the Department of Justice years ago to the effect that the words "or other news" should not receive any restricted meaning. The rates in effect on publications of this type, therefore, have not been disturbed.

2. That, because most daily and weekly newspapers were consistently carrying advertising in excess of 60 per cent, the restrictions were relaxed so that publications with advertising not in excess of 70 per cent of the total space could be accepted as second class matter.

3. That the department interprets the phrase '"bona fide subscriber" to mean a person who has paid or undertaken in writing to pay the regular subscription price of the publication and who is not more than one year in arrears. Where publications are published by fraternal organizations or other associations and the publication is sent to each member of the group by virtue of his having paid a membership fee, it is the practice to require that the publishers have in their possession evidence that the members are aware that the fee paid covers the subscription price.

   In the case of a publication published by a religious organization, a certified statement from the pastor or responsible member of the church to the effect that he is authorized to pay the subscription price on behalf of the member is accepted by the Department as proof of a bona fide subscription.

4. That the words "provided the postal revenue was not adversely affected" were presumably placed in the legislation for the purpose of ensuring that the publishers would not be permitted to select a mailing point with the object of obtaining a forty mile free area or of evading a higher rate of postage which they would normally have to pay. The department is satisfied that the few publishers enjoying alternative points of mailing did not select these places primarily with the above objects in view, and no action has been taken to discontinue existing arrangements in this respect.

5. That the concession to week-end supplements will be reviewed and, if it is found that the four cent rate is a paying one, a regulation will be enacted, under the authority vested in the Postmaster General under the Post Office Act, to provide for the acceptance of week-end supplements at the rate of four cents per pound; otherwise the present concession will be withdrawn.

These were explanations furnished by the Post Office Department, Mr. Chairman, with respect to the comment that there had been no change in the existence of these anomalies since your 1958 report.

The CHAIRMAN: I understand, Mr. Henderson, you have prepared a second memo with regard to cost ascertainment procedures.

Mr. HENDERSON: That has been distributed to the members, and I would be happy to read it, if you wish me to.

In effect, it shows the size and nature of this problem, and is intended to supplement the comments I have made.

Mr. BELL (*Carleton*): Could we have it printed as an appendix?

The CHAIRMAN: Is that agreeable to the committee?

—(See appendix "A-1")

Mr. BELL (*Carleton*): I have not had a chance, Mr. Chairman, to read that particular memorandum, but does it set forth the extent to which this alleged deficit in the carrying of second class mail applies to second class mail originating in Canada, as opposed to second class mail originating abroad, and which we in Canada must carry free, under the postal union arrangements?

Mr. HENDERSON: It is my understanding, Mr. Bell, that the study, as indicated—because it was a time-volume study—was based on the movement of mail through 236 post offices over a given two-week period. There is a reference to that at the top of page 2, that that is the actual basis. On that basis the costing would include all the mail from foreign sources and otherwise which would be passing through the post office at that time.

Mr. BELL (*Carleton*): But there is no breakdown given as between the Canadian originating and foreign sources?

Mr. HENDERSON: No. You will notice, at the bottom of page 2, the costs are set out as part of the $28 million. That is the nature of the costs, but not the nature of the mail.

Mr. BELL (*Carleton*): The point I am endeavouring to make is that we should not attribute this deficit to Canadian publications enjoying the second class rate. A very substantial part of it, as I think all of us know, arises through the carrying free in Canada of American periodicals. They come to this country in tremendous numbers. We are bound to carry them, of course, but we should not let any odium, if such it be, of this deficit apply entirely to Canadian publications.

Mr. HENDERSON: Mr. Chairman, if I could reply to Mr. Bell: I find the costing employed in this case is based on originating mail in Canada as it must be.

The CHAIRMAN: Mr. Henderson, is Mr. Boyle of the Post Office in the room?

Mr. HENDERSON: Yes, Mr. Chairman.

The CHAIRMAN: As he is, he might be the best witness.

Mr. Boyle, would you care to come up here and give us the opportunity of asking you a few questions?

Mr. G. A. BOYLE (*Deputy Postmaster General*): I hope they are not too complicated.

The CHAIRMAN: No, we are just trying to get information; that is all. Mr. Boyle is Deputy Postmaster General—is that not right?

Mr. BOYLE: Yes.

The CHAIRMAN: Perhaps he is the best qualified person, at the moment, to reply to any questions the Committee may have.

Mr. MACDONNELL: Mr. Chairman, could I ask a very simple question? I do not think I grasp yet the reason for this very substantial change for the worse. That leads me to ask whether it would be possible—because I confess I cannot grasp them at first sight—for these memoranda to be in our hands the day before the meeting, so that we could have a chance to study them.

Can Mr. Boyle explain to us—and it may be in here, but I have not grasped it yet—what actually is the difference? Are we giving more service, or what causes the several million dollars' worsening in the last two years?

Mr. BOYLE: This cost ascertainment, sir, takes care of all classes of mail. We get a costing of all classes of mail. We get a separate amount for newspapers and periodicals. The increase in cost of second class mail, or any class of mail, is in great part, due to increased expenses of the Post Office Department generally.

Mr. WINCH: Mr. Chairman, could I ask Mr. Boyle a question?

The CHAIRMAN: Yes, Mr. Winch?

Mr. WINCH: I am interested in this first memorandum, in the reply to the anomaly which we call No. 5, that is relative to the week-end supplements.

I gather from the memorandum we have just received that the Post Office Department agrees with the contention of the Auditor General that the granting of a 4-cent rate was not according to statutory authority and, therefore, the Post Office Department is going to review the entire situation; and if they find the 4-cent rate is a paying one, then they are going to bring it within the statute by an amending regulation.

The question I would like to ask is this: if it is found the 4-cent rate is not a paying one but that, let us say, a 5 or 6-cent rate was a paying one, then is there an inference here that a regulation might be brought in only at the increased rate? Is that a fair assumption?

Mr. BOYLE: Yes, that is right, with regard to the increased rate.

Mr. WINCH: But the basic principle on supplements is that it is going to be a paying proposition or it will not be raised?

Mr. BOYLE: That is right.

Mr. PICKERSGILL: There is a point arising out of Mr. Bell's question I would like to ask Mr. Boyle about, and I might preface it by saying that in asking it my face is a little red because I was once Acting Postmaster General for nearly a year. However, I had never before understood that we have reciprocity under the postal union arrangements in carrying second class mail. Does that mean that the Canadian post office derives no revenue from carrying *Time* magazine or any of these other American periodicals which are posted in the United States, and we in Canada have to carry all these United States publications free in exchange for getting all the vast volume of magazines in the United States carried free? If so, this is the most one-sided bargaining arrangement we have ever entered into. It involves a huge subsidy to American periodicals as opposed to Canadian periodicals in Canada. I never appreciated this before.

Mr. BOYLE: I might say we operate between Canada and the United States by way of a special treaty, or convention as we call it. That convention was signed in 1922. It provides that you mail in Canada to the United States at your domestic rates and the United States patrons mail to Canada at their domestic

rates, with a proviso that in the case of second class mail it is at a little higher rate from the United States to Canada than from Canada to the United States. That is an exception in the convention.

Mr. PICKERSGILL: Perhaps I might interrupt. And the postage goes to the country of origin?

Mr. BOYLE: Yes.

Mr. PICKERSGILL: The total amount?

Mr. BOYLE: Yes.

Mr. PICKERSGILL: There is no division of the spoils?

Mr. BOYLE: No.

Mr. BELL (*Carleton*): A higher rate goes to the United States.

Mr. PICKERSGILL: It is fantastic.

Mr. BOYLE: Under this it is more economical for a United States publisher to mail in Canada than it is to mail in the United States because of the point I mentioned a moment ago. The result is most of the larger publications in the United States send their publication by freight or express to designated places in Canada. The Canadian post offices designates where they will take them and they are put in the mail in Canada and Canada receives postage from those mailings. That includes, as I say, the larger United States publications. I do not have before me a list. I was a spectator here and did not bring up any statistics. The revenue received by Canada because of these mailings, in round figures, is $800,000.

Mr. MACDONALD (*Kings*): My question is based on an item in the memorandum re cost which reads: "if a proper cost accounting system were set-up". I presume that the Post Office department has a cost accounting system, and I judge from Mr. Henderson's remarks that the system is inadequate or does not go far enough.

Mr. HENDERSON: The post office has a cost accounting system as such in respect of its entire operations. It would have to have it; but when it comes to ascertaining the cost of some particular segment, in this case second class mail with all the ramifications described in the memorandum, the accepted way of going about it—and this is not peculiar to the post office, but pertains as well to public utilities, transportation companies and so on—is to have a time study over a certain period. In this case they look the second class mail over 236 points in a week, and they actually have to hold up the mail in order to do it. Possibly that is a fair basis for determining the size of the problem. It does not presume to be accurate, but it gives enough of the figure to show there is a danger point here which needs to be remedied. In this case they have arrived at these round figures for second class mail, and I showed how the whole of the $28 million was made up.

Mr. MACDONNELL: I am not sure I understood that. I understood you to say that the great change in the result of second class mail was just due to a general rise in cost. I want to be sure that is what you really intended.

Mr. BOYLE: That is what I really intended. What I mean is this. If you take one expenditure, for instance, movement of mails by trains and so on, all transportation costs have gone up tremendously as have the costs of transportation for everybody in the last three years. There are, for example, the extra payments to the railways determined by the board of transport commissioners and so on. Now, we take that transportation cost total and take second class matter and we apportion the cost of handling the number of pounds of second class matter, and it increases because of the increased transportation and other costs all across the board.

Mr. NUGENT: I was not quite sure in respect of Mr. Henderson's last remark to Mr. Bell on the question of the cost of second class mail. I believe Mr. Henderson said it was for mail originating in Canada only. I am wondering whether or not it is for all second class mail?

Mr. HENDERSON: The cost of this particular study—the $28 million—was based on mail at the originating point, and that is within Canada. Is that correct, Mr. Boyle?

Mr. BOYLE: Partly. I think we might say, however, that it includes all second class matter handled in the Canadian mails during the period of the tests. That is projected for the year—all second class matter transmitted in Canada during the period of the test.

Mr. BELL (*Carleton*): So it includes mail originating abroad for which the foreign country alone receives the revenue?

Mr. BOYLE: Yes.

Mr. NUGENT: Is there any way of knowing what percentage of that second class mail originated in Canada and what part originated abroad?

Mr. BOYLE: We could do that. Perhaps I should say this. I mentioned a treaty with the United States; that treaty governs the rate on newspapers mailed in the United States to Canada and in Canada to the United States. We are presently renegotiating that. You can perhaps understand that I cannot say what we hope to get in that treaty, but there will be in that revision of the treaty, obviously, a revision of the rates.

To answer the second question, chartered accountants can do almost anything you ask them. We could segregate—

Mr. PICKERSGILL: That is a very dubious testimonial.

Mr. BOYLE: We could segregate, for instance, the United States publications, pinpoint them and get the cost of them. We could do that in respect of the United States as against our other foreign publications. That can be done. However, we do not change our rates often, as most of you know. If there were an indication from parliament that they wanted to get this information, or if it were indicated they were going to change the rates on second class matter, we could get it. The present system which has been described by Mr. Henderson in his memorandum on cost ascertainment costs us $200,000 every three years. That is why we do it every three years. We did do it every year, but felt, why spend $200,000 every year if you do not need the information immediately. If we did a cost ascertainment every year, to get the figure would probably cost us $225,000 a year because we try to do it by getting our employees to make the checks and counts and do everything within their time so far as we can. It requires a terrific number of man-hours. If we had to do it every year I think it is obvious it would cost more.

The CHAIRMAN: Mr. Boyle, I am trying to be absolutely fair in this regard, especially to the post office. I understand part, if not all, of your trouble is due to the fact that you are contained within the Post Office Act, and the rates and regulations established I believe in 1911, or a long time ago; and that within those powers you do the best you can.

Mr. BOYLE: Yes.

The CHAIRMAN: If the rates are too low or your authority is not big enough, then the fault is not with you, but lies where?

Mr. BOYLE: With parliament.

The CHAIRMAN: I am sorry that you had to say so.

Mr. PICKERSGILL: There are a couple of questions I would like to put about the mail from the United States. I take it that we get no revenue on a certain proportion of that mail we get, because it is posted in the United States?

Mr. BOYLE: Yes.

Mr. PICKERSGILL: And in another proportion we get about $800,000 because they shipped it up here by freight or some other way and posted it in Canada. Have you any rough notion what the volume is on the one as compared with the other? That is, those posted in the United States on which we get nothing and those posted in Canada on which we get $800,000?

Mr. BOYLE: I do not have statistics because we have not taken statistics. It is a very dangerous thing to make a guess. It is a small proportion of the total. The volume of United States newspapers mailed in the United States to Canada is a small proportion of the total poundage we are discussing in respect of the total poundage of second class mail carried in Canada.

Mr. PICKERSGILL: Could you give me a name of some very well known periodical posted in the United States, and another well known one posted in Canada, for example.

Mr. BOYLE: Perhaps the most generally known one is *Life*. It is mailed in Canada. The *Saturday Evening Post* is mailed in Canada as also *Good Housekeeping*.

Mr. MACDONNELL: In the past year has there been any substantial change in the relative amount posted in the United States and in Canada?

Mr. BOYLE: In the rate?

Mr. PICKERSGILL: In the volume.

Mr. BOYLE: The volume from the United States to Canada is increasing yearly.

Mr. PICKERSGILL: Actually, it is better for us to have it posted in Canada because we only lose a certain amount, whereas we lose it all if posted in the United States.

Mr. BOYLE: Yes.

Mr. PICKERSGILL: What relation does this $800,000 which you estimate you get from the United States periodicals posted in Canada bear to the total revenue from second class mail?

Mr. BOYLE: Well, as I said the $800,000 is from mailing in Canada of United States publications and our total postage for all second class matter mailed in Canada is $6 million.

Mr. PICKERSGILL: It is between one-seventh and one-eighth, about 12 per cent—something like that?

Mr. BOYLE: That is right.

Mr. PICKERSGILL: So that about 12 per cent of the loss—if that is the right word to apply to it—is on carrying American periodicals posted in Canada. Then we lose the total amount of whatever it costs to carry those that are posted in the United States. That would be a correct statement?

Mr. BOYLE: That is an assumption, but a natural one. However, this is complicated. It is not beyond you people, but it is complicated inasmuch as in the case of handling the United States publications we can—by virtue of the place where we get them, by virtue of our transportation costs and by virtue of the volume of that mail—conceivably handle those possibly at a little less than a Canadian publication.

Mr. WINCH: If Canada should decide to increase the second-class rate, would there not be a danger those publications would prefer to mail from the United States, instead of mailing from Canada?

Mr. BOYLE: Yes, you always have that problem.

Mr. WINCH: Also, if the rate were increased, would not the Canadian public be subsidising the foreign publications that much more?

Mr. BOYLE: That is a reasonable assumption.

The CHAIRMAN: Mr. Boyle, is not the whole crux of this matter to be found in paragraph 4 of the memorandum headed "Notes requested by the committee on matters related to the Post Office Department"?

May I just read it to refresh your mind? It says:

> In this two-year comparison, the Post Office, whose objective is to be self-supporting, has moved from a surplus position of $5,800,000 in 1956-57 to a deficit of $300,000 in 1958-59. This is due in large part to the deficit in handling second-class mail which, as already stated, is estimated to have increased by some $4 million during the two-year period.

Is that not the problem?

Mr. BOYLE: That is right.

The CHAIRMAN: Have you any suggestions to make?

Mr. BOYLE: No. You cannot clear the situation as regards revenue unless you change the rates.

Mr. MORTON: Mr. Chairman, I wonder if Mr. Boyle would have any idea of the increase in rates which would be necessary to put it on a paying basis?

Mr. BOYLE: You are asking me a difficult question because the rates structure is such that there are different rates for different classes of periodicals. Frankly, I could not say, offhand, what we would have to suggest.

Mr. MORTON: What I was wondering was this: it is true the premise seems to put the Post Office on a paying basis, but is there not some point at which you may limit the service which the Post Office should also give to the country if you increase your rates; and, perhaps, at which point it would be dangerous to increase the rates for the sake of the efficiency of the service?

Have you any comment on that?

Mr. BOYLE: In commenting on that, I would like to go back to a remark of the chairman a few minutes ago. Parliament decided what was to be done about newspapers and periodicals. The section of the act under which we determine today whether a newspaper or periodical is entitled to the statutory privilege is a clause which was in the act shortly after confederation. I just do not know the year, but it has been the same clause in there all these years.

I wanted to get in this little remark. We appreciate what the Auditor General has said in his remarks. The relationships between our officers are 100 per cent. But the interpretation of that clause in the act is a most difficult one. I would say you could have ten people in this room, who are lawyers, who would give you a different interpretation on a particular clause.

Mr. WINCH: That would not be anything new at all.

Mr. BOYLE: To come to your point, the point I am making is that parliament decided long ago—and up to now they have maintained that view—that the dissemination of news and current events should be encouraged for the building of national character. So they provided what we grant privileged rates for this class of mail; and that is why we have the deficit.

Mr. WINCH: In other words, then, Mr. Boyle, you are saying it was a policy decision of a past parliament that decided first-class mail should subsidize second-class mail, and it is not the responsibility of the Post Office Department?

Mr. BOYLE: The answer is "all parliaments," because this legislation has been before a number of parliaments, and each parliament has apparently taken the same view.

Mr. WINCH: It has only been one in the last seven years?

Mr. BOYLE: Yes.

Mr. BELL (*Carleton*): Right back to confederation?

Mr. BOYLE: Yes.

Mr. PICKERSGILL: I do not think parliament ever decided first-class mail would subsidize second-class mail.

Mr. WINCH: By establishing the rates it did that?

Mr. PICKERSGILL: I happen to know a good deal about it. We found a 4-cent rate was losing money on first-class mail, and we raised the rate to 5 cents. Up to now at 5 cents it has not lost money, but you could hardly have made it 4¾ cents; and it was not done for the purpose of subsidizing some other class of mail, but was done to make first-class mail self-supporting.

It is getting nearer and nearer to the danger point all the time, from what Mr. Boyle tells us about the increase in transportation costs.

Mr. WINCH: That is what we are saying.

The CHAIRMAN: I wonder if we have not discussed this sufficiently this morning. We will be coming back to the same subject later on, when we consider the Auditor General's report.

Mr. MACDONNELL: Is this "one horse, one rabbit" arrangement sacred? Has the astonishing figure we have got this morning ever been discussed before parliament, or is that something that may have arisen?

The CHAIRMAN: We have referred to it in two of our reports—in 1958 and 1959. Of course, the policy decision is not up to us.

Mr. HENDERSON: I should like to make an observation, Mr. Chairman, if I may.

The CHAIRMAN: Yes, Mr. Henderson?

Mr. HENDERSON: As I understand it, the Post Office has been turning in a surplus for some years, and had a notable one of $5,800,000 two years ago. In 1957-58 it ran into the red, $300,000, and that obtained through 1958-59.

With figures of this size, a deficit of $300,000 is getting rather close to the break-even point, and it would be within the competence, I would hope, of the Post Office Department—with, perhaps some assistance from this committee—to get it back on a break-even level before large deficits begin to accumulate.

Mr. PICKERSGILL: I would like to take advantage of the presence here this morning of the Deputy Postmaster General, to ask a question that is not really related to this matter, but which is related to third-class mail.

The CHAIRMAN: Yes, Mr. Pickersgill?

Mr. PICKERSGILL: Could the Deputy Postmaster General say whether he thinks the rates being paid for third-class mail are paying for the carriage of third-class mail?

Mr. BOYLE: They are today, just about.

Mr. PICKERSGILL: It does not seem to me there can be public interest in subsidizing third-class mail. This is nothing else but advertising, and surely it should pay its way and not a nickel should be paid by the taxpayer?

I can see a real public interest in the dissemination of news and information, but in the dissemination of pure advertising for one person or another, if it is not being paid for it ought to be.

Mr. BELL (*Carleton*): So say we all.

Mr. PICKERSGILL: This is a new experience for me, Mr. Chairman, to have everybody agree with me.

Mr. BELL (*Carleton*): Might we have an indication from Mr. Boyle as to what the cost may be of carrying certain second-lass mail which, as a matter of national policy, we have always carried completely free of charge? One

class of mail that comes to my mind is the weekly newspapers, rural newspapers, distributed within a radius of twenty miles of the place of publication. Ever since confederation, I think, we have carried them completely free of charge, as a matter of national policy and encouragement. Is there any significant factor involved?

Mr. BOYLE: No, it is insignificant. Naturally, these are light in weight. They are mailed in the smaller places. The law stipulates they must be mailed in places having a population of less than 10,000 and distributed within 40 miles. Our costs for local distribution in those areas are not great, and the volume is not great. So the carrying cost of this compared to the total costs here is insignificant.

Mr. BELL (*Carleton*): Are there any other publications which we carry completely without charge?

Mr. BOYLE: No.

Mr. BELL (*Carleton*): The rural weeklies are the only ones?

Mr. BOYLE: That is right.

Mr. PICKERSGILL: And the Canada Gazette.

Mr. DANFORTH: I would like to comment on second-class mail distributed to form national character. I wonder how the distribution of American magazines could be interpreted as taking part in the forming of national character.

The CHAIRMAN: Is that a question of fact or of opinion?

Mr. MACDONALD (*Kings*): Mr. Chairman, I would like to ask Mr. Boyle how large his cost accounting department or division is; and whether he is satisfied it is sufficiently large to look into all these possible problems in reducing expenditure.

Mr. BOYLE: It is sufficiently large to make a very accurate costing during the periods we have them now, every three years. It is not sufficiently large to undertake the studies to determine, for example, what proportion of the total newspaper volume is represented by United States publications. If you go into refinements, our staff would have to be increased.

Perhaps the best illustration of this is, to get these costs involves one ton of forms printed on both sides. If you do that four times a year you have four tons of forms. If you do it every month, you have more forms.

It is obvious that if we go into refinements or have more frequent checks, we have to have more staff and greater cost. For the moment, we are satisfied our staff is sufficient to do it accurately.

Mr. BEECH: Someone said that first class mail was not subsidizing the second class mail. If that is the case, it must have some effect on the service of the first class mail. I see postmen coming around, with their bags on their backs, and it must tie up deliveries to such an extent that where we are getting only one delivery a day now we could get two, if it was not for those packages they have to carry around.

The CHAIRMAN: Did you want a reply Mr. Beech?

Mr. BEECH: I am wondering what effect the delivery of this second class mail has on the first class service.

Mr. BOYLE: It does not delay first class mail because we have to gear our letter carrier distribution so that the postman gets there promptly with the letters. If he has more volume than he can handle, his route would have to be shortened so that he could get his letters delivered on time. We would have to re-arrange his walk. However, it does not delay first class mail.

Mr. BEECH: Well, I know that my delivery is two or three hours late on some mornings, all because of the load they have to carry.

Mr. MORTON: Along that line, I notice in the city of Toronto the pick up from the local boxes on the street are such and such, and I presume that is an effort to cut down the cost and, indirectly, it would be because of the increased subsidy.

Mr. BOYLE: No, that is not the reason. The curtailment in Toronto—and this applies in other cities as well—is due to the fact that our transportation costs are going up very rapidly. Therefore, we examined the situation, and the curtailment is made in regard to the collection of boxes at a given time which, when the truck arrives from the post office, will not result in the mail being expedited. In other words, it is late in the evening after the dispatches or a certain time during the day when it will not get a dispatch. But this relates to the high cost of transportation and has no relation to the subject which we are discussing.

The CHAIRMAN: The second question related to the Department of Public Works and, in particular, to expenditures on construction projects in excess of anticipated amounts.

Mr. HENDERSON: Mr. Chairman, I put some notes together, as requested by the committee, on this point and, again, because of the number of figures and so forth we have had it mimeographed and will distribute copies before I proceed.

The CHAIRMAN: Is it the desire of the committee that this should be read word for word? To my way of thinking, it is quite a good answer. It is a complete answer to the questions raised.

Mr. BELL (*Carleton*): It is a very important matter.

Mr. PICKERSGILL: I think it would be very desirable to have it read, sir.

Mr. HENDERSON: Mr. Chairman, the first point is an explanation of the excesses. You will recall that two cases were cited in the March 22 memorandum. The first is as follows:

(1) At the time the estimate of 1958-59 expenditure was made (in September 1957) it was the expectation that the expenditure on the testing laboratory for the Department of Public Works would amount to $970,000 in 1957-58, leaving only $300,000 to complete the project in 1958-59. However, the contractor succeeded in carrying the work only to the point where, by the end of 1957-58, expenditures of $755,000 had been incurred in that year. The expenditures left to be incurred in 1958-59 to complete the project, therefore, were $215,000 more than had been estimated for that purpose. The result was that the 1958-59 expenditures—which otherwise would have exceeded the $300,000 anticipated amount by only $8,000—did, in fact, exceed that amount by $223,000 and totalled $523,000.

Then, by way of a footnote:

The estimated cost of this project when initiated in August 1956 was $1,353,000. The total cost when completed, was $1,422,000. The excess of $69,000 was largely caused by extras necessitated by functional changes required by Treasury board.

(2) The estimate of the 1958-59 expenditure on the public building in Kingston had also been made up in September 1957. Although the contract termination date was September 1958, it was not considered possible that the job could be completed on schedule, and the forecast for 1958-59 expenditures was accordingly only $750,000, leaving an anticipated $300,000 balance for payment in 1959-60. In this case the contractor had proceeded more quickly than had been anticipated when the estimate was prepared, and the building was virtually

completed in 1958-59, with expenditures in that year reaching a total of $1,006,000. The estimated cost of this project when initiated was $1,310,000. The total cost to the end of 1958-59 was $1,635,000. The excess of $325,000 was due primarily to lack of competition.

Mr. PICKERSGILL: Perhaps the Auditor General could explain a little more fully in regard to what lack of competition means.

Mr. HENDERSON: I suspect that lack of competition—and I had it confirmed with the officials of Public Works—is a case where, when the tenders are called, it develops that there are only two available for the job and, perhaps, one retreats, leaving only one. It is a matter of supply and demand.

Mr. ROBICHAUD: In such a case is it not a custom to call for new tenders, when the difference is so high?

Mr. HENDERSON: That, I believe, has been the practice of the Department of Public Works, as I understand it. But again there are times when they have to use their best business judgment. Possibly the building has to be proceeded with notwithstanding, and these factors come into play.

In this particular case I think perhaps the estimating could have been a little more accurate. Again, in the estimating of these large jobs, there is naturally an area for error, but the principal reason of this was lack of competition.

Mr. PICKERSGILL: Was the contract price very substantially above the estimate? I take it this was a contract?

Mr. HENDERSON: Yes. It was about $300,000 over.

Mr. PICKERSGILL: What I am trying to get at is what was the successful bid?

Mr. HENDERSON: I do not think we have that information. No, we do not have that here.

Mr. PICKERSGILL: That would seem to be very relevant. What the department estimated is one thing and what the contractor did is another thing, and if this cost $325,000 more than the contractor's bid, I would think we would want to take another look at it. But if the bid was substantially about what it is going to amount to, it is hardly a matter for the public accounts committee.

The other thing that strikes me as being odd is the time at which these tenders appear to have been called. It was a time late in 1957 or the beginning of 1958, when one would have thought there would have been a super abundance of tenders. I really think that as far as the Auditor General is concerned there is a very satisfactory explanation, but I do not think there is as far as we are concerned. We would like to know what the tender was, how many tenderers there were, and why there were so few at that particular date because that was a time at the end of 1957 or the beginning of 1958. It says the estimates were made in September, 1957. At that time people were supposed to be looking for work.

Mr. WINCH: Is there anyone from the Department of Public Works present who would be able to give us that information?

Mr. HENDERSON: I do not think so, Mr. Chairman.

The CHAIRMAN: Is there anyone here from the Department of Public Works who could answer this question?

We have with us Mr. L. V. McGurran, chief of financial services.

Mr. L. V. MCGURRAN (*Financial Adviser, Financial services, Department of Public Works*): Mr. Chairman, we compile the estimates for the department.

Mr. PICKERSGILL: I have two or three questions. Were tenders called?

Mr. MCGURRAN: Yes.

Mr. PICKERSGILL: How many tenderers were there?

Mr. MCGURRAN: I did not bring any details with me. This estimate of the cost of the job was made two years before the tenders were called. It was the estimate used when treasury board gave approval for the consultant. The estimate of cost was made two years before the contract was tendered. That would make it in 1955.

Mr. HALES: Was the contract let on the basis of two year old estimates.

Mr. MCGURRAN: I would say yes. It was an estimate made at the early stages of the planning. The figure given here was at the time we had a bare outline of the space and when the consultant was appointed, and during the intervening period cost of construction increased. But the job was tendered and the contract awarded on the basis of the original estimate.

Mr. HALES: Do you not think that estimates should be more recent than that?

Mr. MCGURRAN: It would have been looked at again. As I say, this figure was made in 1955 and, before tenders would be called, the department would normally look again at a revised cost estimate of the project. I do not have that information here. For example, in this case they had an estimate two years ago, and when they were ready to call tenders they would normally see what it was going to cost.

Mr. WINCH: Why was it not done in this case?

Mr. MCGURRAN: I do not say it was not done. I do not have information here of the revised cost after all the work was received.

The CHAIRMAN: Perhaps you could obtain that information for the next meeting.

Mr. PICKERSGILL: It might be useful if we recorded a half a dozen questions which we would like to have answered. In this way the witness would be able to obtain all the information.

If I could proceed with questions, I would like to ask what the date was of the latest departmental estimate, and what was it; what was the date on which tenders were called, if they were called; how many tenders were received; what was the amount of the successful tender; and what was the date on which construction started.

Mr. BELL (*Carleton*): Would not the hon. gentleman wish to have the amount of all tenders?

Mr. PICKERSGILL: Well, those are the questions in which I am interested.

Mr. WINCH: And what was the amount of extras granted over and above the original tender?

Mr. PICKERSGILL: If any.

Mr. MACDONNELL: And why was there a lack of competition at this time of the year? Can you give any reason for that.

Mr. MCGURRAN: If I had the number of tenders I could answer that, but it will show up when I bring the list of tenders.

Mr. MACDONALD (*Kings*): It seems fairly obvious that if, as the witness has said, the estimates were made in 1955, any contractor, with any experience at all, would certainly not want to bid on a cost estimate based on costs two or three years earlier.

Mr. MCGURRAN: This figure was taken during the earliest planning stages.

The CHAIRMAN: But you will bring the necessary information.

Mr. MACDONNELL: I would like to suggest, Mr. Chairman, that when civil servants come before a committee they should be asked to bring all the necessary information. As it is now, we are wasting time.

The CHAIRMAN: This gentleman did not expect to be called, nor did Mr. Boyle. They were just sitting in because their departments were under discussion. It is simply through courtesy that they are replying.

Mr. NUGENT: I think it would be helpful if we had all the tenders on that and, perhaps, some information on how the invitations to tender were given out.

Mr. VILLENEUVE: We should have all the details about that.

Mr. HENDERSON: I would now continue with my notes.

2. Excesses of expenditure over anticipated amounts in any fiscal year are usually due to circumstances similar to those noted above. And we are referring not to the specific cases but to the machinery of the annual votes and so on.

> It is understood that the department feels that there would be disadvantages in placing a limitation on the amount by which expenditures on an individual project could, with the approval of the treasury board, be increased through the use of transfers from amounts already authorized for other projects within the same appropriation. To limit the present flexibility could result in placing the department in the position of having to discontinue work on a construction project until a supplementary appropriation had been provided by parliament.

3. Following discussions with the department, we understand that it is prepared to provide explanations for publication in the public accounts, in those cases where expenditures on construction projects had exceeded anticipated amounts as detailed in the estimates. It follows that the report of the Auditor General would direct attention to cases which he considers should be brought to the notice of parliament.

I would like to mention at this point that this proposal by the department would furnish details of the increases, with an appropriate description of them, in the public accounts; but this is, so to speak, after the event as distinct from the parliamentary control that would exist if they had to go before the event. However, to disclose it after the event is better than nothing.

Mr. BELL (*Carleton*): Just before we go on. If, in fact, in these two instances, there had been the type of percentage such as you suggested at our last meeting, work would have had to stop on the two projects.

Mr. HENDERSON: Yes, they both would have exceeded the rate I mentioned.

Mr. BELL (*Carleton*): And the net effect would have been to stop the work.

Mr. PICKERSGILL: And increase the total cost.

Mr. HENDERSON: But, as you see from the two examples, it was the falling of the figures between the annual figures that caused it.

Mr. BELL (*Carleton*): Is not the degree of control presently exercised over expenditures by the Department of Public Works greater than that exercised over other departments of government?

Mr. HENDERSON: I do not know.

Mr. PICKERSGILL: I know it is. In the Department of Transport they have a vote, or two or three votes, that cover the whole country. They can transfer from one project to another, fror the Yukon to Labrador; but in the Department of Public Works they can only transfer within the province. As a matter

of fact, we had an extremely embarrassing experience with respect to a public building in Regina, I think, where we had to scrounge around and use the unforeseen vote to keep work going. It looked as though it would have to be stopped in the middle of winter when work was badly needed, and when it would have beeen impossible to go in to parliament and interrupt other important proceedings to get a supplementary estimate.

There is no doubt that we would be unjust if we introduced this kind of rigidity. As I said the other day, the opposition likes to suggest that there be more parliamentary control. If we did not introduce this rigidity I am sure it would lose the taxpayers millions of dollars.

Mr. BELL (*Carleton*): And we would be widening the gap between the control exercised over the Department of Public Works as opposed to other departments of government. I think the suggestion made that there be listing in the public accounts of full information, and such transfers of funds, is a good thing. Actually I think the information could be obtained from a study of the public accounts because, as I remember, in the public accounts the original allotments are shown as opposed to the actual expenditures, and it can be dug up. But I think it would be most helpful in a parliamentary review of the matter if it could be actually set out so we could all see it very readily without getting into a mathematical calculation.

Mr. PICKERSGILL: And that would have, I would expect, a most salutary effect on the department because no department would like to have to have this item paid, and they would be watching it.

Mr. HENDERSON: There would be a parenthetical note against the item. There would not be too many of them, if you look at the items.

Mr. BELL (*Carleton*): I think that is a satisfactory arrangement.

Mr. MACDONNELL: Is it fair that this much too severe restriction should be placed on the Department of Public Works as against other departments? I have not got an opinion. I have only understood that.

Mr. BELL (*Carleton*): I do not think the Department of Public Works has complained at all.

Mr. PICKERSGILL: Well—

Mr. MORTON: I would not think, Mr. Chairman, the idea was to reduce the control, but rather to increase the control of other departments.

The CHAIRMAN: No. 4.

Mr. HENDERSON: This was another thing the committee raised, and your questions seemed to break down into three main branches,—when these agreements were entered into, the basis of fees paid and the responsibility resting on architects.

4. *When entered into.* The department does the planning and carries out the supervision for buildings expected to cost not more than about $250,000 and engages outside architects for buildings likely to involve expenditure beyond this amount. Occasionally, however, outside architects will be engaged for smaller buildings while the departmental staff will sometimes be used for the planning and supervision of buildings costing in excess of $250,000. The department lacks the staff to cope with very large buildings or with an abnormal number of building starts in any one year. In view of the substantial variation in the work load from year to year, it feels that there would not be justification for maintaining staff at the level that would be necessary to deal with maximum work loads. The department has informed us that of the building projects

initiated in 1958-59 approximately 75% were to be planned and supervised by the department, representing about 33% of the estimated amount of money to be involved.

Mr. DESCHATELETS: The heading "Agreement with architects". Was there any consultation with the provincial associations before coming to this understanding that only for buildings in excess of $250,000 we would use an outside architect?

Mr. HENDERSON: I think, sir, we would have to refer that question to officials of the Public Works department as to whether they consulted the architects associations. This, as I understand it, is their own yardstick, where they draw the line.

5. *Basis of fees paid.* Our understanding is that the scale of minimum professional architects' fees recommended to members of the Ontario association ranges from 5% to 6% on large plain buildings, 7% on hospitals and scientific and research laboratories, to as high as 8% and 10% on single and multiple residential units. These rates are based on the cost of the job excluding architects' and engineering consultants' fees and the salary of the clerk of works. The architect's services include, among other things, the execution and furnishing of the drawings and specifications to the contractor, general supervision of the work, and the certification of accounts for payment.

This, gentlemen, is the basis on which it is carried out in a commercial or private business that we were requested to ascertain.

The department feels that the rates allowed on government construction projects should be lower than those paid on commercial projects because, when decision has been reached to construct a building, a preliminary plan study of space requirements is made by the department, with the architect being supplied with a report on the results of the study. Moreover, it is the general practice of the department to require architects to pay engineering consultants' fees and the salaries of clerk of works.

That is to say, to pay it out of the fee that they get.

6. The final point, responsibility resting on architects.

In the department's view there is no difference bewteen the legal responsibility, to render satisfactory service, resting on an architect engaged on a government project and one engaged on a commercial project.

That completed our notes, Mr. Chairman, on the point.

Mr. MCGRATH: A question for the next hearing. On what basis are architects chosen? Is there any competition somewhat similar to a tender system by which architects are chosen by the department?

Mr. Henderson: Mr. McGrath, that would be for the department to speak to, I think, but I did form the general impression that they seek to be just as fair as possible in spreading the business around.

Mr. MCGRATH: Can we go into this question at the next hearing, Mr. Chairman?

Mr. PICKERSGILL: Mr. Chairman, this is the kind of question one would have anticipated coming from a member of the opposition rather than a member supporting the government.

The CHAIRMAN: Well, gentlemen, I am very anxious to get on to the next item if we possibly can. We will be coming back to this later on in our hearings after the Easter recess. Could we go now to paragraphs 21 to 30, "Treatment of Receipts for Services Rendered"?

Mr. PICKERSGILL: I am sorry, I did not hear it.

The CHAIRMAN: Paragraphs 21 to 30, and the memorandum prepared on receipts for services rendered.

Mr. HENDERSON: This was referred to on page 4 of the March 23 progress report which was submitted to this committee at the last meeting. We quoted the comments of this committee in its 1958 report wherein it recommended that the Minister of Finance cause a review to be made of vote structures to provide for the needs of servicing departments. There are some distinguishing characteristics in the services provided, and there was to be a fact finding study of administrative and parliamentary needs and that it would be desirable if an officer of the Auditor General were to participate.

Our comment commences with the fact that I found that the Auditor General had not been informed of any fact finding study planned or made by the Department of Finance regarding this matter although we had noted some changes in the recording of receipts in the 1960-61 estimates.

The point at issue here, if I can just conclude very briefly, Mr. Chairman, is the fact that, again, it is the question of parliamentary control; and as I would sum it up after going through the massive notes that I have inflicted on you in this report, if the appropriation is in a net amount it is a question of disclosing what the gross amount is and what the receipts are likely to be. So that if the receipts do exceed the estimates they are not going to be turned into increased expenditure which, of course, could be the case if you were dealing with the net figure.

The CHAIRMAN: Mr. Henderson, I do not want to embarrass you, but when you first came in this morning you told me of a case that would illustrate your point very clearly to the committee. It concerned the Canadian Broadcasting Corporation, of which we have heard from time to time. I believe the case was stated on the radio at 9 o'clock, and I am sure it would help us understand what we are trying to get at here.

Mr. HENDERSON: Well, Mr. Chairman, it was announced this morning. The Canadian Broadcasting Corporation operation and capital budgets were tabled, I understand, in the house last night. The format in which they were tabled is one developed by the Department of Finance and treasury board and is, I think, particularly informative and helpful. It serves to illustrate this point. As I understand it, for some years when the C.B.C. which is a crown corporation,—not a government department,—would obtain its money, as you know it earned a certain amount of revenue and therefore it asked parliament for the net. The net that it would require is the figure that would be submitted to parliament and voted on without details as to what the gross expenditures would be or the revenue would be in arriving at that net. It would, of course, take that to treasury board in justifying its case; but the vote would be simply so many dollars on a net basis.

This, over the past couple of years, has been the subject of attention by the Minister of Finance to the point where he asked the corporation to prepare their budgets for tabling on the basis of showing the gross expenditure, deducting therefrom the anticipated revenue that they would pick up, and accounting for the net and, in setting it out, to follow the new format. This is the format that I personally worked up for the budget which was tabled last night.

The format shows by appropriate brief captions the nature of the planned gross expenditures, in this case artists' fees, salaries and wages, etc. From this

is deducted estimated anticipated revenues, which is not an easy task because the estimate is being made some eighteen months or two years ahead of its realization. The difference between the anticipated gross expenditures and the estimated revenue thus represents the net estimated requirements for the fiscal year in question and is the amount of money Parliament will be asked to approve. There is a 10 per cent variation granted with respect to the individual gross expenditure categories so long as their total amount is not increased. In the case of the figure for estimated anticipated revenues, its declaration in this manner has the advantage of furnishing an incentive or target for achievement. If the actual revenues ultimately realized exceed this estimate, then the excess is available for return to the consolidated revenue fund instead of being available to increase expenditures beyond the amount contemplated or approved by Parliament.

I think you will find it is quite an informative method of tabling estimates; and in a sense this is the type of thing that Mr. Sellar himself had been envisaging, I think, in raising this problem, because, if the revenue figure is declared,—the target they hope to obtain,—then it will ensure that anything in excess of that will be returned to the government and not spent by the department.

The CHAIRMAN: Mr. Henderson, putting it simply: if parliament authorizes, let us say, $60 million for the Canadian Broadcasting Corporation as their budget for the coming year and, due to good management, they obtain from advertising and other sources another $40 million, this is new money. They did not have $60 million; they had $100 million. Whereas the purpose is that the $40 million which they got in revenue or earnings should be returned to parliament and then re-issued if they need it. Is that your point.

Mr. HENDERSON: That is, I think, the point that the Department of Finance always have had in mind. It is in the way of knowing what is taking place. I do not know about the use of the word "control" in this, but any excess over their anticipated receipts is not theirs to spend, without approval from parliament.

Mr. WINCH: Of course, Mr. Chairman, last year we emphasized the fact that we thought it was only right that parliament and the people should know exactly what to expect. As it is in the past we have not known exactly what it cost and we have only got the net amounts shown.

Mr. PICKERSGILL: Actually, of course, what we have got in the past is quite the reverse.

Take the Post Office Department as an example. All the revenues from the sale of stamps, and everything else, are put into the consolidated revenue as though they were taxes. This is a huge sum of money. It is not taxes. It distorts the economic picture or distorts the whole appearance of the budget of Canada, as it does not in the United Kingdom—and it is a very big distortion indeed. I think what the attorney general has said about the form of this thing. is excellent, but it is the substance that I am primarily interested in; and I am primarily interested in it for this reason, that I think the people of this country are entitled, when the budget is brought down, to know what the past revenues are and what the expenditures on general public service are. Now, in the Post Office, it seems to me all the revenue should go into a special account and all the expenditures should be paid out. If there is an excess it should go into the treasury. If there is the reverse, it would be made up out of the appropriations act. That is all that should show, because that is all that truly comes out of the usual revenues. I had an experience when I was first a minister—

Mr. MCGRATH: Mr. Chairman, on a point of order, are members of the committee allowed to make statements?

Mr. PICKERSGILL: Well, if the hon. gentleman has any objection, I will stop at once.

The CHAIRMAN: Well, this statement is being made by a man who had a great deal of practical experience, and he is engaged in giving the committee information.

Mr. MCGRATH: If the hon. member is going to be a witness, it is all very well; otherwise we are going to be here all day.

Mr. WINCH: This procedure has worked out very well in the past and I can never remember its being abused.

Mr. PICKERSGILL: The last thing I want to do is inflict myself on the committee. If there is any feeling I was abusing my rights as a member of the committee, I apologize.

Mr. BELL (*Carleton*): I propose we let the hon. member go ahead, because on this subject some of us are going to have to make statements. I have come with a great deal of information.

The CHAIRMAN: That was the general idea.

Mr. BELL (*Carleton*): I have come with some information that would be impossible to be put before the committee on any other basis.

The CHAIRMAN: We were being informed as a committee on certain experiences of a person. By the way, may I interject that the auditor general has prepared a memo on this which should be distributed now, because this subject obviously—

Mr. HENDERSON: Very quickly, Mr. Chairman, we have prepared a memorandum containing suggestions for recording receipts for services rendered in those cases where receipts are significant in relation to the expenditures giving rise to them. Basically the suggestions are:

(*a*) that appropriations be voted on a net basis—but with the wording of each vote including mention of the amount deducted for the estimated receipts;

(*b*) that receipts be credited to the vote up to the amount that had been deducted in arriving at the net amount voted, with any excess of receipts being credited to revenue; and

(c) that a dollar vote be used in each case where estimated receipts are expected to exceed the expenditures incurred.

If the committee feel that this memorandum, which is quite short, would be of assistance, we have some here if you would care to have them distributed before we adjourn.

Mr. BELL (*Carleton*): We should get it on the record of this sitting, if we can, and have a chance to study it.

Mr. HENDERSON: Agreed.

The CHAIRMAN: Gentlemen, perhaps this would be a good point at which to stop. The next meeting we had scheduled is for April 6 and the Report of the Canada Council. Witnesses have been summoned, and with your permission I would like to start on April 6 with the Canada Council.

Mr. PICKERSGILL: I wonder, Mr. Chairman, on that point, whether we should interrupt this matter we have embarked upon. I think that we really ought to clear this up, and I am sure we can do it at the meeting of April 6. I am sure the witnesses from the Canada Council would not mind waiting another week.

The CHAIRMAN: Well, there is the question of the Senate. The Senate are after the Canada Council too and they have delayed the Senate meeting to accommodate us.

Mr. PICKERSGILL: Well, I very strongly feel that we should go on in an orderly fashion and finish this up first.

Mr. MORTON: How much more have we got of this?

The CHAIRMAN: It might take an hour.

Mr. MORTON: I would hate to keep putting off the Canada Council in order to finish this subject. I suggest that we come back to this subject later when we have more time.

Mr. HENDERSON: This point will come up when the committee considers our 1959 report. It is covered in one of the observations or comments in that report, so that we can return to it at that time.

Mr. MORTON: In short, I feel if we are going to limit this discussion in the sense of trying to sandwich it in between discussion on the Canada Council, we might have more latitude if we waited and dealt with it under the other discussion.

The CHAIRMAN: Unless there is a really urgent reason why we should not hear the Canada Council, I would prefer to proceed with it. We have delayed them one week already.

Mr. PICKERSGILL: Might I suggest there is one very good reason. I do not think we will want to meet on April 13 and that means we will have a meeting for the Canada Council on April 6 and then another after the Easter recess. I think we could clear up this matter by postponing the Canada Council hearing until after the Easter recess.

Mr. BELL (*Carleton*): If we are not going to meet on April 13, I would share Mr. Pickersgill's view.

The CHAIRMAN: Well, will someone move it?

Mr. PICKERSGILL: I move it.

Mr. BELL (*Carleton*): I second it.

The CHAIRMAN: Those in favour? Contrary?

Motion agreed to.

Mr. BELL (*Carleton*): Is it understood that this memorandum entitled "audit office suggestions for recording receipts for services rendered becomes part of our proceedings"?

The CHAIRMAN: Yes, appendix B-1.

APPENDIX "A-1"

Memorandum *re* Cost Ascertainment Procedures in the Post Office Department

In its 1958 Report, the Public Accounts Committee expressed the hope that improved procedures would be followed in future in allocating the various costs of the Post Office Department against the several classes of mail and the various services performed by that Department.

Behind this concern there appears to be a feeling that exact costs could be determined if a proper cost accounting system were set up. Because we are concerned with the cost of handling newspapers and periodicals (second class mail), it might be useful to review the route which a magazine would follow in its journey from a publisher in, say, Montreal or Toronto, to a subscriber.

The publisher will do the magazines up in bundles according to the post offices through which they will finally be distributed and which are located from coast to coast in Canada and, in some cases, in the United States. The bundles are taken by the publisher's truck to the main Post Office in the city of publication where they are weighed and the postage thereon is calculated. These magazines then enter the mail stream and will leave the city of publication by train or truck and, in some cases, by air or water. In most cases the mail must be trucked from the post office to the point of departure. In all cases the conveyance used will also be carrying first class mail—ordinary or registered—three classes of third class mail and domestic and foreign insured and uninsured fourth class mail or parcels, together with special delivery items and C.O.D. items.

Some of the mail will go direct to the office of distribution, but a portion of it must pass through one or more transfer points and continue its journey by the same or some other mode of transportation. In most cases a "side service" will be required to transport the mail from the railway, airport or dock to the post office.

When they reach the office of distribution, some of the magazines will be sorted, along with all other classes of mail, into lock boxes from which they will be picked up by the subscribers. Other magazines, along with all other classes of mail, will go to the city delivery section where they will be sorted by the letter carriers, placed in bundles and then transported to the letter carriers' pick-up boxes from which they will then deliver them to the individual homes.

Still another group of magazines, addressed to newsdealers, will be routed to parcel delivery trucks for delivery to the newsdealers.

These magazines addressed to subscribers living on rural routes are routed to the rural mail carriers who must sort them and deliver them, along with all other classes of mail, to the individual mail boxes on the rural routes.

In addition to the above, there are other services associated with second class mail which involve handling and transportation costs, as, for example, the forwarding of magazines to patrons who have changed their addresses, advice to the publisher when no forwarding address is available, the measuring of advertising, consideration of enclosures, etc.

From the above it may be seen that there are a great many operations involved in mail handling and each of these has its own peculiar costs. If it were practical to determine the exact cost of handling each type of mail—which is doubtful—the cost of doing so would be prohibitive. There is also the very serious matter of the delay in transmission of the mail which would inevitably occur should more complex and detailed procedures be adopted.

The cost ascertainment procedures employed by the Canadian Post Office Department are very similar to those used in the United States. In brief, these are based on studies made at 236 post offices (out of a total of 11,634 such offices) for periods of one week in the spring and one week in the fall of every third year. During these test periods an accurate record is kept of all time spent in handling each type of mail or service where salary costs are involved, and where other costs are involved accurate counts are made of the volume of each type of mail handled. The results of these tests then form the basis for a division of all post office costs. They also form the basis for the distribution of post office revenues for various classes of mail in those cases where there is no accounting segregation of the revenue—for example, postage stamps or a postage meter machine may be used on any class of mail. However, the postage of practically all second class mail is paid in cash and therefore the revenue shown as applying to publishers' second class mail is an accurate accounting figure.

The cost ascertainment figures produced by the Post Office Department can only be regarded as informed estimates and it is realized that there may be other possible approaches to the problem which might produce somewhat different figures. The following is an analysis of the estimated $28 million of costs attributed to the handling of second class mail in 1958-59, based on the time and volume study basis outlined:

Salaries		
Letter carriers	$6,912,700	
Staff post offices	5,734,900	
Revenue post offices	2,081,200	
Railway mail clerks	814,600	$15,543,400
Transportation		
Railway services	5,130,000	
Side and stage services, etc.	2,589,300	
Highway services	1,353,100	
Air stage routes	326,100	
Water services	57,200	9,455,700
Rural mail services		2,118,400
Mail bags		177,600
Revenue post office costs		165,000
Financial services		43,400
Transit mail charges		5,800
Overhead		369,800
		27,879,100

It should be kept in mind that the above costs do not include costs incurred by the Department of Public Works in providing and maintaining the post office buildings at points where the annual revenue exceeds $3,000.

APPENDIX "B-1"

MEMORANDUM

Audit Office suggestions for recording receipts for services rendered

1. Paragraphs 23 to 29 of the Memorandum submitted on March 22, 1960, for the information of the Committee, included notes regarding existing practices in recording receipts for services rendered—with paragraph 28 making mention of a problem that arises when provision is made for receipts to be credited to an appropriation, and the amount actually received is in excess of the amount estimated. No suggestions were, however, put forward for possible improvement of the existing system.

2. In paragraph 30 of the Memorandum a brief reference was made to the practice followed in the United Kingdom of granting appropriations-in-aid. The purpose of this Memorandum is to suggest a system of recording receipts for services rendered which, in the Audit Office view, would have the advantages of the appropriations-in-aid system. It is accordingly suggested that, where estimated receipts for services rendered are significant in relation to the expenditures giving rise to them:

(a) Appropriations should be voted on a net basis, the wording of each such appropriation to include, however, the gross amount authorized, less the amount of the estimated receipts—with the Details of the Estimates showing the latter amount as a deduction from the total of the listing of estimated expenditures. Receipts would then be recorded as credits to the Vote, through a "credit allotment", up to the amount of the deduction provided for in the wording of the appropriation, with any excess beyond such amount being recorded as a credit to Revenue.

(b) A dollar Vote should be used in each case where estimated receipts are expected to exceed the expenditures incurred, with estimated expenditures detailed in the Estimates Details in the usual way, and with a deduction of an equivalent amount (less one dollar)—collections beyond the amount of the deduction item being credited to Revenue.

3. The introduction of such a system would seem to have the following advantages over existing practices:

(a) Parliament would be called upon to vote only the net amounts required;

(b) there would be a desirable incentive for departments to exert themselves to collect as large a proportion of their estimated receipts as possible because, to the extent that there was a short-fall of collections, there would have to be a corresponding reduction in expenditure from that which had been planned (lacking a supplementary appropriation); and

(c) any tendency for departments to underestimate receipts where credit allotments are used, would disappear since any excess of receipts beyond the amount estimated would be recorded as a credit to Revenue, and not be available to supplement amounts previously voted.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

Public Accounts (1959), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, APRIL 6, 1960

WITNESSES:

From the Office of the Auditor General: Mr. A. Maxwell Henderson, Auditor General; and Mr. Ian Stevenson, Assistant Auditor General.
From the Department of Public Works: Mr. L. V. McGurran, Financial Adviser.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

CORRECTION

PROCEEDINGS No. 2—Wednesday, March 30, 1960

On the Front Cover:

The following names should be included in the list of witnesses: Mr. G. A. Boyle, Deputy Postmaster General; and Mr. L. V. McGurran, Financial Adviser, Department of Public Works.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 6, 1960.
(4)

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, Danforth, Fraser, Keays, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, McGregor, Morissette, Morten, Pickersgill, Robichaud, Smith (*Simcoe North*), Smith (*Winnipeg North*), Stefanson, Stewart, Villeneuve, Winch, and Wratten.—23

In attendance: *From the office of the Auditor General*: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Mr. E. Cook. *From the Department of Public Works*: Mr. L. V. McGurran, Financial Adviser.

The committee resumed consideration of the memorandum submitted by the Auditor General on March 23, 1960.

Mr. McGurran was called and he supplied information that had been requested at the last meeting respecting *expenditures on construction projects in excess of anticipated amounts.* He was permitted to retire.

On Paragraphs 21-30:

Mr. Henderson made a statement *re*: *Treatment of receipts for services rendered.* He was further questioned on this matter.

Moved by Mr. Pickersgill, seconded by Mr. Benidickson,

That the Public Accounts Committee ask the Auditor General to pursue this subject in the most active possible way with the Treasury and with the Treasury Board, and if possible to bring a scheme before the Committee.

Following discussion, by leave of the Committee, Mr. Pickersgill was permitted to withdraw his motion.

The Committee continued and completed consideration of the Auditor General's memorandum of March 23, the Auditor General and his assistant supplying information thereon.

On Paragraph 51:

Mr. Pickersgill requested that information be supplied indicating the geographic locations of Post Office Savings Banks in Canada.

(*For this information see Appendix "A-2" to this day's Proceedings*).

At 10.30 a.m. the Committee adjourned until 9.30 a.m. April 27, 1960.

E. W. Innes,
Clerk of the Committee.

22903-9—1½

EVIDENCE

WEDNESDAY, April 6, 1960.

The CHAIRMAN: Gentlemen, we now have a quorum.

At the last meeting certain questions were asked of Mr. McGurran, Financial adviser, Department of Public Works. Mr. McGurran is here and I understand he has brought answers to those questions. Mr. McGurran, would you read the questions and your replies please.

Mr. L. V. MCGURRAN (*Financial Adviser, Department of Public Works*):

Kingston Public Building

Question No. 1—What was the date of the latest departmental estimate and when was it?

Answer: In May 1956, the cost was estimated to be $1,699,483. The estimate discussed at the last meeting was a preliminary one made at a stage when the size of the proposed building had not been determined definitely.

Question No. 2—When were tenders called?

Answer: Tenders were called on January 2, 1957 and closed February 13, 1957.

Question No. 3—How were tenders called?

Answer: Public advertisement in 8 newspapers and the Canada Gazette:

Ottawa: Citizen, Journal, Le Droit
Montreal: Montreal Herald, La Patrie, La Presse
Toronto: Daily Commercial News and the Toronto Star

Tender documents were also sent to the Post Office, Kingston and to the Builders' Exchange, Kingston.

Question No. 4—How many tenders were received?

Answer: Three.

James Kemp Construction Ltd., Hamilton	$1,617,000
M. Sullivan and Sons Ltd., Arnprior	$1,644,217
T. A. Andre and Sons Ltd., Kingston	$1,846,000

Question No. 5—What was the amount of the successful tender?

Answer: James Kemp Construction Ltd., Hamilton—$1,617,000.

Question No. 6—When did construction commence?

Answer: April 3, 1957.

Question No. 7—What was the amount of extras granted over and above original tender?

Answer: The net amount of extras was $18,372 which was 1.1 per cent of the original tender of $1,617,000.

Question No. 8—Why was there a lack of competition at this time of year?

Answer: It is difficult at this time to give the reasons. The provincial average for contractors competing was five; in this case only three competed.

Question No. 9—Was there any consultation with the provincial associations before coming to this understanding that only for buildings in excess of $250,000 we would use an outside architect?

Answer: No. This amount is only set as a guide for departmental use. Thus if a project is over $250,000 the primary consideration is an outside consultant; if under that amount, the departmental staff. There are however numerous examples where projects under that amount have been designed by consultants and projects over that amount by the department. When discussion takes place concerning the Architectural profession, it is done with the Royal Architectural Institute of Canada executive.

The CHAIRMAN: Are there any questions?

Mr. PICKERSGILL: In the memorandum we had the other day there seems to be something that is rather inconsistent with what we have here. If we had had this estimate of $1,699,483, no one would have had any questions to raise at all. What seems to have thrown everybody off was this estimate of cost of $1,310,000 when the project was initiated. I wonder where that came from?

Mr. MCGURRAN: That was made at the time the department requested from the treasury board the authority to engage an outside consultant.

Mr. PICKERSGILL: Several years before?

Mr. MCGURRAN: It was made in May, 1955.

Mr. PICKERSGILL: I wonder how it ever got into the memorandum. That is the only thing.

Mr. MCGURRAN: I would say the estimate should have been made when we knew the size of the building. The figure which I have given today of $1,699,483 was the figure when we had the size of the building.

Mr. PICKERSGILL: It seems the information given today is more than satisfactory. You could not have come nearer to hitting the nail on the head.

The CHAIRMAN: Are there any other questions?

At the last meeting we had started to consider paragraphs 21 to 30, *treatment of receipts for services rendered,* in the Auditor General's memorandum of March 23. I suggest we proceed now to try to finish that section.

Treatment of Receipts for Services Rendered.

21. The Committee's Third Report, 1958, included the following comment on this subject:

> Practice in some countries and provinces takes one form and in others the opposite. Your Committee therefore maintains an open mind but is of opinion that the subject should be thoroughly explored because ever-expanding public activities correspondingly add to the responsibilities resting on Parliament when voting Supply. It is recommended that the Minister of Finance cause a review to be made of vote structures to provide for the needs of two servicing departments with some distinguishing characteristics in services provided in return for fees or charges—for example, the departments of Veterans Affairs and Secretary of State. It being a fact-finding study of administrative and parliamentary needs, it would be desirable were an officer of the Auditor General to participate.

22. *Current comment by the Auditor General.* The Audit Office has not been informed of any fact-finding study planned or made by the Department of Finance regarding this matter, although some changes in the treatment of receipts have been observed in the 1960-61 Main Estimates. For example, the "deduction allotment" previously provided with respect to the annual Vote for "Indian and Northern Health Services—Operation and Maintenance" for the Department of National Health and Welfare has been dropped, with all receipts now to be credited as Revenue. The "deduction allotment" had previously been used to record, as credits to the Vote, amounts recovered for services provided under agreements with Northwest Territories and Yukon Territory.

23. The problem of when to credit a Vote and when Revenue is a complex one, and it is suggested that further consideration be given to it. Receipts arising out of expenditures made under appropriations might be regarded as falling into two classes:

(a) where all the expenditures charged to an Appropriation are related to its basic purpose, and where the receipts are incidental;

(b) where some expenditures are incurred, and charged to the Appropriation in the first instance, which are additional to the expenditures incurred in relation to the basic purpose of the Appropriation, and the additional expenses are recoverable wholly or in part through receipts.

24. The practice is for receipts in the first of these classes to be credited as Revenue, as is done, for example, in the case of the annual Appropriation for "Administration of the Food and Drugs and the Proprietary or Patent Medicine Acts" (Vote 241 in 1958-59). In this case, all expenditures charged to the appropriation are for the basic purposes of the appropriation and are incurred without consideration as to the nature or amount of receipts that might result.

25. Receipts in the second of the above-noted classes are credited to the appropriation concerned, assuming, of course, that such accounting action was contemplated when the estimate was being made of the net amount required.

26. Recoveries of extraneous expenditures are recorded as credits to appropriations in two different ways: (i) through the allotment account concerned, where the amounts recovered are equal to and identifiable with the individual expenditures incurred (e.g., a recovery of an outlay in travelling expenses), and (ii) through a "deduction item" provided for in the Estimates Details, where the amounts recovered are not identifiable with individual expenditures incurred (e.g., recoveries in respect of treatment services, etc., provided to persons for whom the Veterans Affairs Department is not financially responsible).

27. The first of these two methods presents no problem from the point of view of Parliamentary control. After the amount received has been credited to the appropriation it cancels out the charge that had previously been made, leaving the appropriation to record charges associated with the basic purpose of the vote.

28. But when the second procedure is followed it becomes a matter of importance, from the viewpoint of Parliamentary control, to consider the extent to which the actual receipts exceeded what had been estimated.

It would seem that any excess of receipts should be credited as Revenue, otherwise funds become available for expenditure beyond what was contemplated by Parliament. This point arises in connection with the Veterans Affairs vote for "Treatment Services—Operation of Hospitals and Administration", and is involved in the comment made in paragraph 39 of the Auditor General's Report for 1958-59. It should be mentioned however, that although the excess amount became available in this case, it was not actually spent by the Department.

29. In the case of appropriations under the Secretary of State, to which reference was made in the Committee's Third Report, 1958, the revenues would seem to fall under the first of the two classes referred to above, i.e., all the expenditures charged are related to the basic purposes of the appropriations and the receipts are incidental (even though, in the cases of two Votes, the revenues exceed the expenditures) —and they are credited as revenue.

30. The Committee's comment on the question of the treatment of receipts included reference to the practice varying in different countries and provinces. In the United Kingdom the practice is followed of granting appropriations-in-aid which, on the face of it, would seem to correspond to permitting the crediting of receipts to appropriations in Canada. However, in the United Kingdom funds are provided to and expended by the individual departments, and when an appropriation-in-aid is granted the departmental accounting officer is permitted to retain receipts and use them for the payment of expenditures, only up to the amount of the appropriation-in-aid, paying over to the Consolidated Fund (corresponding to our Consolidated Revenue Fund) any excess of receipts beyond the amount of the appropriation-in-aid. Parliamentary control is therefore maintained in a way that would not be possible under our system of centralized expenditure payment, were receipts permitted to be credited to appropriations to an extent greater than had been estimated for purposes of calculating the net appropriations required. In British Columbia the practice has been followed of crediting receipts to appropriations to a greater extent than in the case of the Federal Government, but many classes of sundry receipts, e.g., licences, fees and fines and penalties, are still credited as Revenue.

The CHAIRMAN: Mr. Henderson, I believe you have a statement to make.

Mr. A. Maxwell HENDERSON, (*Auditor General of Canada*): Mr. Chairman, the committee was discussing this matter when it adjourned at the last meeting.

In its third report, 1958, this committee discussed the treatment of receipts for services rendered and stated it was of the opinion that the subject should be thoroughly explored because ever expanding public activities correspondingly add to the responsibilities resting on parliament when voting supply. The committee recommended that the Minister of Finance cause a review to be made of certain vote structures as a fact-finding study of administrative and parliamentary needs, and suggested that it would be desirable were an officer of the Auditor General to participate.

In reporting to the committee on March 23, I stated that the audit office had not been informed of any fact-finding study planned or made regarding this matter. At the committee's last meeting on March 30th when the treatment of receipts for services rendered came up for discussion, I stated that the audit office had prepared a memorandum putting forward certain suggestions on the subject and, at the committee's request, the memorandum was tabled for the record.

It was suggested in the memorandum that appropriations be voted on a net basis. This would mean that parliament's attention, when voting supply, would be directed to the net cost of operating a service, and to the extent to which proposed outlays were expected to be recovered through charges for services rendered. It would also provide an incentive for departments to exercise diligence in effecting collections. The suggestion is one that my predecessor, Mr. Watson Sellar, has advanced before this committee on previous occasions, notably in 1950 and 1958. In 1958, he cited the case of the R.C.M.Police where expenditures of $26 million had been charged for operation and maintenance of divisions in the fiscal year 1956-57, while $6 million of recoveries by the R.C.M.Police for services rendered to provinces and municipalities had been credited to revenue.

Since the last meeting of the committee, I have had helpful discussions about this matter with the comptroller of the treasury and the secretary of the treasury board. The comptroller stated, and I agree, that under a system of net appropriations he would encounter difficulty, in cases where estimated receipts were large in relation to the gross expenditures approved by parliament, in furnishing the certification required under section 30 of the Financial Administration Act.

For this reason and because of the legal and procedural implications generally, the problem clearly requires further study and discussion over the next several months. If it carries the judgment of the committee, Mr. Chairman, I propose to keep in touch with the officers of the Department of Finance on the matter until a satisfactory solution can be found.

That statement is made as a result of my meetings with the comptroller of the treasury and the secretary of the treasury board. I had two sessions with them during this past week.

Mr. WINCH: What is being recommended does seem reasonable. I hope, however, at some future date—most like it will have to be at the next session's committee—to have some information as to why this problem arises on a federal basis when a number of the provinces already have this system in practice in their public accounts. I know in British Columbia, where I was for twenty years, it has always been the practice.

Mr. HENDERSON: Yes. It does depend, however, on whether or not they operate the commitment system which the federal service uses. I do not know whether or not all the provinces have that.

Mr. PICKERSGILL: Mr. Chairman, this is my King Charles' head. When I was a member of the government I tried hard to persuade some of my colleagues that we ought to institute this system. We have the matter of the receipts of the post office and this matter of the R.C.M.P., which is perfecly ridiculous. The R.C.M.P. are acting as a police force in all but two of the provinces in this country, and are being paid by the provinces for the service, and yet we treat that, when we get to the provinces, as if it were part of the income tax or tax revenue, and make it appear that the federal expenditures include the whole amount. This is misleading. In view of the large part federal receipts from taxes and expenditures play in influencing the whole economy, it is important, apart from merely the accounting aspect. It is very important from the economic standpoint that we should have a really true picture of what is taken from the people of this country in the form of taxes and what is spent on services really paid for by the taxpayers. For example, take the patent office. I cannot see why the taxpayer should pay one cent of the cost of the patent office. The only people who benefit from the patent office are those who have patents; they should pay the whole cost of that service. If in the public accounts we had the receipts and the estimated return, or if the

Auditor General suggested in cases where the receipts might exceed the estimates that a dollar item appear, this would give the members of parliament an opportunity to discuss this thing.

It seems to me that it would be important. I know there are some quite serious legal administrative and accounting problems, and I imagine there would probably have to be an amendment made to the Financial Administration Act.

But just so that we may have something in focus before us—I am not sure of the language, and I would be happy to have it improved—I would make a motion that we, as a public accounts committee, ask the Auditor General to pursue this subject in the most active possible way with the treasury and with the treasury board, and if possible to bring a scheme before the committee.

The CHAIRMAN: Is there a seconder to that motion?

Mr. BENIDICKSON: I second the motion.

The CHAIRMAN: Would you please write out your motion and give it to us, Mr. Pickersgill?

Mr. BELL (*Carleton*): I think Mr. Pickersgill is making the suggestion that this be actively pursued to the wrong official. I do not really think it is part of the duty and function of the Auditor General. It is part of the duty and function, rather, of the comptroller of the treasury or of the secretary of the treasury board, who are responsible to the Minister of Finance.

The duty of the Auditor General is only to audit after the accounts have been set up in the estimates, on the basis that parliament decides.

Mr. PICKERSGILL: That is right.

Mr. BELL (*Carleton*): Certainly in any discussions which take place, the officers of the Department of Finance would seek the views of the Auditor General, but I do not think we should place him in the position of playing a role which really is not his.

Mr. PICKERSGILL: I am willing to withdraw my motion, if Mr. Bell would make the right kind of motion. Perhaps he would be happier if he just revised my motion. That I would be very happy to accept, as long as we are agreed that we want to achieve this objective.

Mr. BELL (*Carleton*): I think what the Auditor General has suggested as a result of the conversations which have taken place is satisfactory, without our proceeding with a formal motion.

The position on this matter is not very difficult, as Mr. Pickersgill well knows. It has been considered on several occasions by the public accounts committee. The last time it had an exhaustive study was in 1950. At that time it was realized that it would result in a less satisfactory picture being given to parliament of the net appropriations needed by the department. That was the view of the public accounts committee. There is some point to that attitude.

Mr. PICKERSGILL: When did you say that was done?

Mr. BELL (*Carleton*): That is from the report of the public accounts committee in 1950.

One of the problems may be illustrated by Mr. Pickersgill's example of the patent office. The expenditures there are uniform month by month, but in the receipts there are hills and valleys. Consequently if the patent office were to be made completely self sustaining, parliament would have to vote a type of revolving fund to enable the patent office to pay its bills during the valley periods, when the revenues did not equal the expenditures, and a system would have to be devised whereby you could even out those hills and valleys with receipts.

This whole matter is under active study, and also the whole question of the structure of the estimates generally. About every 15 years there is a complete review of the whole system of estimates and proceedings.

I think we had a complete revision of them in 1950, and another complete revision again in 1957. It seems to me this part of the whole question of estimates procedure, and control by parliament.

In succeeding months it will be under very active and detailed consideration, always on the basis that what the members of the committee want to do is to make absolutely certain that the control by parliament is improved if possible, and that the greatest degree of information may be made available to parliament both in the provisions of the estimates and consequently in the public accounts themselves.

Mr. BENIDICKSON: There was a review made in 1950 which stemmed from the recommendations of this committee.

Mr. BELL (*Carleton*): Yes.

Mr. PICKERSGILL: I am very pleased indeeed to be assured that this active study is taking place. I think it has been long overdue. But I am not very impressed by the example of the patent office. I do not think the difficulty there is one which should present the slightest problem to overcome.

After all, the British exchequer followed this system at least ever since I was a student at Oxford, and it did not seem to have any great difficulty over it.

There is one point on which I would dissent from Mr. Bell. I might say that in respect to our narrower terms of reference he is quite right—that parliament's control over the expenditures is the primary concern of this committee. But it does seem to me that in the mere desire to be able to scrutinize every dollar of expenditure we should not lose sight of the fact that from the public standpoint it is much more important that we make sure there is a true picture given to the public of what the taxpayers are having to pay. I mean taxpayers, as opposed to people who are paying the government for specific services they are getting.

We do not get that in the public accounts at the present time. They are all jumbled up. There are fees and other things paid for specific services, and postage paid, and so on; these are all mixed right in with the revenues. The expenditures upon these things are mixed up with the expenditures on services rendered to the public.

So it does seem to me that it would improve public understanding of public business, as well as our understanding in parliament of that public business to have a real distinction made between them.

And I thnk it would have another effect. It would direct the mind of the public and of the treasury constantly to the point that the services performed for groups and individuals should be made self sustaining.

When I became Secretary of State, the Secretary of State Department performed many of these special services, through the patent office, the copyright office, and so on.

For quite a number of years all these services had been subsidized to a very considerable degree by the taxpayers. And in the year I was there I am proud to say I got the fees raised, with the result that many of these services were not only paying their way but, if anything, were making a little money for the treasury, rather than the reverse.

If you should charge them rent, they would add a little money to the treasury. At any rate, I think that is a very important objective as well.

Mr. McGEE: I have a question in connection with this. In raising these fees, did you conceive that it might be possible in the process that certain persons who might seek patents or copyrights which would ultimately be of great value to the Canadian economy, might have been prevented from doing so because of the rise in fees?

Mr. PICKERSGILL: The fees are still very small, so I do not think anybody who had any serious expectation of profit would worry in the least about it. Moreover, by raising the fees it would be possible to provide some additional staff. This would prevent heavy arrears accumulating.

This is another very important point. The staffs of these service organizations are often controlled in exactly the same way as the staffs of organizations for the public generally, and the result is that they are kept down by treasury control, when in fact, apart from that, they should be expanded so that the user gets prompt service.

There is no reason why the patent office should not double its staff if the business is there. There is no reason why the work should not be done just as efficiently as if it were done by Eatons or Simpsons. Once you put the accounts in proper perspective, there is not the same argument.

I must admit that in this matter I have shown something of the zeal of a reformer, but I do not think there is any politics in it. However, I think perhaps I have already taken up enough time of the committee for the present.

Mr. FRASER: Would you include in the patent office fees what is now paid for it by the Department of Public Works, such as the char service, the upkeep of the building, and also what the finance department pays for the telephones and so on? Do you mean that the fees should include all that too?

Mr. PICKERSGILL: I think they should. I do not mean that you should necessarily go to the extent of making a special charge, but I think you should put the fees up high enough so that there would be a little go into the treasury every year which would, roughly, offset those expenditures.

I am not in the least in favour of a lot of mere niggling red tape, where you would spend 25 cents in order to save five cents, and of which we have far too much in the public accounts.

The CHAIRMAN: Might I suggest that rather than having any formal motion—

Mr. PICKERSGILL: Mr. Chairman, you anticipate me. I think Mr. Bell's point was well taken, and if Mr. Benidickson will agree, I shall withdraw my motion.

The CHAIRMAN: You mean that the substance of your motion, rather, should be brought to the attention of the Department of Finance and the treasury?

Mr. BELL (*Carleton*): We can take steps when drafting our report to deal with this matter.

The CHAIRMAN: Is it agreed?

Agreed.

Are there any other questions on this particular item? Have you anything more, Mr. Pickersgill?

Mr. PICKERSGILL: No, I think I have rather abused the committee already.

The CHAIRMAN: Paragraphs 31 to 36, *the form of the public accounts.* I think we discussed this before.

The Form of the Public Accounts

31. The committee recommended in the Second Report, 1959, that the Minister of Finance give further consideration to the form of the

Public Accounts. The committee suggested that the task of printing the publication might be distributed over a longer period by printing in a separate volume, the financial review by the deputy minister and the certified financial statements. The committee noted that were the listings of salaries to commence at $8,000 instead of $5,000 in Part II, "the Comptroller of the Treasury estimates that the book would be substantially reduced and his work of preparation expedited and money saved".

32. *Current comment by the Auditor General.* The 1958-59 Public Accounts continues to include Parts I and II in the same volume, but listings of salaries were shortened by the inclusion of salaries of only $8,000 and over.

33. Should the Committee wish to make further suggestions to the Minister of Finance regarding the shortening of the Public Accounts, it might wish to consider suggesting the omission of travelling expenses incurred by employees in the under $8,000 salary range, whose names would then not require to be listed (almost 10 pages, each with three columns of names and amounts, are used for the agriculture department alone, in the 1958-59 volume).

34. The committee might also wish to consider further whether the desirability of including, in each departmental section of the public accounts, the payments made to each supplier and contractor to a total of $10,000 or over, justifies the considerable cost that might be involved in the preparation of these listings by the office of the Comptroller of the Treasury.

35. We have requested from the Comptroller of the Treasury an estimate of the cost of publishing the 1958-59 Public Accounts.

36. It is understood that this printing cost may be to the order of $50,000, with the cost of preparing the material approximating $200,000, or a total of about $250,000.

Mr. HENDERSON: I think not, Mr. Chairman, except that I advised the committee, when you discussed this on March 23, I think, that the printing cost was believed to be in the order of $50,000, but that I was getting the actual figures from the comptroller of the treasury.

He has since advised me that the cost of printing the 1958-59 public accounts was $60,255.71, in respect of which 2,193 copies were printed. This compares with a cost the previous year, 1957-58, of $59,372.54, in respect of which 1,892 copies were printed.

This is the straight cost of printing, to which, in any calculations—as I stated before—you would want to add the cost of preparing the material and putting it together, which the comptroller of the treasury, in his testimony before this committee last year, I think estimated to be somewhere between four and five times the printing cost.

The CHAIRMAN: Are there any questions, gentlemen? We will go on to paragraphs 37 to 39.

National Defence Expenditures on Education.

37. The following observations are included under this heading, in the Committee's second report, 1959:

> "... only where capital expenditures were incurred in constructing schools—the total in the year approximately $5,400,000—is any disclosure made in the public accounts of expenditures by

the Department of National Defence in providing educational facilities for children of members of the service forces. On inquiry, your Committee was informed that, including the $5,400,000 noted above, approximately $11,500,000 was spent by the department in the year, and that these expenditures are distributed in the National Defence section of the public accounts to 7 standard objects of expenditure: headings for each of the service forces, such as professional and special services—travel and removal expenses, municipal or public utility services.

"Your Committee is of the opinion that it would be more informative were these Department of National Defence costs consolidated and suitably disclosed. Whether this may be more efficiently done by use of a special vote or otherwise is regarded as a matter for the Treasury Board to consider."

38. *Current comment by the Auditor General.* It is understood that the Department proposes to consolidate its education costs and to give a summary of such costs, under suitable headings, in the annual defence white paper, commencing with that for 1959-60, in order to meet the suggestion made by the Public Accounts Committee.

39. An unofficial summary of the 1958-59 expenses is:

Operating costs:	
Salaries of teachers	$5,412,000
Travel and transportation	210,000
School supplies	515,000
Maintenance	723,000
Rental of school buildings (overseas)	243,000
Non-resident school fees	989,000
Sundries	32,000
	8,124,000
Less: Provincial grants	1,570,000
Total operating cost	6,554,000
Capital costs:	
Construction	2,705,000
Capital assistance	206,000
Total capital costs	2,911,000
Total education costs	9,465,000

Mr. HENDERSON: In this section in the report you will have noted the comments of your committee, that it would be more informative were the Department of National Defence education costs consolidated and suitably disclosed.

We now understand that the Department of National Defence does, in fact, propose to consolidate its education costs and to give a summary of such costs under suitable headings in the annual defence white paper, beginning with 1959-60, in order to meet the suggestions made by this committee.

The CHAIRMAN: That is a slight advance.

Mr. HENDERSON: I suggest that the committee's suggestion has therefore been adopted.

The CHAIRMAN: Are there any questions, gentlemen? If not, we will go on to paragraphs 40 to 41, *Non-productive payments.*

Non-Productive Payments.

40. The following observation was included under this heading in the Committee's second report, 1959:

> The attention of your Committee was drawn to a number of charges where payments were legally made but without any public benefits resulting. Among the cases were rents paid for space unoccupied over extended periods. Your Committee appreciates that payments of this type can never be wholly avoided but is of the opinion that some publicity would be a useful safeguard. It is therefore, recommended that the Minister of Finance consider directing that, when the accounts of a year include charges of the type now referred to, they be suitably detailed in the Public Accounts.

41. *Current comment by the Auditor General.* No listing of non-productive payments was included in the public accounts for the fiscal year ended March 31, 1959.

Mr. HENDERSON: In 1959 the committee had a paragraph with reference to what was described as non-productive payments and made the recommendation to the Minister of Finance that when the accounts of any year included charges of this type, they might be suitably detailed in the public accounts. Thus far there has not been any listing of such non-productive payments in the public accounts.

Mr. WINCH: May I ask, Mr. Chairman, if the Auditor General could tell us what problems might be expected to be associated with the inclusion of a listing of non-productive payments in the public accounts?

Mr. HENDERSON: I think that one problem is probably that of defining the term "non-productive payments" in such a way that the amounts would be reported by departments on a uniform basis.

Another problem might be that of ensuring that fair explanations would be given in cases where administrative decisions giving rise to non-productive payments had been essentially sound; for example, in the case where a fee had been paid to an architect, but the plans for a proposed building were not proceeded with because the department decided that the building would be too costly and therefore would have to be redesigned on a more modest scale, or perhaps the whole project abandoned.

To give examples of the type of thing that creeps into the operations of government departments and crown companies—and ordinary business, for that matter—there are payments for rented premises which are left vacant; payments for architects' fees, where projects are not proceeded with; removal expenses of officers who had to return without accomplishing missions; expenses on contracts for defence projects abandoned before completion.

I think that to call for a separate listing of these across such a varied scene as government departments would probably entail not a little expense, in terms of time and cost. There are other ways of reaching it. I have not discussed this problem with any of the officers of the Department of Finance—because we must bear in mind that they produce the public accounts—but to give a very simple illustration, it might be possible, for example, if the mass of detail now prevalent continues, to asterisk or to make a footnote about some of the payments and perhaps give a word or two about the circumstances.

I am saying this purely to illustrate the sort of short-cut method which might be adopted. I have a few reservations as to the advantages of pursuing this subject, quite frankly.

Mr. PICKERSGILL: Has anyone in the comptroller's office or treasury board bent his mind to defining what non-productive payments are? It seems to me that this would be an almost impossible task.

Mr. BELL (*Carleton*): I think I can say, yes—and that is the whole problem. What is involved here is a subjective judgment; and what is non-productive? Is it totally non-productive; is it something that is partially non-productive which is to be listed?

You would have to get certain, specific figures, I think, because we would certainly not wish to bring into that category those expenditures made in the scientific and research departments of government, where probably the most so-called non-productive experiments take place. There may be many experiments which are totally non-productive, but which ultimately lead to a break-through in that research field.

Mr. PICKERSGILL: What about family allowances for children that die before they reach the age of 20 and therefore do not do any work: are they not non-productive? What about the indemnities of Members of Parliament who never make any speeches?

Mr. SMITH (*Simcoe North*): Or the indemnities of members who make too many speeches!

Mr. BELL (*Carleton*): Perhaps the reverse should be the case.

Mr. MCGREGOR: Perhaps there should be a charge for those "windjammers" who make too many speeches.

Mr. FRASER: So much a minute!

The CHAIRMAN: Gentlemen, is there any other comment on this; if not, let us go to paragraph 42 and 43.

Mr. MCGREGOR: Before you go on from that, how much money is involved in this rental proposition, Mr. Henderson?

Mr. HENDERSON: The case that I mentioned?

Mr. MCGREGOR: You spoke about rental, paying rents on unoccupied property. How much money is involved in that?

Mr. HENDERSON: I do not think we have any figures on that, sir; we were just citing it as a case.

Mr. BELL (*Carleton*): There was one building in Toronto last year that we had—

Mr. HENDERSON: There were some examples given.

Mr. MCGREGOR: You make a report and suggest that this should be done. I think you should have something to say about the way it should be done, and how much money is involved.

Mr. HENDERSON: No, it is a suggestion of this committee in 1959, not the Auditor General's.

Mr. PICKERSGILL: It is a suggestion we made last year, and I think the less we talk about it, the better: it is too involved. When I was Minister of Citizenship and Immigration—if anyone is interested—because we were getting a lot of immigrants and needed larger premises in Toronto, we rented space in a building called the George H. Hees building. This was done, I might say, by the Liberal government. Then, because this government reduced the amount of immigration, there was not the same need for that building as there otherwise would have been, and it turned out to be a non-productive expenditure. I do not think there are any politics in the thing whatsoever, and I think we might as well concede this.

The CHAIRMAN: That is quite a free interpretation of the facts.

An HON. MEMBER: It is pretty accurate, too.

The CHAIRMAN: Paragraphs 42 and 43, *Suggestion award board expenditures.* Do you wish to say anything in connection with this, Mr. Henderson?

Suggestion award board expenditures:

42. The Committee's second report, 1959, included the comment under this heading that:

> The Auditor General noted that in recent years it has been annual practice to charge this vote [Miscellaneous minor or unforeseen expenses] with expenditures incurred by an interdepartmental service known as the suggestion award board. The amount involved is not large, being $21,859 in the year under review as compared with $16,992 in the previous year. However, your Committee is convinced that, in principle, it impairs parliament's control of consolidated revenue fund when recurring administrative costs are financed by this vote and recommends that, in future, costs of the board be charged to some other vote.

43. *Current comment by the Auditor General.* In the main estimates, 1960-61, the wording of the vote for salaries and contingencies of the Civil Service Commission (vote 65) is enlarged to provide for the payment of "compensation in accordance with the suggestion award plan of the public service of Canada". In the details of the estimates (page 2), an amount of $32,000 is listed opposite a special object of expenditure heading, the effect being that a ceiling is placed on the payments, subject to increase only with the approval of treasury board.

Mr. HENDERSON: This recommendation of your committee in 1959 has been carried out, as is indicated in paragraph 43. That is to say, in the main estimates for 1960-61, the wording of the vote for salaries and contingencies of the Civil Service Commission is enlarged to provide for the payment of "compensation in accordance with the suggestion award plan of the public service of Canada". In the details of the estimates—page 2—an amount of $32,000 is listed opposite a special object of expenditure heading, the effect being that a ceiling is placed on the payments, subject to increase only with the approval of treasury board. This I interpret to have the effect of carrying out your recommendation.

Mr. WINCH: May I ask what were the charges in 1958-59?

Mr. HENDERSON: $38,160.

The CHAIRMAN: Are there any questions, gentlemen; if not, paragraphs 44 and 45, *International relief payments.*

International relief payments

44. The following is included under this heading in the Committee's second report, 1959:

> To establish the present state of affairs, your Committee recommends that the Department of Finance decide whether the government has any financial responsibility with respect to the undistributed balance held by the Red Cross Society.

45. *Current comment by the Auditor General.* We understand that this matter is under active consideration at the present time.

Mr. HENDERSON: There was considerable discussion in this committee last year, I understand, regarding the international relief payments and the money handed by the government to the Red Cross Society, which led to this committee including the reference that you see under paragraph 44, in which the Department of Finance was asked to determine whether the government has any financial responsibility with respect to the undistributed balance held by the Red Cross Society.

We understand that this matter has been the subject of consideration by the top officials of the Department of Finance, and at the present time they have not reached a decision as to the extent to which the government has any financial responsibility in this undistributed balance.

The CHAIRMAN: Paragraph 46—

Mr. PICKERSGILL: Could Mr. Bell just say a word about that?

Mr. BELL (*Carleton*): I think the situation really is that there has been a very considerable volume of correspondence between the deputy minister of finance and the deputy minister of justice, trying to get a specific legal opinion in connection with it. The most recent opinion, I believe, was some time about mid-February, which is still under consideration; but I believe a joint opinion will soon be sent forward by the departments of Justice and Finance to the Department of External Affairs, outlining what is believed to be the role of government in relation to the control of Red Cross expenditures.

As I understand it, the deputy minister of Justice has said there is a responsibility on the government of Canada until the portion of the fund which represents that original portion contributed is fully exhausted.

Mr. PICKERSGILL: Were those the funds for the Dutch flood? I am sorry, but I have forgotten.

The CHAIRMAN: Yes. I think they had been granted originally for that purpose, and then they were used for one or two other purposes.

Mr. BELL (*Carleton*): I think it should be indicated at this point that everyone is satisfied that the Red Cross has conducted this in a perfectly satisfactory manner.

The CHAIRMAN: Paragraphs 46 and 47 follow.

Agricultural Institute of Canada Publications.

46. The observations made under this heading in the committee's report include:

> "Since 1934, the Department of Agriculture has been absorbing the printing costs of certain publications of the agricultural institute of Canada. The arrangement was then entered into because of the financial problems of the society. In 1957-58, costs absorbed by the department exceeded $18,600, with the amount distributed over six votes of the department.
>
> "It is long established practice to disclose in the estimates any grant to a non-governmental body, but that has never been done in this case. Moreover, it is generally regarded as being contrary to the public interest indirectly to subsidize what is represented to the public as a non-public publication. Your committee is therefore of the opinion that the existing situations should be reviewed and corrected."

47. Current comment by the Auditor General. In hte 1960-61 main estimates the wording of the annual appropriation for the information division of the Department of Agriculture was enlarged as follows:

Vote 2	Information division including a grant in the amount of $26,000 to the agricultural institute of Canada	$638,410

This enlargement in the wording of the vote would appear to remedy the situation commented upon by the committee, by bringing the grant under parliamentary control.

Mr. HENDERSON: As stated under paragraph 46, it has been the practice of the Department of Agriculture to absorb the printing costs of certain publications of the agricultural institute of Canada. In 1957-58, costs absorbed in this way exceeded $18,600.

Your committee felt, for the reason stated here, that the existing situation should be reviewed and corrected.

Now, in the 1960-61 main estimates, the wording of the annual appropriation for the information division of the Department of Agriculture seemed to meet this by the wording that is shown under vote 2; that is to say—information division including a grant in the amount of $26,000 to the agricultural institute of Canada. It appeared to us that this remedied the situation upon which you commented last year.

Mr. WINCH: In this regard, how much was spent in 1958-59?

Mr. HENDERSON: Well, the 1958-59 costs which were absorbed by various Department of Agriculture appropriations totalled about $19,000, with additional commitments of $6,000 carried forward to 1959-60.

Mr. MCGEE: Would you repeat the second part of your answer.

Mr. HENDERSON: In 1958-59 costs which were absorbed by the various Department of Agriculture appropriations totalled about $19,000, with additional commitments of $6,000 carried forward to 1959-60. Now, that is in answer to Mr. Winch's question. You see the $26,000 under paragraph 47.

Mr. WINCH: Would that include what has been carried forward?

Mr. HENDERSON: No, that was to 1959-60. The $26,000 that was provided for by this enlarged wording, to which I referred, which you see under paragraph 47, consists of $25,000 to cover the cost of printing the Canadian Journal of Animal Science, the Canadian Journal of Soil Science and the Canadian Journal of Plant Science, plus $1,000 to cover the travelling expenses of an editorial board.

Mr. WINCH: But from now on it is going to be a straight grant, and the institute will have to accept the responsibility of the cost of the publications. Is that what it means?

Mr. HENDERSON: Yes.

Mr. MCGEE: Does it mean that in tidying this up we have spent $8,000 more?

Mr. HENDERSON: We understand that the $6,000 worth of commitments, which are referred to and carried forward to 1959-60, are, in fact, included in the $26,000. So, you bring it back to the same figure which you had the previous year—or, more or less.

Mr. MCGEE: Is it fair to ask what the grant will be next year? Would it be in the order of $20,000 or in the order of $26,000?

Mr. HENDERSON: That is for the department to answer. I do not believe we have that.

The CHAIRMAN: If there are no further questions, gentlemen, we will proceed to paragraphs 48 to 50.

Service Forces Expenditures.

48. It was noted in the committee's report that consideration had been given to "some cases of extremely high transportation and removal expenses incurred by the service forces which were decidedly unrealistic", and the following comment was recorded:

> It is recognized that those subject to military discipline necessarily enjoy limited discretionary powers in raising queries with respect to decisions of superiors but, financial consequences falling

on taxpayers generally, it is recommended that, simultaneously with the review of regulations and practices, consideration be given to extending the financial role of the civilians in the department to prevent the recurrence of similar extravagances in the future.

49. *Current comment by the Auditor General.* One case which had given rise to the comment by the committee was that mentioned in the Auditor General's report for 1957-58, where there had been reimbursement of the $313 cost incurred in a short local removal. In a departmental review of practices associated with removals, it was decided that effective financial control would best be attained in the case of local moves, were a cash allowance of a set sum established, to apply regardless of the distances travelled, the rank of the claimant or other circumstances. The Minister of National Defence informed the House of Commons on March 9, 1960 (*Hansard*, p. 1883) that "under the new regulations servicemen are limited now to an allowance of $75 to cover these costs, but in exceptional circumstances authority may be granted for the reimbursement of expenses in excess of this amount".

50. Action has also been taken by the department along the lines recommended by the committee, by arranging with the chief treasury officer in the department that transportation and removal expense claims submitted to his office for payment, and thought to be excessive or unreasonable, would be held back for review by civilian administrative officers of the department.

Mr. HENDERSON: Your reference under this heading had to do with the question of transportation and moving, where you recommended that consideration be given to extending the financial role of the civilians in the department to prevent the occurrence of similar extravagances in the future.

I believe considerable publicity attached to this case and action, as we know, has been taken by the department, along the lines you recommended, by arranging with the chief treasury officer that transportation and removal expense claims submitted to his office for payment, and thought to be excessive or unreasonable, would be held back for review by civilian administrative officers of the department; in addition to which, on March 9, 1960, as is noted under paragraph 49, the Minister of National Defence informed the House of Commons that under the new regulations servicemen are limited now to an allowance of $75 to cover these costs, but in exceptional circumstances authority may be granted for the reimbursement of expenses in excess of this amount.

Mr. BENIDICKSON: You said there was a civilian review. What has been the result of the review, or has it been completed?

Mr. HENDERSON: It is my understanding that it has been completed, because of the action taken by the department to cause these things to be reviewed by the civilians in the department.

Mr. BENIDICKSON: It was a general review?

Mr. HENDERSON: It is a continuous review which goes on.

The CHAIRMAN: If there are no further questions, gentlemen, let us proceed to paragraphs 51 to 52.

Post Office Savings Bank

51. Comments were included in the committee's second report, 1959, regarding the changes that had taken place over the past half-century in the relationship between post office savings bank deposits and

deposits in the chartered banks, which might be expected to affect post office savings bank policy. The committee suggested that consideration be given to the present-day role of the post office savings bank—although it indicated that it would be unfortunate were service discontinued at the approximately 450 communities that were wholly dependent on the post office for banking service.

52. *Current comment by the Auditor General.* We understand that the Post Office Department has continued throughout 1959 to give consideration to this matter.

Mr. HENDERSON: Well, in your 1959 report—in fact, you concluded your 1959 report by commenting on the post office savings bank; and you dealt with the changes that had taken place over the past half century in regard to the relationship between the post office savings bank deposits and the chartered banks, which might be expected to affect post office savings bank policy.

You suggested that consideration be given to the present-day role of the post office savings bank—although you added that it would be unfortunate if services were discontinued at approximately 450 communities which were apparently wholly dependent on them for banking service.

I discussed this mattear with the officials of the Post Office Department, and I understand that they are continuing to give consideration to this problem. I asked them some questions in regard to the operation of these post office savings banks, and I learned that the cost of operation—that is to say, salaries and other expenses—was about $319,000 in 1958-59.

Now, the interest credited to the accounts they carry is at the level of 2½ per cent which amounted to about $821,000 during the year. Therefore, the total outlay for the use of the depositors' funds can be set approximately at $1,140,000; and when you relate this to the level of deposits they carry, which average about $34,500,000, you see that the use of the money is being obtained for a cost of around 3⅓ per cent.

Mr. BENIDICKSON: Instead of 6.16, which was paid at one point last year on 90-day money.

Mr. HENDERSON: But I am referring to the Post Office.

Mr. WINCH: That is used by the government, which is natural. If that is credited by the government as being a revenue, then all these post office savings branches—

Mr. HENDERSON: No, there would be no revenue credited, Mr. Winch. It is a service they provide, in respect to which it costs them a certain amount of money; and on which they have to pay interest.

Mr. WINCH: Did you say that there was around $34 million on deposit?

Mr. HENDERSON: There was $34 million loaned or on deposit.

Mr. WINCH: Is there any kind of a record?

Mr. HENDERSON: I would like to ask Mr. Stevenson if he would answer that question.

Mr. I. STEVENSON (*Assistant Auditor General*): To what type of record are you referring?

Mr. WINCH: As we have it now, the cost of giving this service—that is, the salaries and the interest paid on deposits—is about $1,100,000. The government makes use of that $34 million. Is anything shown on the credit side for the use of that money, or does that appear to us as just being an expenditure of $1,100,000; and on the other side of the picture there is the use the government is getting.

Mr. STEVENSON: It would be just the expenditure which would show. The cost incurred by the Post Office Department would be included in the Post Office Department charges, and the interest paid on the deposits would be included as a charge to finance department expenditure as part of the interest on public debt.

Mr. WINCH: I am having a bit of difficulty in regard to this. Perhaps I may be confused; does the government use that money just as though it is their money, and they pay no interest on it? Or do they pay interest to someone?

Mr. STEVENSON: Yes, the government uses it as if it were its money. For example, there is no separate fund maintained. It is part of the consolidated revenue fund.

Mr. HENDERSON: But there is no interest paid by the department of government using the $34 million to the Post Office to offset their costs.

Mr. WINCH: In other words, what we should do is build up this service, because the government gets the money interest free, outside of the 3⅓ per cent, which is the cost they pay out.

Mr. PICKERSGILL: I understand there is a 2½ per cent interest rate paid, and that is paid by the Post Office Department. Is it shown as part of the expenditure of the Post Office Department?

Mr. STEVENSON: No; it is included as a charge to interest on the public debt.

Mr. PICKERSGILL: Well, it is like any other loan.

Mr. BENIDICKSON: When was the last revision made of the rate paid to the depositors?

Mr. HENDERSON: I would have to ask the Post Office Department for that information. I presume they have followed more or less the practice of the chartered banks.

Mr. BENIDICKSON: I was wondering if they do.

Mr. HENDERSON: I imagine they have to because they are, in a sense, competitive with them.

Mr. BELL (*Carleton*): I am not clear on our situation in this. Does the 3¼ per cent which was mentioned include only the administrative cost or the interest charge as well? In other words, is the gross cost 3¼ per cent or 5¾ per cent?

Mr. HENDERSON: No; that is my calculation. $319,000 is what the Post Office figures it costs for the salaries and expenses incurred in looking after these accounts. There were 302,000 accounts across the country, an increase of 1,700 over last year; so, you have that many people using the services. In addition to that they pay 2½ per cent interest on the balance, so that the whole operation costs about $1,140,000 to be able to borrow $34½ million.

Mr. MACDONALD (*Kings*): Does the post office have a savings branch in all of their offices? They do not do any advertizing and I do not think it is generally known they provide this service.

Mr. HENDERSON: It is my understanding they do not have them in all the post offices, but that they maintain them in the country on rural districts. They actually open them in areas where there are no chartered banks. I was not aware of this until I looked into it, but there are 450 spots where there is a post office but no chartered bank; so they are rendering a service.

Mr. MCGEE: During the war that service also existed at service stations.

Mr. PICKERSGILL: I wonder if there is anyone here from the Post Office Department who could tell us what the geographical distribution is.

Mr. HENDERSON: That information could be obtained. I do not have it here.

Mr. PICKERSGILL: I notice there is a note here which indicates there are 450 places where there are these offices, and where presumably there are no chartered banks or similar institutions at which persons can deposit their money. I remember a discussion about this when it was pointed out this was geographically pretty largely concentrated in certain parts of eastern Canada. At that time interest rates were much lower than they are now and we were considering whether or not this service was costing too much. It was decided not to scrap it, for precisely this reason. I think it would be rather interesting for the committee to have from time to time a review to see where these places are which depend on this service exclusively.

The CHAIRMAN: We will get that for the record. (*See Appendix "A-2"*)

Gentlemen, that concludes our discussion of the memorandum and in point of fact we have no further business before us today, except to decide as to when we will hold our next meeting. We have one scheduled for April 13.

Mr. BENIDICKSON: I think there is some suggestion we meet in the morning of the 13th. I think that would be inadvisable.

Mr. PICKERSGILL: I also think it would be very inadvisable. There will be attempts, I think, to hold caucus or some kind of meetings on that morning and it is also suggested that the house might meet.

Mr. WINCH: I was going to suggest that, as many members may be leaving early, perhaps we should advance the date.

The CHAIRMAN: If that is the wish, the next meeting wil be on April 27, the first Wednesday after the Easter adjournment.

APPENDIX "A-2"

Information requested by Mr. Pickersgill re: Post Office Savings Banks.

April 6, 1960.

Geographical distribution of communities wholly dependent on the Post Office for banking services:

Newfoundland	Nil
Prince Edward Island	3
Nova Scotia	23
New Brunswick	13
Quebec	23
Ontario	113
Manitoba	47
Saskatchewan	159
Alberta	38
British Columbia	38
Yukon	1
	458

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Report of the Canada Council for the fiscal year ended March 31, 1959

WEDNESDAY, APRIL 27, 1960

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WITNESSES:

Representing the Canada Council: Dr. A. W. Trueman, Director; Dr. J. F. Leddy, Member and Vice-President of National Commission for UNESCO; and Mr. Douglas Fullerton, Treasurer of the Council.
From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

22959-1—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

CORRECTIONS—(*English Copy Only*)

PROCEEDINGS No. 3—Wednesday, April 6, 1960

On Page 76. The fourth last paragraph should read:

"The position on this matter is not easy, as Mr. Pickersgill well knows. It has been considered on several occasions by the public accounts committee. The last time it had an exhaustive study was in 1950. At that time it was realized that it would result in a less satisfactory picture being given to parliament of the net appropriations needed by the department. That was the view of the public accounts committee. There is some point to that attitude."

On Page 77. Lines 4 to 6 should read:

"I think we had a complete revision of them in 1937, and another complete revision again in 1950. It seems to me this part of the whole question of estimates procedure, and control by parliament."

ORDER OF REFERENCE

FRIDAY, April 8, 1960.

Ordered—That the name of Mr. Pigeon be substituted for that of Mr. Campbell (Lambton-Kent) on the Standing Committee on Public Accounts.

Attest.

L.-J. RAYMOND,
Clerk of the House.

22959-1—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, April 27, 1960.
(5)

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*), Brassard (*Chicoutimi*), Danforth, Denis, Fisher, Keays, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGee, McGregor, Morissette, Morton, Pickersgill, Pigeon, Pratt, Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Villeneuve, Winch, and Wratten.—(23)

In attendance: From the Office of the Auditor General: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Mr. E. Cook.

Representing the Canada Council: Dr. A. W. Trueman, Director; Mr. Eugène Bussière, Associate Director; Dr. J. F. Leddy, Member and Vice-President of National Commission for UNESCO; Mr. D. H. Fullerton, Treasurer; Mr. Peter Dwyer, Supervisor of Arts program; and Miss L. Breen, Secretary of Council.

The Auditor General supplied information requested previously by Mr. McGee, respecting the costs of certain agricultural publications.

Mr. Bell (*Carleton*) requested that certain corrections be made in the Committee's printed proceedings No. 3.

The Chairman introduced the representatives of the Canada Council, and he referred to the absence of the Honourable Brooke Claxton due to illness.

Mr. Henderson made a brief statement respecting the Auditors' Report on the operations of the Canada Council.

Dr. Trueman outlined the responsibilities, aims and operations of the Council.

Dr. Leddy explained the establishment, purposes and work of the Canadian National Commission for UNESCO. He was questioned by Members of the Committee, thanked and permitted to retire.

The following documents were distributed to members of the Committee:

(1) The Canadian National Commission for UNESCO

(2) Dialogue 1959—Canada and the Orient

(3) Canada and Asia

(4) Newsletter—Vol. 11, No. 2.

Dr. Trueman, with the use of charts, outlined the financial position of the University Capital Grants Fund and he answered questions thereon.

Certain statistical information respecting the work and finances of the Canada Council was tabled for the information of Committee members (*See Appendix "A-3" to this day's Proceedings*).

At 11.00 a.m. the Committee adjourned until 9.30 a.m., May 4, 1960.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, April 27, 1960.

The CHAIRMAN: Gentlemen, I call the meeting to order.

First of all, I would like to introduce a new member, Mr. L.-J. Pigeon, the member for Joliette-l'Assomption-Montcalm, who has joined our deliberations.

When we met last there was a question raised by Mr. Frank McGee with regard to the agricultural institute of Canada publications. The Auditor General now has an answer to the question that he raised at that time, and I would ask him if he would give the answer.

Mr. A. MAXWELL HENDERSON (*Auditor General of Canada*): Mr. Chairman, the members will recall that Mr. McGee asked questions directed towards ascertaining if there had been increases since 1957-58 in expenditures by the Department of Agriculture on the agricultural institute of Canada publications. The information given in reply to his question was confused, we found, by references to commitments carried forward; and I would therefore like to clarify the situation by giving the information regarding the actual costs of the publications printed during the past three years.

Mr. MCGEE: Mr. Chairman, you very kindly indicated the extent and length of the reply, and it would satisfy me completely. I am wondering if it might be more desirable, to have it placed on the record rather than hold up the proceedings concerning the other matter of business that is before us today.

The CHAIRMAN: Would you like it inserted at this point?

Mr. HENDERSON: There are only three figures, Mr. Chairman.

Mr. MCGEE: I thought you indicated there were more than that.

Mr. HENDERSON: In 1957-58 the cost was $18,600, which was noted in this committee's second report, 1959. This amount was the cost of printing 20,400 copies of various journals in that year. In 1958-59 the cost of printing 19,500 copies of the journals was $25,300. In 1959-60 the cost of printing about the same number, 19,500, was approximately $28,500, which included an estimate of $1,100 to cover the final cost. In other words, the costs had been increasing, which is the point I think you wished to establish.

The CHAIRMAN: Anything else, Mr. McGee?

Mr. MCGEE: No, thank you.

Mr. BELL (*Carleton*): Mr. Chairman, might I make two corrections in the record of the last proceedings, which have some significance?

The CHAIRMAN: Yes, Mr. Bell?

Mr. BELL (*Carleton*): On the eighteenth line from the bottom of page 76 I am quoted as having said:

> The position on this matter is not very difficult as Mr. Pickersgill well knows.

I actually intended to say the reverse of that, which is:

The position on this matter is not easy, as Mr. Pickersgill well knows.

On page 77, in the fourth and fifth lines, the dates are incorrectly given. The date in the fourth line is given as "1950," and it should be "1937." In the next line the date given is "1957," and should be "1950," so that the sentence correctly reads:

I think we had a complete revision of them in 1937, and another complete revision again in 1950.

The CHAIRMAN: Any other corrections, gentlemen?

Our main purpose this morning is to consider the second annual report, to March 31, 1959, of the Canada Council. Have all the members got copies of the report? If not, we have extra copies here.

I should explain to the committee that Mr. Brooke Claxton phoned last evening to say that he was very anxious to appear before the committee and hoped to appear next week, if he is able, but that he did not feel well enough to appear this morning. He requested that he be released, and I took it upon myself, in your name, to say: "Why certainly, that is quite all right," and that if he could appear next week we would be happy to have him.

We have with us today several prominent witnesses who will appear on behalf of the Canada Council, and if I may I would like to introduce them.

To my right is Dr. A. W. Trueman, who is director of the Canada Council, and has been since its inception. Before that he was president of the university of New Brunswick, and was subsequently chairman of the national film board. Now, of course, he is director of the Canada Council.

Then we have Mr. Eugène Bussière, associate director of the Canada Council, who was formerly with the Department of Citizenship and Immigration, and director of the citizenship branch.

Also we have with us Dr. J. F. Leddy, who is dean of arts of the university of Saskatchewan, and has been a member of the council since its inception in 1957. He is vice-president of the national commission for UNESCO.

We also have Mr. D. H. Fullerton, who has appeared in front of this committee before, and he is treasurer of the council; Mr. Peter Dwyer, supervisor of the arts program; and our good friend Miss L. Breen, secretary of the Canada Council.

So, I feel that if we could really put our witnesses to work and get some information this morning, that is phase one of our operations.

Before we do that, however, the Auditor General, as is his duty, has prepared a report on the Canada Council, and with your permission I would like to ask him to make his report to the committee immediately.

Mr. HENDERSON: Thank you, Mr. Chairman.

Section 22 of the Canada Council Act requires the accounts and financial transaction of the council to be audited annually by the Auditor General and the 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 14, 1959, covering the examination of the accounts for the year ended March 31, 1959, summarized the transactions in the endowment fund and the university capital grants fund. The audit for the council's financial year ended March 31, 1960, has not yet been completed.

Endowment Fund

The report showed that interest and dividends earned on investments during the financial year 1958-59 totalled $2,758,760 to which was added the unexpended balance of $771,871 brought forward from the preceding year, making a total of $3,530,631 available for expenditure. Expenditures amounted to $2,960,757 consisting of $2,666,299 for authorized grants and awards, $269,838 for administrative expenses and $24,620 in respect of direct outlays on behalf of the Canadian national commission for UNESCO. Expenses relating to this commission and also to the administration of the university capital grants fund are included in the administrative expenses of the endowment fund. The surplus remaining at March 31, 1959, available for expenditures under section 16 of the Canada Council Act thus totalled $569,874.

An outline of the manner in which the investment portfolio of the fund was managed during the year is given in part seven of the annual report of the council. Under section 19 of the act, the council has authority to invest and reinvest. The investment committee of the council approved purchase of securities during the year to a total figure of $55,821,601 representing a turnover ratio of 1.12 times during the year in terms of the $50,000,000 original principal amount of the fund. The interest yield for the year in relation thereto was 5.5%.

University Capital Grants Fund

The balance at credit of this fund at March 31, 1958, was $48,250,685. Interest on investments amounted to $1,812,384 and net profit on the disposal of securities was $1,101,832. After providing $8,732,264 for authorized grants under section 9 of the Act, a balance of $42,432,637 remained at the credit of the fund at the end of the year.

In the 1957-58 audit report, information was given regarding those grants made to universities for student residences. The nature of these came up for discussion before the public accounts committee and was referred to by the committee in its third report, 1959, although no suggestion or recommendation regarding the matter was made by the committee.

In April 1958, the council obtained legal opinion regarding the question: "Could a grant be made for a building to be used as a students' residence?" In answer to this question, the opinion stated:

> Yes, provided the proposed residence is to be established and operated as more than a mere rooming or boarding house so that its existence and operation may fairly be said to be in furtherance of the council's objects as defined in section 8(1) of the Act. Drawing a precise line in this respect is not easy, and indeed is probably not necessary. Clearly the inclusion in a residence of such facilities as a library, music room, common room, discussion room and so on, with a warden and possibly one or more members of the faculty living in, makes such residence much more in the developing life of a resident student than a mere rooming or boarding house.

Our examination of the grants made to universities during the year ended March 31, 1959, disclosed that those made for students' residences during that year were for residences having the facilities suggested by this legal opinion.

Enquiries have been made regarding grants made for student residences during the financial year just ended, that is, to March 31, 1960. The following

table shows the grants approved for students' residences during the three years ended March 31, 1960, in relation to the total grants approved for the construction of buildings, and shows a drop in this relationship during 1959-60:

	Students' residences	All buildings	
1957-58	$1,694,000	$ 4,084,300	41%
1958-59	5,060,791	8,732,264	58%
1959-60	697,000	9,175,979	7%
Cumulative to March 31, 1960	7,451,791	21,992,543	34%

In other words the percentage for students' residences in 1958-59 moved up to 58 per cent from 41 per cent and in 1959-60 dropped to 7 per cent.

In its third report, 1959, the committee considered the question of the allocations of grants to provinces and noted that the grants were conditional on (a) no grant exceeding one-half of the total expenditures made in respect of the assisted project, and (b) the $50 million being allocated to each province in the same proportion as the population of the province, according to the latest census, is to the aggregate population. The amounts annually added to the fund for interest earned on investments and for net profit on disposal of securities are allocated to the provinces on the same statutory basis regardless of the extent to which original allocations had previously been used in the making of grants.

Records are maintained by the council showing the allocations to the several provinces, and the grants approved in relation to such allocations. The following is a summary of the position at March 31, 1959:

(in $1,000)

Province	Original Allocations	Interest and Profits	Total Allocations	Grants Approved	Balances Available
Alberta	$ 3,499	$ 367	$ 3,866	$ 305	$ 3,561
British Columbia	4,357	457	4,814	2,333	2,482
Manitoba	2,649	278	2,927	1,130	1,797
New Brunswick	1,727	181	1,908	1,132	776
Newfoundland	1,293	136	1,429	—	1,429
Nova Scotia	2,165	227	2,392	979	1,413
Prince Edward Island	309	33	342	142	199
Quebec	14,419	1,514	15,933	—	15,933
Saskatchewan	2,744	288	3,032	437	2,596
Ontario	16,838	1,768	18,606	6,359	12,247
	50,000	5,249	55,249	12,817	42,433

Scope of Audit

The books of account of the Canada council are maintained at its offices in Ottawa under the direct supervision of its treasurer. In addition to his responsibility for the collection of revenues accruing to and expenditures made from both funds pursuant to the Canada Council Act, the treasurer handles all purchases and sales of securities in the investment portfolios under the general direction of the investment committee of the council.

Our examination for the fiscal year ended March 31, 1959, included a review of the council's cash and banking transactions and reconciliation of its bank balances with certificates received direct from its bankers at the close of the financial year. All awards made out of the university capital grants fund and awards in excess of $1,000 from the endowment fund were checked with the authorizations issued by the council. All transactions involving purchases and sales of securities in the investment portfolios were verified and checked with the minutes of the investment committee of the council. The bond and debenture holdings at March 31, 1959, were verified by direct certificate from the bank of Canada and the stocks were similarly verified by the Montreal Trust Company, Montreal where they are held. Confirmations were received direct from chartered banks covering the principal amounts of National Housing Act insured mortgages, held as part of the endownment fund portfolio.

That completes my report.

The CHAIRMAN: Gentlemen, are there any questions at this time?

Mr. FISHER: You quoted a legal opinion. Where did it come from?

Mr. HENDERSON: That was obtained by the Canada Council from their attorney.

Mr. FISHER: Who was their attorney?

Mr. BELL (*Carleton*): G. E. Beament, Q.C.

Mr. FISHER: Could you tell me what is his educational background, such as university, college and that sort of thing.

Mr. BELL (*Carleton*): R.M.C., university of Toronto and Osgoode Hall.

Mr. PICKERSGILL: Eminently respectable, I am sure.

Mr. FISHER: Would you again repeat how this came into your report.

Mr. HENDERSON: This committee looked into this matter.

Mr. FISHER: I remember.

Mr. HENDERSON: The Canada Council obtained legal opinion in April, 1958.

Mr. FISHER: But you have made the point that the percentage going to students' residences has dropped off. Is this an indication that the council has had some second thoughts about the amount of money which is going into University residences.

Mr. HENDERSON: I think this is a point on which Dr. Trueman might care to speak.

Mr. FISHER: Then why did you put it into your report? Why did you think it was relevant?

Mr. HENDERSON: Because it was evident the committee, having raised this point, was interested in it and it seemed the obvious thing to show the relative figures over a three year period.

Mr. FISHER: Thank you.

Mr. MACDONNELL: At this particular point would it be relevant to deal with the question of time. It is now a year after the completion of the report and I am wondering if this is to be a normal delay.

Mr. HENDERSON: I myself raised the same question and discussed it with the officials. In some respects actually it would help us if the financial year were December 31. As it turns out the government fiscal year of March 31 fits in very much better in the cycle of their disbursements and operations, as they have the benefit of a full and complete year, so to speak, in their operations. Therefore, the figures reflect more accurately what they are doing. It is unfortunate, however, that we cannot produce the March 31, 1960, figures at our meeting at this time.

Mr. MACDONNELL: Apparently we will be here for some little time longer and I am wondering if we might have the next report some time before prorogation. I do not want to make heavy weather about this.

Mr. HENDERSON: I think it was tabled in parliament last year on July 10. I would imagine it would be about the same time this year.

The CHAIRMAN: Last year we raised this point because we felt we were always a year behind. The Auditor General has given us more up to date figures this year; whether or not it is legal I do not know. We do not like to be always a year behind and we raised that with the Canada Council and suggested they consider it.

Mr. MACDONNELL: I have no further comments at this moment.

The CHAIRMAN: If there are no further questions, we have with us Dr. Trueman who would like to make an opening statement.

Dr. A. W. TRUEMAN (*Director of Canada Council*): Mr. Chairman and hon. members of the standing committee on public accounts: Mr. Claxton, chairman of the Canada Council, asked me to begin whatever remarks I should make by first of all expressing to you his regret at being unable to be here this morning. However, if he should be needed subsequently, he tells me that he will make every possible effort to be present.

I am also to report the inability of the vice-chairman, the Rev. Father Lévesque, to be present.

We were unable to give Father Lévesque sufficient warning to enable him to cancel some important public engagements of some standing which had been advertised in the press, and he found himself in a dilemma.

The committee has had referred to it the annual report of the Canada Council for the fiscal year ending on March 31, 1959. The fiscal year of the council coincides with that of the government. The report under review, then, covers the second year of the council's operations.

The third year has just been completed, on March 31, 1960. The report covering the third year has not yet been completed, approved, or printed. Nevertheless, the council wishes to make every effort to provide the hon. members of the committee with as much information as possible. We have therefore prepared certain figures which cover the greater part of the third year's operations, that is, up to February 22, 1960, which may be used for comparison. In the use of these figures, therefore, it should be understood that they are for only part of the year 1959-60, that some of them are estimates, and that they have not yet been subjected to complete audit.

Turning to the report for 1958-59, we see that it begins with a general introduction followed by part one which deals with organization. I may add to this part that whereas the staff at the end of this fiscal year under review stood at 25, it now numbers 29. A large part of the work of the staff is the handling of applications for assistance from individuals. The scholarship and fellowship scheme is reported in part 3, the endowment fund.

I shall point out one or two facts in connection with that section of the program when I come to part 3.

I draw the attention of the committee to two displays of publications; the one on the left of the chairman is issued by the council, and the one on my right is issued by the national commission for UNESCO. The council maintains the the secretariat for the commission, and a member of the Canada Council, Dr McKenzie, president of the university of British Columbia, is president of the national commission.

Dr. Leddy, who has been introduced to you this morning, is vice-president of the national commission for UNESCO.

Part two of the report deals with the university capital grants fund. This is set out at page nine, where grants given during the year are listed.

Further details of the financial statement concerning the university capital grants fund are given on page 46.

The hon. members will recall that payments to universities and similar institutions of higher learning, for assistance in meeting the costs of buildings, are to be made out of the capital, profits and interest of the university capital grants fund.

The total amount of the fund, which began at $50 million, is to be divided among the institutions in the various provinces in the proportion which the population of each province bears to the total population of Canada.

As a matter of policy, the council decided to recognize as eligible for grants the universities and similar institutions of higher learning which are recognized as such by the national conference of Canadian universities and colleges, and used by that organization as a basis for the allocation of the annual per capita federal grants, which at the present time is at the rate of $150 per person in Canada.

The council has consistently sought the advice and cooperation of the universities in connection with this part of the council's program, and what has been done has had the complete approval of the universities acting through their national organization.

So far, grants have been made only from the original capital sum of $50 million. At the present time the council is considering how the profits and the interests for the university capital grants fund are to be allocated, first as among all the eligible institutions, and second as among the eligible institutions within each province. That is a problem which needs some study, and the council is looking into it at the moment.

The point I want to make is that so far the profits and the interest have been kept as separate entities, and the grants have been made out of the $50 million only.

Part three deals with the endowment fund. The grants made from this fund are listed in some detail on pages 12, 13, 15, and 16. With reference to the scholarship and fellowship program, the hon. members may be interested to have the following figures.

The numbers of applicants and of scholarships awarded in each of the years 1957-58, and 1958-59, together with an incomplete return for 1959-60 are as follows:

Applicants in the first year numbered 1615; in the second year, they numbered 1620; and in the third year up to February 22, 1960, they numbered 1764.

That last number of 1764 is likely to go up over the 1800 mark, I feel quite certain, or substantially more than 1800.

Awards in the first year numbered 450; in the second year, 571; and in the third year up to April 11, 1960, 435.

There will be additions to that number before the scholarship scheme for the year is closed out.

I should point out that in considering the various categories of awards we are in constant touch with members of leading organizations representing the arts, humanities, and social sciences, and that we have also held a number of conferences at which the program has been considered in detail, conferences to which we invited representatives from the length and breadth of Canada, with respect to the arts, humanities, and social sciences, to use the words naming the council's responsibility.

Part four of the report is an endeavour to make clear certain policies and to discuss problems which arise in connection with the arts program of the council. Between pages 28 and 29 is inserted an interesting chart to

which the attention of the hon. members is directed. This chart shows something of the work which the council has done in the dissemination of the arts in Canada from Saint John's to Vancouver.

Part five deals with one of the special functions of the council, which is to exchange with other countries knowledge and information respecting the arts, humanities, and social sciences and to arrange for the representation and interpretation of the arts, humanities, and social sciences in other countries. This responsibility has been discharged in a number of different forms, as will be seen on pages 36 to 41 of the report.

Another special function of the council under PC1957-831 has been to set up the national commission for UNESCO, to maintain its secretariat, and to act as liaison between the commission and the government. A review of these activities is given in part six.

The opening meeting of the commission, I believe, took place in this room, sir, and was addressed by the Prime Minister himself. Dr. N. A. M. MacKenzie, president of the commission, was prevented from attending because at that time he was presiding over a convocation of the university of British Columbia.

The vice president of the commission, Dr. J. F. Leddy, is here this morning and, if it is the wish of the committee, might I suggest that, as Dr. Leddy has journayed specially from Saskatoon to be here for this meeting, it might be possible, after I have finished within a minute or two, for the committee to take up any questions it has with regard to the UNESCO program with Dr. Leddy. This would ensure the use of Dr. Leddy's services while he is here.

In part 7, the finances of the council are dealt with. The financial statements are here; the report of the Auditor General is here. You have heard the Auditor General this morning. If any further questions are raised, the treasurer of the council is here.

At this point, I should like to express, on behalf of Mr. Claxton and all the members of the investment committee and, indeed, of all members and officers of the council, deep regrets at the loss of the late Mr. James Muir. Mr. Muir had been a highly valued member of the investment committee from the start, and had given services of the highest quality to its work.

On a completely different note, Mr. Chairman, the committee also regrets the loss of another valued member, in the person of General Georges Vanier, who, on becoming the Governor General of Canada, of course, resigned his place on the council and therefore on the investment committee as well.

Part 8 of the report is the conclusion, in which are recorded some reflections on two years of council activity.

I think I should report, Mr. Chairman, that on April 15, 1959, the terms of six members of the council expired: Mrs. Reginald Arkell, Mr. M. Jules Bazin, Mr. L. W. Brockington, Mr. Samuel Bronfman, Mr. Fred Emerson and Mr. Eric Harvie. Two of these were reappointed for a second term—Mr. Brockington and Mr. Bronfman.

I know the chairman would wish me to express appreciation for the council generally of the loyal and effective work which the retiring members performed so faithfully and fruitfully during their period of service in the early, formative days of the council.

The remaining members most cordially welcome the new appointees: Mrs. Margaret Harvey, Mr. F. Lynch-Staunton, Mr. M. Emile Tellier, Mr. Gerald Winter and Mr. Marcel Faribault, who was appointed to fill the place vacated by General Georges Vanier, now our Governor General, to whose resignation reference has already been made.

That is all I wish to say for the moment, Mr. Chairman. I have some charts here for display which I shall be glad to show the members later on. They

may serve to bring before you in graphic form some of the information you want and provide some figures for comparison between the figures of the report we are examining and of two-thirds or three quarters of the year which we have just finished. But that can come later.

The CHAIRMAN: Thank you, Dr. Trueman. Gentlemen, Dr. Leddy, dean of arts, university of Saskatchewan, is here specially this morning. May I suggest that we postpone the questioning of Dr. Trueman on his report until a little later, so that we may get on with questioning Dr. Leddy while he is in Ottawa. Does that meet with the agreement of the committee?

Agreed.

The CHAIRMAN: Dr. Leddy, have you an opening statement, or anything you wish to say?

Dr. J. F. LEDDY (*Member, Canada Council*): Perhaps I might make a few introductory remarks about UNESCO and our own national commission, to provide perhaps a basis for questions, if you have some you would like to address to me.

I might begin by pointing out that the affairs of UNESCO are somewhat complicated and by no means easy to understand without a certain amount of attention to the way in which it has developed as a special agency of the United Nations. It was established in 1946, and under the terms of its constitution it was agreed by the various participating countries—Canada among them—that in due course there would be a national commission established within each country, having the purpose of maintaining close liaison with the international body.

For a variety of reasons, Canada's establishment of a national commission was considerably delayed, and various informal bodies in this country and, of course, officials in a section of the Department of External Affairs, dealt in the interim with many of the matters were intended under the constitution of UNESCO to be performed by the national commission.

Ultimately, in 1957, under the Canada Council Act, provision was made for the assumption by the Canada Council, after an appropriate order in council, of various duties in connection with UNESCO. It was quite clear that the council itself was not proposed as the national commission, a proposal which had first been recommended by the Massey commission and which was subsequently abandoned.

It was the action of the Canada Council in the latter part of 1957, which resulted in setting up a national commission, which is the appropriate subject, I take it, of our discussion this morning. That national commission, in the first instance, is of course bound to follow, in general outline, the regulations and the recommendations for all national commission outlined in the basic guide for such institutions under UNESCO's constitution.

Its functions may be put under three basic headings. It is the business of a national commission to act as an adviser to the government of the country with respect to any matters referred to the national commission by that government for advice on UNESCO affairs. Secondly, the commission is expected to maintain liaison with all those national bodies in Canada which will have an interest in subjects in the program of UNESCO; such as education, for example. Thirdly, it is the business of the commission to promote a knowledge and an understanding of UNESCO within this country. At this point our entire arrangements are directed towards those three objectives.

With respect to advice to the government of Canada, when we are asked for it, such requests reach us as a rule through the Department of External Affairs. They come on a variety of subjects, and with special reference every two years to the first and then the revised program circulated by UNESCO,

for its two-year program. The budget is used as a basis of discussion for the entire program and is presented for approval every second year, in November, at the general conference of UNESCO. All participating governments are given a chance, long in advance, to see the proposals of the secretariat in Paris, and it is now the custom that each successive budget is sent to our national commission, with a request for helpful comment for External Affairs.

This, as you can see, involves considerable work for our commission, and it requires us to get in touch with many representative groups in Canada, asking their opinion on a particular point. This has now been done twice: it was done hastily in 1958, very shortly after the establishment of the commission, for the 1958 conference in Paris. The process is now under way again with respect to the November conference this year.

Taking the second point, namely the necessity of maintaing liaison with Canadian organizations in the field of culture, science and education, I am referring to an area which requires much effort and much patience in order to advance the work of the commission. Here we are, if you like, at the mercy of the possible indifference of many other organizations—a lack of interest which, in many cases, has naturally become habitual after some ten years in which we did not have in Canada this kind of liaison to communicate with them.

However, I do feel that in the very short time of scarcely two years, we have managed to secure the interest of a large number of organizations throughout Canada, which have been appointing representatives to attend our conferences. Through us, they have been securing a knowledge of what is being done in the international field, and they are begining to develop considerable interest.

There are various ways of judging this. I will offer you one objective item of evidence, in addition to this personal assurance, and that is the number of subscriptions to the *Courier*. This is a well written and brighly illustrated publication, which comes monthly from Paris. Until the commission was established it had a trifling subscription list in Canada—something of the order of 20 to 30. Since our commission has begun to promote an interest in UNESCO, that list has increased steadily until it is now well over 2,000—not as yet an extensive subscription list, but most promising and, I think, an objective indication that we have been developing throughout the country the kind of interest which we are required to do as a general liaison and co-ordinating body for UNESCO in Canada.

The third and last point which grows out of this, and is closely connected with it, is the promotion of the general ideals involved in UNESCO. This again is slow work, in which progress is to be observed only at rather long intervals, and here we rely very heavily on what I think has been a very successful initial series of publications. Those publications are set out on display for you on the far board.

I might interject at this point the explanation that within Canada, as a result of the long period in which no commission existed, there have been until recently very few persons with a first-hand knowledge of UNESCO matters. Our own associate director, Mr. Bussière, served for some years on the secretariat in Paris. The chief librarian of the city of Toronto, Mr. Harry Campbell, also served some years there, and has been a great help to us. Also, several members of the House of Commons and the Senate, as well as other citizens, have been sent to the general conference of UNESCO, and they also have been of much assistance. I recall that one member of this committee, Mr. Morissette, who is present today, was a delegate at the last general conference. We have drawn heavily on the advice of such persons in preparing the kind of publications you have seen.

First, we have prepared our own type of newsletter which, of course, is in both languages. This is the fifth member, and the sixth is expected shortly. Out of the UNESCO story all over the world we pick up items which may have special significance in Canada. Again, as in the case of the *Courier*, this document is an indication, in its circulation and, particularly in the number of reprints of special news items, of the way we are securing a favourable response.

UNESCO has initiated several major projects, and these have been endorsed by the participating governments. There are three in particular, of which we have selected one for emphasis. These three are, first the promotion of knowledge, interest and good relations between the east and the west. Another is an educational program in Latin America; and the third, a co-ordinating scientific project, deals with the arid zones throughout the world.

It is the first of these to which, at this point, we have decided to give special notice. We began by commissioning the pamphlet, which appears on the board; it is the yellow and white one, called, "Canada and Asia". It has on the cover a symbolic outline of the maple leaf and lotus blossom. It describes programs, academic and otherwise, in Canada, dealing with east-west matters, and mentions persons who have a special knowledge of eastern matters, and it makes recommendations for future developments in such special studies. It is a basic and factual study which, we understand, gave rise to much immediate favourable comment from many other national commissions, some of which have requested permission to excerpt and translate parts of it.

That basic study was followed, in due course, by the other pamphlet you see, with the letter "D"—"Dialogue", which is largely a report of our first general conference in Montreal last year, on eastern and western matters. It was addressed by the Japanese ambassador, and many other persons having a similar first-hand competence in the field of eastern affairs. These two items have drawn attention in Canada to what is a major world concern, and one which UNESCO is obligated to promote.

How successful is the commission? How well organized is it? First of all, in the matter of organization, we have tried in the constitution of the commission to keep in view the three basic areas with which the commission is required to be concerned. We have had a commission consisting of 26 members, and a comparable number of alternates. These include ex officio representatives of the Canada Council and the Department of External Affairs. Also, we have designated approximately ten organizations, which are to be represented at all times because their work is so close to the purpose of UNESCO—and these include the Canadian education association, the national conference of Canadian universities, the Canadian teachers federation, and a number of other bodies such as the national research council, the national film board and the Canadian labour congress. In addition, we have drawn from a rather lengthy list of cooperating bodies an additional nine to be represented with us. These cooperating bodies cover similar areas to those I have mentioned already, such as the Canadian historical association, the Canadian weekly newspapers association, and there are organizations which have expressed an interest in the commission, and which have agreed to send a delegate to its general conference every second year.

This organization might, at first glance, seem a little cumbersome, but we think it is working well. We believe that it is helping us to make connection with every part of Canada, with all the major national organizations and, in some instances, important provincial organizations having the same aim as we have in respect to some part of the program of UNESCO.

Finally, I would like to refer to the effectiveness or success of the commission during the past two years. My own impression, after having dealt with many bodies—especially those having coordinating or liaison tasks, which can be tedious, slow and, for a while, unrewarding work—is that the commission has got off to an excellent start, and its program has been pushed with considerable skill and energy. It has met with a fine response.

So that you may not be left simply with my assurance on that point, I would like to say that when we have visitors from other countries, or the secretariat of UNESCO, some exceedingly complimentary remarks on this have been volunteered. In Canada in the last two years we have had the director general of UNESCO, his deputy, various high officials from the New York and United Nations office of UNESCO. In addition, on a number of occasions we have compared notes with officials of the United States UNESCO commission. They have invariably complimented us on the speed with which we have gotten under way and they have expressed great interest in what we have done.

Before I invite questions, Mr. Chairman, perhaps I could conclude this point by reading to you a few lines from a letter received from Mr. Lawrence Smith, a member of the executive of the American national commission, who was with us at our annual meeting a few weeks ago in Vancouver. After leaving Vancouver, Mr. Smith wrote Dr. MacKenzie thanking him for the hospitality of the occasion, and he added these words—and I would like to say before reading them that comments of this kind go well beyond the demands of the diplomatic courtesy of the occasion, and agree exactly with the remarks we have heard from the international officers of UNESCO—that he was grateful for the opportunity

> to see how an effective commission like yours works. I feel we have a number of things to learn from you, and I am taking the liberty of drawing them to the attention of some of our people.

Comment of this kind encourages us and assures us that in our various conferences, in our contacts with people throughout Canada, we are fulfilling, with all the capacity at our command and with notable success, the high ideals of UNESCO and the expectations of the people of Canada to this effect when we were established.

The CHAIRMAN: Thank you, Dr. Leddy.

Now, gentlemen, Dr. Leddy is "open target." I am sure you can take care of yourself quite well, Dr. Leddy.

Mr. WINCH: I still have not got quite clear what the relationship is between the Canada Council and your set-up; and what assistance the Canada Council gives to you directly, outside of it just being the secretariat.

Dr. LEDDY: The relationship between the two is established by a clause in the Canada Council Act which, as I said, enables the Canada Council to assume functions with respect to UNESCO, as assigned by an order in council.

The terms of that order in council, sir, are set-up in the first annual report, annex G, which I think was before you at your last meeting.

This is an order in council dated June 14, 1957. It sets forth the request that the Canada Council proceed, in effect, to establish a national commission. The order in council is relatively short. Would you like it read, Mr. Chairman?

The CHAIRMAN: Yes.

Dr. LEDDY: It is dated June 14, 1957.

HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, pursuant to subsection (2) of section 8 of the Canada Council Act, is pleased hereby to order as follows:

1. The Canada Council, in conformity with Article VII of the Constitution of the United Nations Educational, Scientific and Cultural Organization (UNESCO), shall take steps to establish a National Commission for UNESCO to assist and advise in the discharge of those responsibilities set out in paragraphs 3. and 4. below. In organizing the National Commission the Canada Council should take into consideration the requirements of a National Commission as laid down in the UNESCO Guide for National Commissions.

If I might interpolate there, this is the document to which I referred earlier as establishing the broad lines upon which we were to work.

2. The Canada Council shall provide the secretariat for the national commission and shall be the normal channel of communication between the national commission and the Department of External Affairs.

3. The Canada Council, with the assistance of the national commission for UNESCO as hereinabove provided, shall assume the responsibility for the following matters:

(*a*) Coordination of UNESCO program activities in Canada;

(*b*) Canadian participation in UNESCO program activities abroad including the provision of technical advice and assistance from expert bodies, both governmental and non governmental, in Canada except as provided in paragraph 4 below;

(*c*) Proposals for future UNESCO programs, in consultation with the Department of External Affairs.

4. The Canada Council, with the assistance of the national commission for UNESCO as hereinabove provided, may tender advice to the Department of External Affairs on UNESCO matters relating to:

(*a*) the constitution, administration and personnel;

(*b*) the budget and financial affairs;

(*c*) membership and other matters affecting Canada's relation with other states and with other international organizations;

(*d*) elections to UNESCO offices;

(*e*) nominations to Canadian delegations;

(*f*) matters likely to involve legislative action within Canada.

On receipt of this order in council the officers and members of the Canada Council held discussions with many interested persons including, naturally, officers of the Department of External Affairs concerning a constitution for the new national commission.

It was at this point—and I take it that here is the nub of your question—that it was agreed that the Canada Council itself would not be the national commission, since that would prevent the national commission being broadly representative of many organizations which would not necessarily be covered by the membership of the Canada Council. Twenty-six was decided as the number of members after looking at commissions which seemed to us to be too large as in the case of the United States with 100, or too small as in several countries where it is a subsection of a government department. Four of the twenty-six are members of the Canada Council. The president and

the vice-president are provided from this number on nomination by the Canada Council; but the other twenty-two persons are selected by the organizations which they represent. This is a desirable result which would not have been possible had we had a commission of civil servants or one which coincided entirely with the membership of the Canada Council.

Mr. WINCH: How is your work financed? What is the budget?

Dr. LEDDY: As directed by the order in council it is financed by the Canada Council. The budget is $90,000 of which $35,000 is office expense and salaries chargeable against the UNESCO budget by the Canada Council, and the other $55,000 is for a variety of expenses including those publications to which I have referred as well as a relatively small number of grants to organizations or individuals which seemed to us to advance the overall UNESCO program, for example in arranging that there should be a Canadian delegate to an international conference at which Canada otherwise would not be represented.

The CHAIRMAN: Have you brought copies of the publications?

Dr. LEDDY: There is a large supply on the table in the corner. This is the material set out on the cardboard display form.

The CHAIRMAN: Are you prepared to distribute these now?

Dr. LEDDY: Yes.

The CHAIRMAN: Will you do so please.

Mr. MCGEE: I might make the suggestion that in future when a witness like Dr. Leddy is to be before us if we could have the material a few days in advance of the meeting it would be of help. I am seeing some of these for the first time and that has a rather inhibiting effect on the questioning.

The CHAIRMAN: That is a very good suggestion and is carefully noted.

Mr. MACDONNELL: I have observed, among other things in Dr. Leddy's account, the reference to technical advice and assistance. I have been very interested in the work of Mr. Paul G. Hoffman, managing director, United Nations special fund. Would it be within the competence or interest of this organization to offer opinions on the broad question of technical assistance, which I think is an important question facing the world today, or would that be something outside your purview to be settled by other organizations.

Dr. LEDDY: I might make a general reply. Then, with your permission, Mr. Bussiere could enlarge on it.

Technical assistance mentioned here refers to those areas in which UNESCO itself is committed. Education would come under this heading, and also certain scientific matters if they can be related to the arid zones project. In this area, particularly in dealing with the biennial budget of UNESCO, we do indeed send forward specific and often very strong recommendations to UNESCO. In certain technical areas we secure advice from the national research council.

Mr. PIGEON: What is the salary of Mr. Peribam, UNESCO representative on the Canada arts council?

Dr. LEDDY: $8,500.

Mr. PIGEON: Is Mr. Peribam of Canadian or Hindu origin?

Dr. LEDDY: Mr. Peribam, I think, was born in Malaya. He is of Indian ancestry, educated mainly in Scotland, active in affairs of the world university service, and for five or six years the Canadian secretary of that body. He is of course a Canadian citizen. I might add, on the basis of my very close personal relationship with him for many years, that he is a man of very

great ability and has a special capacity for this kind of work, particularly in developing good relations with many non Canadian groups both within and outside Canada.

Mr. PIGEON: Is Mr. Dwyer, the comptroller or advisor, a Canadian citizen?

Dr. LEDDY: That is not a UNESCO question. Perhaps Dr. Trueman might answer it.

Dr. TRUEMAN: Mr. Dwyer was born in England, but he has been in Canada, I think, since about 1942, and he is a Canadian citizen.

The CHAIRMAN: Is there anything else, gentlemen?

Mr. BELL (*Carleton*): On the question of membership in the Canadian national commission for UNESCO, are the persons nominated considered as what might be described as delegate members, or do they act in an individual capacity?

Dr. LEDDY: I doubt if the distinction is made very clearly in their minds. They are especially chosen for their personal interest, and they become members of the commission. They are representatives of their organizations, but, in my experience, they do not hesitate to deal with a very wide territory, in discussions at the annual meetings and at the executive meetings.

Mr. BELL (*Carleton*): Part of your function is to maintain a continuous liaison with their nominating body?

Dr. LEDDY: Quite so.

Mr. WINCH: You mentioned that at the present time there are three major projects of UNESCO of which you are concentrating on one. On the other two what does UNESCO do? Let us suppose you are in Paris; what do you do in the way of work in Canada on the other two projects on which you are not concentrating?

Dr. LEDDY: The other two are, by geographical necessity, not concerned with Canada itself, but we feel that "Canada and Asia", for example—that is, the title of that pamphlet—does indicate a direct relationship.

The problem of education in Latin America does not *directly* concern us; and similarly the arid zones—if I may be permitted to exclude Saskatchewan—are generally regarded as being in the middle east. But UNESCO, as a whole, is greatly concerned with these two problems. And if I might anticipate what I gather to be the trend of your inquiry, we will begin in due course to take an interest in the plans of UNESCO to help in South America, especially in educational matters. There are already many stirrings of interest in Canada in Latin American matters.

But our feeling is that we should have a priority here, and we are consequently pressing on with the one which is of direct and immediate concern to us. On other matters we do not offer advice, through the biennial budget program, and through our delegates who may be at the UNESCO general conference.

Our delegates will provide us with observations about the proposed program, and your aducators, particularly the Canadian education association representatives, have been helpful on a number of occasions in giving attention to literacy problems, as they are discussed at Paris with respect to Latin America.

Mr. WINCH: You stated that this national commission acts as an advisor to the government through the medium of the Department of External Affairs. Can you initiate advice? In other words, on an important international basis you have the present problem of apartheid. Would you be in a position to advise, or would you go ahead and advise the government through the Department of External Affairs on an important issue of that nature?

Dr. LEDDY: We have not done so with respect to this specific issue. But if you ask about initiation, we are free; the commission could proffer advice unsolicited.

Mr. WINCH: Is that a type of thing on which you would offer advice?

Dr. LEDDY: I cannot speak on behalf of the entire commission. It is partly governmental.

Mr. WINCH: I am not asking if you might. But has it been government policy to ask you for advice?

Dr. LEDDY: We do offer advice on various issues, but on this particular one we have not done so as yet. The commission would do it, if it were asked to do it. However, I am not in a position to forecast.

In this context I would say that we in UNESCO do feel that it is our special function throughout Canada to publicize and make known the universal declaration of human rights which was adopted in December, 1948, by the United Nations, and which has been widely promulgated. We would like to put it forward persuasively and impressively. The implications, sir, with respect to the last question are, I think, quite clear.

Mr. WINCH: That is the reason I asked it, on account of the declaration of human rights. But from what you said I take it that the government has not asked for your advice on this matter.

Dr. LEDDY: I am not completely up to date on it, but as far as I know we have not had an inquiry on this point.

Mr. MACDONNELL (*Greenwood*): Does that question of human rights include economic rights?

Dr. LEDDY: In broad terms, yes; the declaration runs to some 30 articles in all.

Mr. PICKERSGILL: Has the national commission ever given any consideration to suggesting to the government that this declaration should be endorsed by the parliament of Canada?

Dr. LEDDY: It was adopted by the United Nations on a vote in which Canada participated. The adoption was in 1948.

Mr. BELL (*Carlton*): Yes.

Mr. PICKERSGILL: Perhaps I could refresh Dr. Leddy's memory by recalling to his mind that the present Prime Minister, at that time was very insistent that it should be adopted by parliament at a very early date.

Mr. WINCH: On this universal declaration of human rights—if it came to the attention of your commission, or any body that is interested in your commission, that there was not in some aspect the operation of that declaration in Canada, would you then consider it your responsibility to go into the matter and to draw it to the attention of the proper authorities?

Dr. LEDDY: I am sorry; I did not catch the initial part of your question.

Mr. WINCH: If there were some aspect in Canada that was a negation of that declaration, would you feel it your responsibility to go into it and try to correct it?

Dr. LEDDY: As far as I am concerned personally, the answer would be yes. Again, I hesitate to speak for 25 other people.

The CHAIRMAN: Are there any other questions, gentlemen? Thank you very much, Dr. Leddy, for coming to us this morning. I suggest that we revert to Dr. Trueman. We only have about 10 minutes to spare, but our next meeting is on Wednesday, May 4, and perhaps you could be here at that time, Dr. Trueman.

Dr. TRUEMAN: Certainly.

The CHAIRMAN: But in the meantime, would you like to take the stand?

Dr. TRUEMAN: Thank you very much, Mr. Chairman.

Mr. WINCH: Mr. Chairman, I would like to suggest—and you very likely have it in mind—that, as I remember last year we found it most interesting to be able to follow the charts on explanations. Could we do that this year?

Dr. TRUEMAN: I have the charts here. We could start that. We may not finish them.

Mr. WINCH: No, we certainly cannot, in 10 minutes.

Dr. TRUEMAN: The first chart I have here simply starts, in the order of the way matters are taken up in the report, with the university capital grants fund.

UNIVERSITY CAPITAL GRANTS FUND

	Year Ending March 31, 1958	Year Ending March 31, 1959
Capital at beginning of year	$50,000,000	$48,251,000
Grants made in year	4,084,000	8,732,000
Grants paid	(1,340,000)	(3,543,000)
Income	2,151,000	1,812,000
Realized Profit	184,000	1,102,000
Balance available for grants at year's end	48,251,000	42,433,000
Yield on cost at year's end	4.3%	3.7%

Dr. TRUEMAN: This gives you the figures for the year ending March 31, 1959—in fact, the year under review. Then here are the figures for the year before. The capital, of course, beginning at the first year, was $50 million, and by the end of the year 1959 it had been diminished to $48,251,000.

Grants made in the first year of our existence out of the university capital grants fund were $4 million and a bit, and the next year there was an increase to $8,732,000. The grants paid were $1,340,000; and here, $3,543,000.

I do not know whether that point needs explanation or not, but it is quite simple. Grants made to a university to help meet building costs are, of course, made in four stages; a quarter of the total amount when the foundations are dug; a quarter when the walls are up and the roof on; a quarter when the plastering and the interior work is done, and the final quarter within 60 days, I think it is, after the building has been certified to be complete and ready for occupancy by the contractors and architect. So we authorized in this year $8,732,000, but the call on the grants made by the universities is something less than half that amount. That explains the discrepancy between those two figures.

The income of the first year was $2,151,000. The next year it was $1,812,000, reflecting, of course, the diminishing of the assets of the fund by the giving out of the grants. But, again, not diminishing as much as you might suppose, because the fund in the meanwhile had been earning interest and perhaps making some profit.

The realized profit for the first year was $184,000; for the second year, $1,102,000. The balance available for grants at the end of the year, March 31, 1958, was this figure of $48 million, which of course is carried over as the balance of the fund for the new year.

The yield on cost at the year's end was 4.3 per cent. At the end of this year, 3.7 per cent. I can give you the figures for the current year. These are not audited figures, as I explained before; but I can, if you desire, bring them

a little bit up to date and say that for the period April 1, 1959, to February 22 of this year—that is to say, for the third year of operation—the grants made were $9,190.000. That is not an exact and audited figure.

That makes a total, for the three years up to February 22 of this year, of about $22 million, and perhaps $200,000, authorized out of the fund. Something more than half of that, I would imagine, will actually have been paid out at this time. Are there any questions on that?

Mr. WINCH: There is just one question. Can you give us any indication as to what is the difficulty which you say you are encountering in trying to decide what you are going to do with the revenue you receive from your capital?

Dr. TRUEMAN: I do not know that it is perhaps fair to say that it is a difficulty. I suppose it is. It is a problem. You will understand that in addition to the original capital fund there are the profits which have been made by reinvestment and the interest which has accumulated. I think that in all probability it is clear from the act that the interest and the profits will probably be divided, in the first instance, among the provinces, as is laid down in the act. That is in accordance with the population ratio of the province to the total population of the country.

Mr. WINCH: That is a point I wanted to clarify with you. Is not the act specific enough that the legal interpretation would be that the revenue should be applied the same as the principal?

Dr. TRUEMAN: In this instance, I think that may be so. I am not sure of my legal facts, but this is not the sole part of the problem. Having decided in each of the ten provinces of Canada a certain proportion of the interest and profits which must be made available, you have the further question of deciding how you will divide up amongst the eligible institutions within the provinces that interest and profit. We want to look into this, because we are dealing with a matter of Canada Council policy and not a matter of legislation.

Questions like this arise: if an institution within the province—before the interest and profits have been decided upon, and the term of distribution—has drawn down all its share which we have allotted, should there be any connection between the fact it has drawn down all its share and the amount of interest to which it is entitled. That has to be looked into.

Mr. WINCH: I assume that you are holding approximately $6 million in a trust account at the present time, until you decide what you are going to do with it.

Dr. TRUEMAN: It is kept separate from the main capital of the fund. I do not know what it amounts to at the moment.

The CHAIRMAN: There was some discussion on that very point last year, and I would like some further information on this at the next meeting. I understand that a certain proportion of this earned interest was applicable to the province of Quebec but, due to local circumstances, had not been paid out, applied or set aside. I understood last year, if I am correct, that this interest which, normally speaking, should have gone to the province of Quebec, was thrown into the pool—

Dr. TRUEMAN: No.

The CHAIRMAN: —and, therefore, was lost.

Dr. TRUEMAN: No, this is not the case. On the allocations which we make according to the act, out of the original $50 million fund something over $14 million—$14½ million, was the province of Quebec's share. Now, all the interest and profits from that fund have been preserved separately, and not thrown into a common pool and distributed. We have kept them separate, and

any interest or profits realized from this fund are still available, according to whatever policy of distribution is finally worked out amongst the institutions within the provinces.

Mr. PIGEON: Mr. Chairman, I have a few questions. Did the Canada Art Council invest in Canadian financial enterprise the money from the $50 million foundation?

Dr. TRUEMAN: All this fund is by the act—by law, invested in bonds or debentures of the dominion of Canada, or guaranteed by it.

Mr. PIGEON: If so, firstly, what is the amount of the investment made in financial concerns of the province of Quebec and, secondly, in the province of Ontario? Could we please have this at the next meeting.

Mr. DOUGLAS FULLERTON (*Treasurer, The Canada Council*): It is all in Canada bonds.

Dr. TRUEMAN: Yes, and guaranteed by the dominion of Canada. I think your question does not arise.

Mr. PICKERSGILL: Mr. Chairman, I have a question. Have any institutions in the province of Quebec made application for any part of this capital fund?

Dr. TRUEMAN: Yes, one small institution. Do you wish the name of it?

Mr. PICKERSGILL: Yes.

Dr. TRUEMAN: It is the College Marie de France.

Mr. PICKERSGILL: Has a grant been made?

Dr. TRUEMAN: Yes, and paid. That is the one institution.

The CHAIRMAN: I was wondering if, at this stage, Dr. Trueman could tabulate all the information he has on placards in order that we could have it inserted in our evidence today. This would enable us to study it before the next meeting.

Dr. TRUEMAN: We have copies of the charts, which can be placed on record. Does that answer your question?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: We will insert the first chart at the beginning of your statement, and all of the charts will appear as appendix "A-3" to today's evidence.

Dr. TRUEMAN: Yes.

Mr. PIGEON: Further to the last question I asked, I would like the name and address of each of these financial concerns—first, in the province of Quebec and, secondly, in the province of Ontario. Also, I would like to know the amount of the investment made in each one of them.

Mr. HENDERSON: We could obtain that information for the next meeting.

The CHAIRMAN: Dr. Leddy would like to make one correction in his testimony and, perhaps, now is the time to do it. Dr. Trueman, you could continue at the next meeting, which will be on May 4.

Dr. LEDDY: I was incorrect in my answer to Mr. Pigeon, with respect to Mr. Lewis Perinban. He is not yet a citizen, but his application has been made for some time.

The CHAIRMAN: Gentlemen, may I suggest we adjourn.

APPENDIX "A-3"

UNIVERSITY CAPITAL GRANTS FUND

	Year Ending March 31, 1958	Year Ending March 31, 1959
Capital at Beginning of Year	$50,000,000	$48,251,000
Grants Made in Year	4,084,000	8,732,000
Grants Paid	(1,340,000)	(3,543,000)
Income	2,151,000	1,812,000
Realized Profits	184,000	1,102,000
Balance Available for Grants at Year's End	48,251,000	42,433,000
Yield on Cost at Year's End	4.3%	3.7%

ENDOWMENT FUND

	Year Ending March 31, 1958	Year Ending March 31, 1959
INCOME AND GRANTS		
Income	$ 2,369,000	$ 2,759,000
Grants authorized in year	1,417,000	2,666,000
Grants paid	(346,000)	(1,718,000)
Administrative expenses	180,000	294,000
Balance available for grants at year end	772,000	571,000
INVESTMENT POSITION		
Short Term bonds at cost	3,295,000	6,632,000
Provincial bonds at cost	11,531,000	5,890,000
Municipal Bonds at cost	10,908,000	13,217,000
Corporate bonds at cost	8,821,000	8,796,000
N.H.A. Mortgages at cost	10,835,000	10,455,000
Equities at cost	6,997,000	8,195,000
Total at cost	$52,387,000	$53,186,000
Realized profit on transactions during year	855,000	248,000
Excess of market value over cost at year end	1,296,000	1,868,000
Yield on cost at year end	5.3%	5.2%
Average return for year on basis of original capital of $50,000,000...	4.7%	5.5%

INCOME AND ADMINISTRATIVE COSTS

	Year ending March 31, 1958	Year ending March 31, 1959
INVESTMENT INCOME		
Endowment Fund	$2,369,000	$2,759,000
University Capital Grants Fund	2,151,000	1,812,000
	$4,520,000	$4,571,000
FUNCTIONAL BREAKDOWN OF ADMINISTRATIVE COSTS (ESTIMATED)		
Endowment Fund	110,000	180,000
University Capital Grants Fund	50,000	40,000
Unesco National Commission	20,000	74,000
	$180,000	$294,000
Total administrative cost as proportion of Endowment Fund Income	7.6%	10.7%
Endowment fund cost as proportion of Endowment Fund Income..	4.6%	6.5%

SCHOLARSHIP AND FELLOWSHIP PROGRAMME

FOR USE IN 1959-60

Category	No. of Applicants	No. of Awards	Distributed Cost (Estimated)			Total Estimated Cost
			Humanities	Social Sciences	Arts	
			$	$		
1. Pre-Master's	296	88	53,000	48,000	—	101,000
2. Pre-Doctor's	377	110	103,800	107,200	—	211,000
3A. Senior Research	56	24	64,000	40,000	—	104,000
3B. Senior Arts	68	27	—	—	120,000	120,000
4. Arts Scholarships	227	47	—	—	84,000	84,000
5. Sec. School Teachers and Librarians	92	31	24,000	24,000	—	48,000
6. Arts Teachers and Museum Staff	22	9	—	—	14,500	14,500
7. Short Term Grants	210	130	37,600	49,700	4,200	91,500
8A. Senior Non-Resident	10	9	15,000	15,000	—	30,000
8B. Junior Non-Resident	208	79	72,500	72,800	24,700	170,000
9. Journalists, Broadcasters and Film-Makers	39	8	10,000	—	14,000	24,000
10. General	15	5	10,000	15,000	10,000	35,000
11. Special Senior Awards	—	4	16,000	16,000	—	32,000
TOTALS	1,620	571	405,900	387,700	271,400	1,065,000
			38%	37%	25%	100%
Plus Travel						150,000
GRAND TOTAL						$1,215,000

SCHOLARSHIP AND FELLOWSHIP PROGRAMME

FOR USE IN 1960-61

Category	No. of Applicants	No. of Awards	Distributed cost (Estimated)			Total Estimated Cost
			Humanities	Social Sciences	Arts	
			$	$	$	$
1. Pre-Master's	183	68	50,000	50,000	—	100,000
2. Pre-Doctor's	448	95	92,500	92,500	—	185,000
3A. Senior Research	68	22	45,000	45,000	—	90,000
3B. Senior Arts	117	26	—	—	100,000	100,000
4. Arts Scholarships	317	40	—	—	75,000	75,000
5. Secondary School Teachers and Librarians	87	20	20,000	20,000	—	40,000
6. Arts Teachers and Museum Staff	9	8	—	—	13,000	13,000
7. Short Term Grants	203	130	40,000	50,000	—	90,000
8A. Senior Non-Resident	6	9	15,000	15,000	—	30,000
8B. Junior Non-Resident	250	75	74,000	74,000	22,000	170,000
9. Journalists, Broadcasters and Film-Makers	41	7	8,000	—	12,000	20,000
10. General	35	7	7,000	10,000	8,000	25,000
11. Special Senior Awards	—	4	16,000	16,000	—	32,000
TOTALS	1,764	491	367,500	372,500	230,000	970,000
			37.5%	38.5%	24%	100%
Plus travel						150,000
GRAND TOTAL						$1,120,000

ARTS ORGANIZATIONS—1958-1959

Music		Theatre, Ballet, Opera		Visual Arts	
Symphony orchestras	$181,400	Permanent Theatre Companies	$102,900	Galleries	$ 65,700
Summer concerts	20,400	Touring Theatre Companies	23,085	Purchase Awards for Paintings	3,000
Commissioning Orchestral works	5,000	Amateur Theatre (DDF)	16,200	Societies and Associations	17,835
Travelling groups	50,800	Commissioning Plays	10,000	Commissioning Sculpture	12,000
Choirs	11,099	Ballet	125,600	Architecture	23,400
Other Organizations	116,660	Opera	60,000	Other Organizations	32,000
Total	385,359	Other Organizations	8,000	Total	153,935
		Total	345,785		
FESTIVALS	$157,500	CANADA COUNCIL TRAIN.	$ 40,000	ARTS COUNCILS	$ 13,500
		AID TO PUBLICATION (Arts)	52,300		
		GRAND TOTAL	$1,148,379		

ARTS ORGANIZATIONS—1959-60

(Up to February 22, 1960)

Music	$	Theatre, Ballet, Opera	$	Visual Arts	$
Symphony Orchestras	$206,300	Permanent Theatre Companies	$85,000	Galleries	$60,000
Commissioning Works	7,400	Touring Theatre Companies	36,000	Purchase Awards for painting	4,000
Travelling Groups	27,200	Amateur Theatre (D.D.F.)	10,500	Societies and Associations	10,850
Choirs	9,032	Ballet	145,000	Commissioning Sculpture	15,000
Other Organizations	60,204	Opera	72,000	Architecture	8,750
		Student-Theatre Project	12,000	Graphic Art	5,000
		Other Organizations	3,345	Other Organizations	4,500
TOTAL	$310,136	TOTAL	$363,845	TOTAL	$108,100
FESTIVALS	$162,500	CANADA COUNCIL TRAIN.	$40,000	AID TO PUBLICATION (Arts)	$ 35,900
		GRAND TOTAL	$1,020,481		

HUMANITIES AND SOCIAL SCIENCES

(Excluding Scholarship Programme)

	Humanities			Social Sciences		
	1957–58	1958–59	1959–60*	1957–58	1958–59	1959–60*
			(To Feb. 22/60)			(To Feb. 22/60)
ORGANIZATIONS	$	$	$	$	$	$
Projects	67,100	54,800	76,600	23,800	110,000	48,400
Visiting Lecturers	—	25,972	9,220	—	8,690	20,205
Aid in Publication	—	38,000	31,289	9,000	18,750	15,500
Aid in Periodicals	—	2,000	3,200	—	30,000	3,800
	67,100	120,772	120,309	32,800	167,440	87,905
INDIVIDUALS						
Research	—	13,550	500	3,000	4,400	—
Travel	3,000	4,875	1,150	400	6,080	11,717
Aid in Publication	—	18,500	2,500	—	—	1,500
	3,000	36,925	4,150	3,400	10,480	13,217
GRAND TOTALS	70,100	157,697	124,459	36,200	177,920	101,122
		352,256			315,242	

* Unaudited figures.

TYPES OF GRANTS

Period	University Capital Grants Fund		Endowment Fund					
			Scholarships and Fellowships (estimated)		Grants to Individuals for Travel and Special Projects		Grants to Organizations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
		$		$		$		$
Up to March 31, 1958	13	4,084,300	467	945,000	12	27,950	53	739,200
April 1/58—March 31/59	29	8,732,264	571	1,215,000	50	81,430	175	1,436,591
April 1/59—February 22/60**	24	9,191,154	491	1,120,000*	41	33,469	152	1,228,695
	66	22,007,718	1,529	3,280,000	103	142,849	380	3,404,486

* Most of these awards will be granted by April 1960.

** Unaudited figures.

DISTRIBUTION BY SUBJECTS—ENDOWMENT FUND

Period	Arts	Humanities and Social Sciences
	$	$
Up to March 31, 1958	859,850	852,300
April 1/58—March 31/59	1,491,304	1,241,717
April 1/59—February 22/60	1,304,083	1,078,081
TOTALS	3,655,237	3,172,098

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Report of the Canada Council for the fiscal year ended March 31, 1959

WEDNESDAY, MAY 4, 1960

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WITNESSES:

Representing the Canada Council: Dr. A. W. Trueman, Director; Mr. D. H. Fullerton, Treasurer; and Miss L. Breen, Secretary.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

22993-0—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

CORRECTIONS—(*English Copy Only*)

PROCEEDINGS No. 4—Wednesday, April 27, 1960

On Page 101—Line 17 should read:
"of $1.50 per person in Canada."

On Page 116—Lower part of page: A note should appear on the table respecting Art Organizations 1959-60 to indicate that the *figures are unaudited.*

MINUTES OF PROCEEDINGS

WEDNESDAY, May 4, 1960.
(6)

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*), Benidickson, Bissonnette, Broome, Danforth, Denis, Drysdale, Fisher, Hanbidge, Keays, Lahaye, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGee, Morissette, Morton, Pickersgill, Pigeon, Robichaud, Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Stefanson, Stewart, Tucker, Villeneuve and Winch.—(29)

In attendance: From the Canada Council: Dr. A. W. Trueman, Director; Mr. Eugene Bussiere. Associate Director; Mr. D. H. Fullerton, Treasurer; Mr. Peter Dyer, Supervisor of the Arts Programme; and Miss L. Breen, Secretary. *From the Office of the Auditor General:* Mr. A. Maxwell Henderson, Auditor General; and Mr. A. B. Stokes, Supervisor of Audit of Canada Council.

The Committee resumed consideration of the Report of Canada Council, 1959.

The Chairman presented, orally, a report of the Subcommittee on Agenda and Procedure, recommending as follows:

(1) That the Committee complete its consideration of the Report of the Canada Council.

(2) That the Committee attempt to review the activities of a number of Crown corporations, such corporations to be selected by the Steering Subcommittee.

(3) That the Committee then consider the Annual Report of the Auditor General.

Agreed,—That the Report of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

The Chairman and other Members of the Committee referred to the absence of the Honourable Brooke Claxton due to illness.

Mr. Winch moved, seconded by Mr. Pickersgill,

"That this Committee record its appreciation of the services rendered to Canada and more recently to the Canada Council by the Honourable Brooke Claxton and that this Committee's sympathy and good wishes be extended to him at this time". *Adopted unanimously.*

Dr. Trueman requested that two corrections be made in No. 4 of the Committee's Proceedings; (*See inside of cover page*).

The witness supplied information requested by Mr. Pigeon at a previous meeting. He also outlined further the *University Capital Grants Fund* and the *Endowment Fund.*

22993-0—1½

Mr. Pigeon placed a number of questions on the record with the request that they be answered at the next meeting.

Agreed,—That a subcommittee, to be appointed by the Chairman, study the question of the scope of information that may be elicited by the Committee from the officials of Canada Council, Crown corporations or Government officials.

At 11.00 a.m. the Committee adjourned until 9.30 a.m., Wednesday, May 11, 1960.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, May 4, 1960,
9.30 a.m.

The CHAIRMAN: Gentlemen, I will call the meeting to order.

It is my pleasure at this time to ask Mr. A. B. Stokes of the Auditor General's Department—who is supervisor in charge of the audit of the Canada Council—to stand up so that you may see him. He is here to assist us.

I would like to make a short verbal report of a steering committee meeting which we held yesterday afternoon. We discussed various questions relating to the Canada Council. Your steering committee thought that it would be salutary to consider crown corporations in due course—not all of the crown corporations of course, but just one or two. To establish the principle that we have looked at them.

You will recall that the committee, under its present set-up, has been in operation for three years, this being the third year, and in the first two years we just did not have the physical time to make any reference to crown corporations. So we thought that in due course, if you will leave it to the steering committee, we would bring in a suggestion as to one or two we might look into.

Following that, we still have 172 paragraphs of the Auditor General's report to consider, and that will take some time.

Mr. MCGEE: Mr. Chairman, was it in your mind that we might meet earlier in the year to look into some of these crown corporations?

The CHAIRMAN: We have not really thought of that, but it certainly would be a good idea. It all depends when this committee is convened and starts, of course, we cannot start before matters are referred to us by the house.

Mr. MCGEE: Might we perhaps request that the house refer, say, several crown corporations earlier in the session than the normal starting time of this committee?

The CHAIRMAN: We can certainly make the suggestion, but what they will do is beyond us.

We have had referred to us 22 of the 27 crown corporations; and amongst the others not referred to us are special ones, such as the C.N.R., the C.B.C., and bodies like that.

We still have quite a list that we should take a look at at some time, if not this year then next year or the year after—just in principle, so that we carry out our mandate.

Mr. WINCH: The recommendation of the steering committee is that we do go over two of them this year?

The CHAIRMAN: Yes. Would that meet with the approval of the committee?

Agreed to.

The CHAIRMAN: Last week I reported to the committee that we were hopeful of having the Hon. Brooke Claxton, chairman of the Canada Council, with us here today. Unfortunately, this is not possible and he has asked me to express his regrets at not being present.

I hope the members of this committee will bear with me a few moments and permit me to place on record a short appreciation of the contribution made to the Canada Council by its present chairman.

Politically, of course, Mr. Claxton's career over the years is well known. As a former cabinet minister in the King and St. Laurent governments, when he finally retired from the government in 1954, to become general manager and Canadian vice president of the Metropolitan Life Insurance Company, he had concluded a long and distinguished career in public life.

The creation of the Canada Council, it will be recalled, came following a recommendation of the Massey Commission to the then Liberal government in 1951. Mr. Massey and his colleagues strongly urged that steps be taken to form an organization for the encouragement of Canadian arts, letters, humanities and social sciences, to stimulate and help voluntary organizations in those fields, to foster Canada's cultural relations abroad, represent UNESCO interests in this country, and administer a system of scholarships.

Some three years ago the Canada Council was set up and Mr. Claxton appointed its chairman.

The Canada Council was an experiment in the cultural life of Canada. Here was an attempt to give the arts a broadened future, by assisting worthy artists—in literature, music, drama, ballet, painting and sculpture.

The success of such an experiment, in the words of the Montreal Gazette, was dependent upon the judgment exercised by those by whom the grants are awarded. As chairman of the council since its establishment, Mr. Claxton has shown a thoroughness in examining the applications for assistance, and a broad and wise understanding of where help would be most justified, and most likely to bear fruit in the cultural achievements of later years.

This is a task that has required not only high executive ability, but a background of knowledge and interest in the arts. Both these qualifications Mr. Claxton has met extremely well. The work of the council has been carried out under his chairmanship with a fine sense of impartial judgment and a thoughtful resolution.

When on April 5, 1960, Governor General Vanier at Rideau Hall, awarded the Diplome d'Honneur of the "Canadian Conference of the Arts" to Brooke Claxton, it was indeed recognition of the leadership given by a distinguished Canadian in assuring success of a vitally important Canadian experiment. That experiment—no longer really in the testing stage—is called the Canada Council. I am sure all members of the committee will join with me in wishing continued success to the work of the Canada Council under its distinguished chairman, the Hon. Brooke Claxton.

Mr. MACDONNELL: Mr. Chairman, might I be allowed to add just a word, that I do regret Mr. Brooke Claxton is so ill, and then a word of appreciation as to his wide range of interests and qualities?

The CHAIRMAN: Yes, Mr. Macdonnell.

Mr. MACDONNELL: I came to know him first when I lived in Montreal for several years after the first war, and I learned then that he was one of those people who did not wait for the king's commission in order to serve his country. He went and became that most useful of all persons in our army, a sergeant-major. We all know the sergeant-major is the man who makes the wheels go round.

When I came to know Mr. Claxton I realized, first of all, that he was a good counsel, because I had occasion to seek his legal advice in a business matter; and, secondly, that he had, as you have indicated, Mr. Chairman, an unusual range of interests for a businessman.

I can remember that he gave a good deal of time to an organization which most people rather despised, the League of Nations Society, and that is when he became interested, for the first time, in politics. He had an unusual interest in arts and letters.

Then he came to Ottawa. That is when we, here, came to know him, and people liked him for his bonhomie and friendliness. They realized what I had known before, and that was the man's amazing drive and energy. He seemed to work about twice as many hours in a day as most of us thought was good for our health; and that has brought him, I am afraid, to the very serious condition which we all deplore at the moment.

I would like to say that I know we all sympathize with his difficulty at the moment; and I am glad to have the opportunity of adding a word to what you have said, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Macdonnell.

Mr. WINCH: Mr. Chairman, there is very little I can add to what you and our friend, Mr. Macdonnel, have just said, but could I make the suggestion, sir, that this committee place on the record and convey to Mr. Brooke Claxton the expression of appreciation of this committee for his contribution in the policies, the administration and the work of the Canada Council; to express our sincere regret at his illness; and our deep hope that in the not too-distant future he shall regain his complete health?

I would like to put that as a motion, if I have got a seconder.

Mr. PICKERSGILL: Mr. Chairman, I appreciate more than I can say what has been said about my friend, Brooke Claxton.

I think all the members of the committee know that he and I have been most intimately associated for 20 years; that he is one of my two or three closest friends in the world.

I think that all of us who were associated with him in his days in public life do appreciate the spirit in which the committee has brought this whole question up today.

I recall, from what Mr. Macdonnell has said, what another mutual friend of ours once said about Brooke Claxton. He said, "Most of the rest of us work because we know that is the only way we can obtain our living. He works because he likes work."

The CHAIRMAN: Is the motion carried unanimously, gentlemen?

Motion carried.

The CHAIRMAN: At the last meeting we were discussing the Canada Council. Dr. Trueman told me that he would like to make a correction this morning.

Dr. A. W. TRUEMAN (*Director, Canada Council*): Mr. Chairman, in the minutes of proceedings and evidence, No. 4, of the standing committee on public accounts, for Wednesday, April 27, 1960, I would like to make these corrections:

At page 101, paragraph 5, the last line:

$150 per person in Canada.

should properly read:

$1.50 per person in Canada.

That is a considerable difference. The decimal point got left out somehow.

On page 116, the second table on the page, headed "Arts Organizations—1959-60", an asterisk has been omitted in the second line, after the parenthesis, which is under the title of that table—"(Up to February 22, 1960)". There should be an asterisk after that parenthesis. At the bottom of the table, of course, that asterisk should be repeated and after it should be included the words, "Unaudited figures." I do not know how this got left out. They were in the figures.

That correction is important, because we are examining the records of 1958-59, and any figures we give for the year which has just currently been concluded are unaudited figures, which we do not want to swear by.

The CHAIRMAN: Dr. Trueman, at the last meeting you were discussing the university capital grants fund, and you had a series of charts which have now been published, on pages 114, 115, 116, and 117 of the Committee's Minutes of Proceedings and Evidence. Did you want to continue with that?

Dr. TRUEMAN: I would like to continue, Mr. Chairman, and I would like perhaps to begin with a short statement, because at the last meeting, on Wednesday last, you asked that further information might be supplied concerning the disposition of the earned interest on the university capital grants fund. I regret to say it is not possible to give further information, but I would like to review, in one paragraph, the situation, in order to make it completely clear.

The profits and the interest on the university capital grants fund have not been allocated as yet, either to provinces or to the eligible institutions within the provinces. The profits and interest have, so to speak, been kept separate. That is to say, so far grants to universities have been made out of the original capital sum of the fund, namely $50 million.

Two questions have been raised in connection with the allocation of the profits and the interest on that fund.

The first question is: Is it the meaning and intent of the act that profits and interest be allocated according to the formula specified in the act for the allocation among the provinces of the original capital sum? Obviously it is a matter of some importance, and the council at present is giving consideration to it. Legal advice may have to be taken. The question then has arisen: Does the formula, as it is put there in the act, specifying how the original $50 million shall be allocated among the provinces—does that same formula apply to the allocation of profits and interest?

I might say, as a layman I have no opinion; the question has been raised, and will have to be answered.

The second question is: How should the profits and interest—once the question of allocation amongst the provinces has been settled—be divided among the eligible institutions within the province?

That is not covered by the act, and it is, therefore, a matter for the council to decide, as a question of policy. At the present time the council is giving consideration to this question and particularly to the first, upon which the second naturally depends to some extent.

Does that clear the point you had in mind, sir?

The CHAIRMAN: Yes.

Mr. FISHER: Would you repeat the second part? I did not grasp it.

Dr. TRUEMAN: I said: "How should the profits and interest—once the question of allocation among the provinces has been settled—be divided among the eligible institutions within the province?"

That is not covered by the act, and that is left, as I understand it, within the discretion of the council, which has a policy-making function.

The CHAIRMAN: There is no decision on that yet?

Dr. TRUEMAN: No. That is a matter which the council is looking into now.

Mr. MACDONNELL: Perhaps as a reformed lawyer I have a superstitious belief in the value of the opinion of lawyers. The phrase was used, "the council may have to have legal opinion". This seems to me to be a very important and far-reaching question, and I hope it will not be in the position that we do not take legal opinion now and that some years later we will have to take it and wish we got it earlier. It seems to me—if I have made a correct diagnosis—even if it is somewhat in the nature of a formality—and this is where my background of law comes in—I have a great belief in fortifying yourself with a legal opinion.

Dr. TRUEMAN: I think this undoubtedly will be done, sir.

Mr. FISHER: Last year the point was made that this division up according to the provinces of this university capital grants fund meant, in effect, the unevenness in provincial resources never has any chance of being balanced. Did the council have any discussion on this point, of any way in which this could be ameliorated? In other words, the provinces that have got and within the provinces those who have got—which leaves two weaknesses. It does not do much for, say, a province like Nova Scotia, and it does not do much for a smaller or new institution within one of the weaker provinces. It keeps on building up layers of the status quo in an unequal ratio. What discussion was had or what consideration was given this point, because it is all tied up with it?

Dr. TRUEMAN: As has been pointed out, no discretion lies within the power of the council whatsoever as far as the initial division among the provinces is concerned.

As far as the division of the sums among the eligible institutions within the provinces is concerned, I think the council has to make its own policy there, and it has discretion to do that. As far as these profits and interests are concerned, once the question of how they are to be divided amongst the provinces, in bulk, is settled, the situation leaves still open the use to which the council then may wish to put these sums amongst the eligible institutions within the provinces. This is rather complicated to say. It would depend on what view the council takes of it, and on the reports which are made to it, how it sizes the matter up.

Mr. FISHER: Does the council find this discretion embarrassing, or do you think it would find it to be embarrassing.

Dr. TRUEMAN: No, I would not say so; it has not been easy, or a simple matter, as you have hinted, to know how this should be divided up amongst the eligible institutions in the provinces.

The formula which has been adopted is one which is related to the total registration at these universities. That seemed best to the council; it had discussions with representatives of the National Conference of Canadian Universities and Colleges, and decided it would be the only practical formula which could be followed.

Mr. FISHER: Suppose you have something new blossoming, such as you have at Sudbury or at York. Is there any room for manœuvring at all in order to give them extraordinary assistance?

Dr. TRUEMAN: There could be, if the council judged this to be necessary; that could be only by looking over its present list of allocations, and since you have only a fixed amount of money to work with, deciding to give more here and less there.

Mr. FISHER: I just mentioned the Ontario ones, but I am sure there are other examples in other provinces.

Dr. TRUEMAN: Our establishment of the formula was based on a list of the eligible institutions which is already determined by the council, and that is the list maintained by the National Conference of Canadian Universities and Colleges to which the other federal, annual, per-capita grants go. We have said that this is the list which we will use.

We have not been giving grants to any institution which is not on that list. Obviously an institution which is not yet established is not on that list. It will have to be established first, and be recognized by the National Conference of Canadian Universities and Colleges as an institution of higher learning and so on, and thus become eligible for participation in the grants.

Mr. FISHER: The real decision in the art of diplomacy is fine in these things, and it probably takes place in these other institutions.

Dr. TRUEMAN: Well, they have the list, and membership in that organization has been the deciding factor of eligibility.

Mr. PICKERSGILL: There is a question I wish to put to Dr. Trueman, but before I do so I would like to say that in the allocation of these capital grants as between provinces, the formula which is used is not the number of students in the province, but the number of people in the province.

I happen to know, because I was a member of the government when this legislation was decided on. It was felt that this was a very fair way indeed of dividing these grants, because it would mean that in those less wealthy provinces where the number of students in proportion to the number of the population is sometimes rather lower than it is, let us say, in Ontario, they should get a share of grants in proportion to their population, so that they would be paid more in proportion to the registration in their institutions than the more populated provinces.

Having said that, I would like to ask Dr. Trueman if he thinks that it is working out in that way.

Dr. TRUEMAN: It certainly works out in that way in some instances, and if I may draw an illustration out of the air, in relation to the province of Newfoundland, let us say, it happenes to work out that way. But I am not so sure about Nova Scotia.

Mr. BELL (*Carleton*): There is discrimination against Nova Scotia.

Mr. MCGEE: Mr. Chairman, it seems incredible to me. I am untutored in the law; but Mr. Pickersgill was in the government at the time, and he had his fine hand in the writing of this act. It seems incredible to me that a fund of $50 million or $100 million was set up and that no thought was given as to how the interest should be dispensed.

Mr. PICKERSGILL: I feel sure that no one had any doubt that the interest would be divided on exactly the same basis as the principal. There is a problem

here which I do not think anybody thought of, that is that in some provinces the grants are given early, whereas, in Quebec there have not been any made at all.

It seems to me the only real problem which arises here is this: do you divide the grants amongst the provinces from the day they were established, treating each as a water tight compartment, so that the whole amount for Quebec is given to Quebec, but in Ontario one half of the amount has already been spent, and they would not get a share of the interest on Quebec's share on the principal? It is hard to explain, but that is the problem and the only problem. However, I am sure it is a very common legal problem.

The CHAIRMAN: Is there anything else?

Dr. TRUEMAN: At our last meeting we just started to look at the charts.

Mr. PIGEON: I asked a question at the last meeting. The answer is yet to be received.

Dr. TRUEMAN: Yes, the hon. member put a question to us requesting information about the division of the council's securities between Quebec and Ontario. Presumably this request refers to the endowment fund, since the university capital grants fund is by statute invested in bonds of or guaranteed by the Dominion of Canada. I do not think that the hon. member's question arises in relation to the capital grants fund. I presume it refers to the endowment fund.

That information is contained in the table which we have given on this sheet. The corporate bonds and debentures and common shares are divided among Ontario, Quebec, and other provinces according to the location of the head offices of the companies concerned.

It will be appreciated that this method of allocation is not too precise, since many of the corporations are national in scope.

Endowment fund holdings of bonds, debentures and common stocks as of March 31, 1959, the year under review, are as follows:

	Ontario	Quebec	Other
Provincial and Provincial guaranteed bonds and debentures	$ 867,000	$ 733,000	$ 6,095,000
Municipal bonds and debentures	4,112,000	4,341,000	5,111,000
Corporate bonds and debentures (excl. short term paper)	2,363,000	2,349,000	4,182,000
Common shares and other equity securities	4,042,000	1,976,000	2,176,000
	$11,384,000	$9,399,000	$17,564,000

Mr. PIGEON: May I have the location of the head offices of the companies concerned?

Dr. TRUEMAN: I think probably the treasurer could provide that. It is a long table.

The CHAIRMAN: Would you like to have it filed and printed?

Mr. PIGEON: Very well.

The CHAIRMAN: Agreed.

Dr. TRUEMAN: The statement reads as follows:

THE CANADA COUNCIL

Head Office Location of Companies whose Shares we own as at March 31, 1959

	Book Value of Investment		
	Ontario	Quebec	Other
Bell Telephone	$	$ 300,000	$ ....
B.C. Power	....	....	201,000
Calgary Power	....	....	249,000
International Utilities	....	....	300,000
Shawinigan Water & Power	....	359,000	....
Alberta Gas Trunk Line	....	....	26,000
B.A. Oil	357,000	....	....
Calgary & Edmonton	....	....	174,000
Hudson's Bay Company	....	....	174,000
Imperial Oil	441,000	....	....
Interprovincial Pipe Line	....	....	150,000
Texaco	360,000	....	....
Aluminium Ltd.	....	274,000	....
Hollinger Consolidated	250,000	....	....
International Nickel	348,000	....	....
Great Lakes Paper	149,000	....	....
International Paper	....	....	299,000
MacLaren Quebec Power & Paper	....	202,000	....
MacMillan & Bloedel	....	....	251,000
Powell River	....	....	149,000
Price Bros.	....	150,000	....
Algoma Steel	223,000	....	....
Canada Iron Foundries	....	101,000	....
Dominion Bridge	....	99,000	....
Dominion Foundries & Steel	249,000	....	....
Steel Company of Canada	400,000	....	....
Canada Steamship Lines	....	275,000	....
Dominion Glass	....	175,000	....
Dominion Stores	198,000	....	....
Industrial Acceptance Corporation	274,000	....	....
Moore Corporation	399,000	....	....
Traders Finance	275,000	....	....
Canadian Utilities	....	....	199,000
Loblaw Groceterias	179,000	....	....
Shawinigan Water & Power	....	41,000	....
Pacific Petroleum	....	....	4,000
	$ 4,042,000	$ 1,976,000	$ 2,176,000

Mr. PICKERSGILL: I have one question: could Dr. Trueman say whether the prime purpose of the council is to get the highest net return on its investments, regardless of where the head office of the company may be?

Dr. TRUEMAN: I would answer that question discreetly, and I would say that the prime purpose would be to get the highest return on the income, as may be consistent in the judgment of the investment committee with soundness of investment. I would like to add that qualification.

Mr. PIGEON: I asked my question because I think a member of parliament should place his questions before the committee.

Dr. TRUEMAN: We were going through this chart. I do not know how much time the committee wishes to spend on it.

We have here the figures for the end of the year under review, March 31, 1959, and the figures for the end of the previous year, for the purpose of comparison.

UNIVERSITY CAPITAL GRANTS FUND

	Year Ending March 31, 1958	Year Ending March 31, 1959
Capital at Beginning of Year	$50,000,000	$48,251,000
Grants Made in Year	4,084,000	8,732,000
Grants Paid	(1,340,000)	(3,543,000)
Income	2,151,000	1,812,000
Realized Profits	184,000	1,102,000
Balance Available for Grants at Year's End	48,251,000	42,433,000
Yield on Cost at Year's End	4.3%	3.7%

This figure here has been available for grants at the end of 1958, and it is of course transferred up here as the capital sum at the beginning of the year under review, 1958-59. Grants made during the year were $8,732,000.

This year—and I can only give you at this time unaudited figures—the grants given will be approximately $9,150,000; that is for the year 1959-60.

Income last year was $1,812,000; this year, 1959-60, it will be approximately $150,000 more than that.

I think I pointed out last day that the interest paid on the income had gone up although the assets of the fund are being steadily depleted by the grants which are being made. This arises naturally from the higher rate of yield.

Those are, I think, about the only comparisons I want to give. Are there any more questions about the capital grants fund?

The CHAIRMAN: I would just like to know how you make more money on less capital. It would be a very interesting picture.

Dr. TRUEMAN: It is nice if you can do it. It depends on the increased rate of yield for long term securities. I am not an expert on this, but I understand that the rate of yield was considerably increased, and this is reflected in the lower price of bonds.

Mr. FISHER: In the set up which you have for receiving gifts, is there any specific understanding that these gifts may be labeled?

Dr. TRUEMAN: We have said in our report that we will try to meet as nearly as possible specific wishes of any donor.

Mr. FISHER: Have you had any donors wishing to put money into this particular fund?

Dr. TRUEMAN: No.

Mr. FISHER: Have you had any who showed any interest in the fund?

Dr. TRUEMAN: I am not aware of that. This is a point which in its initial stage might very well be handled by private conversation between the chairman and persons he knows. I have nothing to report.

Mr. FISHER: You have not made a deliberate campaign in connection with the matter?

Dr. TRUEMAN: No, we have not had any deliberate campaign. I think the general idea of the council is that in its early days its principal task is to get on with the organization and do as good a job as it can, and to try to build up the kind of reputation which would encourage interest and subsequent donations, keeping in mind that the donations will likely come in the form of bequests in wills.

Mr. SMITH (*Simcoe North*): If you start looking for capital grants, you will be competing with universities which are running their own campaigns for capital grants.

Dr. TRUEMAN: I think that the question of the hon. member is more in relation to the endowment fund than it is to the capital grants fund.

Mr. FISHER: Yes. I just wondered.

Dr. TRUEMAN: There is nothing to report.

Mr. KEAYS: Can you explain the difference between income and realized profits?

Dr. TRUEMAN: Income is the rate of yield on an investment, whereas realized profit is what you get by re-investment and capital appreciation.

Mr. Douglas FULLERTON (*Treasurer of the Canada Council*): We differentiate between coupons and accrued income on bonds, and the profits which are realized on the switching of investments.

The CHAIRMAN: Is there anything else?

Dr. TRUEMAN: I have nothing to offer.

The CHAIRMAN: Then, on the endowment fund?

Dr. TRUEMAN: We have the same kind of table or chart here in which comparative figures for the year ending March 31, 1958 and the year ending March 31, 1959 are given.

ENDOWMENT FUND

	Year Ending March 31, 1958	Year Ending March 31, 1959
INCOME AND GRANTS		
Income	$ 2,369,000	$ 2,759,000
Grants authorized in year	1,417,000	2,666,000
Grants paid	(346,000)	(1,718,000)
Administrative expenses	180,000	294,000
Balance available for grants at year end	772,000	571,000
INVESTMENT POSITION		
Short Term bonds at cost	3,295,000	6,632,000
Provincial bonds at cost	11,531,000	5,890,000
Municipal Bonds at cost	10,908,000	13,217,000
Corporate bonds at cost	8,821,000	8,796,000
N.H.A. Mortgages at cost	10,835,000	10,455,000
Equities at cost	6,997,000	8,195,000
Total at cost	$52,387,000	$53,186,000
Realized profit on transactions during year	855,000	248,000
Excess of market value over cost at year end	1,296,000	1,868,000
Yield on cost at year end	5.3%	5.2%
Average return for year on basis of original capital of $50,000,000	4.7%	5.5%

Income for the year under review was $2,759,000. Again I am giving you unaudited figures for the year ending March 31, 1960; we hope the income will be $100,000 more, making it $2,855, or 6 or 7 thousand, or something of that order.

Also grants authorized in the year were $2,666,000. I do not think I have the figure for 1959-60 immediately before me. Yes, it is approximately $2,540,000.

And grants paid—I cannot give you the exact figure because some of the grants made in one fiscal year are not actually called for by the organization concerned until the next fiscal year.

Administrative expenses were $294,000. I have not got audited figures for this year.

Balance available for grants at the year end was $571,000. That really, if I am correct, is a carryover from unexpended amounts, which again go back to our first year of operation.

We came into existence, as you will recall, on April 30 or May 1, 1957; and we did not get into the grant-giving program until September or October. We were in the happy position of carrying over from our resources into the next year, $700,000 odd, and we dipped into that amount to the tune of $200,000 or more in our second year. So this is being carried over at the present time in that amount.

The investment position is $6,632,000; provincial bonds at cost, $5,890,000; municipal bonds at cost $13,217,000; corporate bonds at cost $8,796,000; national housing act mortgages at cost $10,455,000; equities at cost $8,195,000.

Yield on cost at year end was 5.2 per cent, and average return for the year on the basis of original capital of $50 million was 5.5 per cent. Are those two figures clear? If you reckon our yield on the basis of what the original capital fund was the rate is 5.5. If you base it on cost it is 5.2.

Mr. McGEE: I am wondering about the figures in respect of N.H.A. mortgages. They seem to be down from last year.

Dr. TRUEMAN: They are down three hundred and some odd thousand dollars. Last year the figure was $10,835,000 and this year it is $10,455,000. It is down.

Mr. D. H. FULLERTON, (*Treasurer, Canada Council*): They are steadily being paid off. We started off with a block and they are steadily being paid off.

Mr. McGEE: Is there any hope that this figure as a percentage of the total might be increased at this time? Obviously, you are not replacing what is being paid back.

Mr. FULLERTON: It has been under continual discussion by the investment committee. We may expand it or we may not. This is a policy decision.

Dr. TRUEMAN: Largely a policy decision of the investment committee.

Mr. McGEE: Are you suggesting that this has to be compared with the other investments?

Mr. FULLERTON: Yes.

Mr. PIGEON: May we have the separate investment position for each province of Canada?

Dr. TRUEMAN: I believe this is given in a table. It is in the annual report. We would direct the attention of the questioner to pages 106, 107, 108 and so on in the annual report.

The CHAIRMAN: It is the second annual report.

Mr. PIGEON: And also for the mortgages.

Mr. FULLERTON: They were bought in a block from the banks. The banks keep them and administer them for us. They are spread all across Canada from the Maritimes to British Columbia. It would be a difficult task to split them up by provinces in that there are three banks involved and over 1,000 small home mortgages.

Mr. PIGEON: You do not have the figure for mortgages.

Mr. FULLERTON: No.

The CHAIRMAN: At the last meeting Mr. Pigeon had certain questions he wished to ask.

Mr. PIGEON: Yes. How many scholarships were awarded last year to students seeking a master's degree or class I? Out of that number how many were students of Laval and Montreal universities?

Mr. PICKERSGILL: Before that question is answered, perhaps it would be convenient for Mr. Trueman at the same time to say how many from Memorial university, St. Dunstan's, St. Francis Xavier, Dalhousie, St. Mary's, Acadia, Mount Allison, university of New Brunswick, St. Joseph's—

Mr. PIGEON: On a point of order, if the hon. member wishes to place a question after me it is his right. I have placed a question and I would appreciate it very much if Dr. Trueman would answer it. I am not sure whether or not he is in a position to give an answer. If you want to place a question after me that is your right.

The CHAIRMAN: Perhaps we can get to Mr. Pickersgill later.

Mr. MACDONNELL: Would we not save a good deal of time if we had a full list of all scholarships and awards in all universities. If we had that it would answer a good many of the questions which will be unanswered in our minds if we go one by one.

Mr. PIGEON: Dr. Trueman, I would very much appreciate an answer.

Mr. PICKERSGILL: That is precisely what I had in mind. Mr. Macdonnell has put it better than I could.

The CHAIRMAN: I should tell the committee that at the meeting of the steering committee yesterday Mr. Pigeon's questions were discussed and submitted in full to Dr. Trueman. Is that correct, Dr. Trueman? You have had a list of the questions.

Dr. TRUEMAN: Yes.

The CHAIRMAN: Are you prepared generally speaking to answer them.

Mr. PICKERSGILL: On a point of order, how did Dr. Trueman get this list of questions? I suggest that all members of this committee are equal. Were those questions put at the last meeting? I do not think any special privileges should be given to some members of the committee and not others to submit questions between meetings of the committee, and then be given priority in answers. If that course has been followed I object to it.

The CHAIRMAN: There is no mystery about it. At the last meeting Mr. Pigeon had a series of questions, the answers to which had to be researched. They could not be answered off the bat.

Mr. PICKERSGILL: Were they put on the record at the last meeting?

Mr. PIGEON: No.

The CHAIRMAN: I suggested that he give us a list of the questions so that Dr. Trueman could be fully prepared. These were submitted to Dr. Trueman. So far as I know he has the information to answer them intelligently. Yesterday at the steering committee meeting we discussed the best way to answer them. It was not with the idea of hiding anything, but rather to enable him to give an intelligent answer.

Mr. BENIDICKSON: The steering committee was aware of the questions.

The CHAIRMAN: Yes.

Mr. PICKERSGILL: I withdraw my objection.

Mr. PIGEON: I will appreciate it very much if I am allowed to ask all my questions in order.

The CHAIRMAN: Let us try it that way.

Mr. McGEE: Might I put a suggestion to Mr. Pigeon through the chair. Perhaps in the interest of making progress some way might be found to put Mr. Pigeon's questions on the record, verbally or otherwise, and have the answers placed on the record with them.

Mr. PIGEON: Mr. Chairman, I think in ten minutes I can cover all my questions. I think, in the interest of parliamentary rights, that it is my privilege to place each question I wish before this committee. If Dr. Trueman has a reason not to give an answer, that is his responsibility. I have, however, my duty to my constituents.

The CHAIRMAN: I agree with that. Go ahead.

Dr. TRUEMAN: In the first instance I have to say this is a very difficult question. We are dealing with the annual report of 1958-59 and this is a kind of information which the council does not keep on tap.

I think perhaps I should say, with regard to the way in which the council has operated and the principles it has adopted, that it has made it a policy not to divide up the income of the endowment fund in mathematical proportions among provinces, sections, regions, ethnic groups, linguistic groups, or indeed among the various subjects which are in the area of the council's responsibility in the arts, humanities and social sciences.

This kind of information is not the kind of information we have on tap or in our annual report. Therefore, this is a difficult question for me to answer.

Further, I would like to say, in commenting on the question which has been put about the numbers of scholarships which has been given in certain categories in certain universities in the province of Quebec, that from the Council's point of view, and quite in line with its policy, a bare statement of such figures is apt to be misundertood, would not have much meaning, and, one would be afraid, might be misapplied. For instance, one must take into consideration the number of applications which emanate from any source. If one were to say simply that in one section of the country, or one city or university, out of the total of the applications for Canada so many were given, I do not know what meaning this could have. It would, however, be misleading unless it were understood and stated at the same time how many applications there were.

The other day I was reading over a list of the applications in one of our categories. I was not looking for anything in particular. In this list of around 100 applications there seemed to be almost none from the province of Quebec. If one were simply to publish that out of so many awards given in a specific category so many went to universities of Quebec, and if the list were unaccompanied by the statement that there were only so many requests, one would have a statistic which would have a wrong meaning or no meaning.

This is the reason why the council does not give figures of this kind or break up its scholarship fund into an analysis of this type. If one were to deal with universities like that, one would have to take into consideration the registrations of the universities concerned in comparison with the total registrations of the universities in Canada if one is to determine whether or not there are too many or too few. One would have to know what are the total registrations of the universities in question in comparison with the total registrations of the country. Then there is the question: What is the size of the constituency from which applications can be expected?

In dealing with these matters one has to take into consideration the difference in the degree of interest, in certain categories, shown in different parts of the country. There is a difference in the interest and concern about a certain category of our scholarships.

In a general way, I do not mind stating that from the province of Quebec we get large numbers of applications in the arts categories of scholarships—much larger than the academic categories. There are very large numbers of applications from very talented persons. The number of awards the council makes very closely reflects the number of applications and the interest and concern about those categories.

I am trying to point out simply that this table and set of figures is likely only to be inaccurate and misleading. It is likely to be misapplied. Therefore, the council has not published, and does not publish figures of that kind.

This raises an embarrassing question for me because I do not need to assure you that my sole purpose in being here is to give available information if I can. We are dealing, however, with the annual report, and at the steering committee meeting it was suggested to me that I might read this extract from *Hansard* in relation to the explanations I have given and the problem as I have outlined it. I think this extract makes a comment on the problem and the manner in which the council operates. The hon. members might think this has a bearing on my dilemma.

In *Hansard* of June 18, 1958, the Right Hon. J. G. Diefenbaker is replying to a question from the floor of the House of Commons is reported as saying:

> —the government does not have in its records the information requested, nor does it consider that it has the power to request information from the council other than that which will appear in the annual report.

so here I am faced with the problem of being asked for a type of information which the council does not publish in its annual report.

Again on November 27, 1957, in the House of Commons the Prime Minister said:

> As a result of the legislation as passed, we do not consider that we have the power to ask the council to reveal information about applications it receives, other than the information given in the annual report. I would point out it could only be damaging to the organizations concerned if the council were to reveal information about applications which it had received and had not approved.

This places me in a dilemma. I pause at this moment to give the members an opportunity to question me.

The CHAIRMAN: You are in the position of a deputy minister carrying out the orders of the council.

Dr. TRUEMAN: Yes.

The CHAIRMAN: You say the council does not deem it advisable, within their powers, to give the information.

Dr. TRUEMAN: I am reporting the policy and am not refusing anything.

Mr. PIGEON: I appreciate your view, but last week I met Mr. Bussiere and submitted my questions. He told me some very interesting things. He told me "I am sure the Canada council will give you these figures because it is possible to give them". That is why I place this question this morning.

The CHAIRMAN: Could we compromise by suggesting to you that you might rediscuss the matter with your associates.

Dr. TRUEMAN: Mr. Chairman, having made this statement I would suggest, if I am not out of order in doing so, that the indulgence of the committee be extended to me, and that I be allowed to consult with the council as to what kind of figures supported by what kind of explanatory and elucidative additional information could in their opinion, as an advantageous public service, be released.

Mr. PIGEON: May I place all my questions?

The CHAIRMAN: Yes.

Mr. PIGEON: How many scholarships—

Mr. BENIDICKSON: Would Mr. Pigeon mind if we are told the type of question which was asked in respect of the answers given in the house by the Prime Minister.

Mr. FISHER: I think they were questions placed by me.

Dr. TRUEMAN: I think so, but I am not absolutely certain of that.

Mr. FISHER: What I was really after is this—and this is crucial. I think we might have a little discussion as to just what is the relationship of parliament to the Canada council. I think you will remember, Mr. Chairman, that last year Mr. Sellar told us that we really, in effect, have very little authority to examine council affairs. In other words, there is a gray area here in which no one really spelled out what the position was. Perhaps Mr. Pickersgill may be able to make a contribution here.

The CHAIRMAN: I wonder if we could follow this procedure so that we might finish with Mr. Pigeon first of all. I suggest you put Mr. Fisher's questions in the record, to complete it. Then we will go along with Mr. Pigeon, and come back to Mr. Fisher.

Note: The following are the questions by Mr. Fisher referred to in the quotations from Hansard appearing above:

November 27, 1957.

CANADA COUNCIL—APPLICATIONS FOR CAPITAL ASSISTANCE

Question No. 24—*Mr. Fisher:*

1. Has the Canada Council received any applications for capital assistance under section 9 of Chapter III, 5-6 Elizabeth II?
2. If so, from what schools or colleges that are not recognized as universities?
3. What are the names of any schools or colleges which have been approved or accepted as "similar institutions of higher learning" as phrased in section 9 of this act?

June 18, 1958.

CANADA COUNCIL—CAPITAL EXPENDITURE GRANTS

Question No. 17—*Mr. Fisher:*

1. What value and percentage of the grants of Canada Council awarded to universities in the last operational year went for residences or dormitories?
2. Is it a requirement set by Canada Council that such residences contain a library?
3. If so, what requirements are there as to size, type of bookstack and catalogue facilities?
4. Has Canada Council a classification of the kind of university capital expenditures to which it will consider awarding grants?
5. If so, what is the classification?

Mr. PIGEON: How many scholarships were awarded last year to students seeking a masters degree, or what is called Class I?

Out of that number, how many were awarded to students of Laval and Montreal universities?

How many scholarships were awarded last year to students seeking a doctor's degree or what is called Class II?

Out of that number, how many were awarded to students of Laval and Montreal universities?

How many scholarships were awarded for special studies and research, Class III-A?

How many of these scholarships did French-speaking professors obtain?

Another question: In the arts, what amount has the council paid over the last three years to artistic associations of Quebec, and to those of Ontario?

How many scholarships were granted to foreign students of Class VIII-B?

Out of these scholarships, how many are studying at Toronto, McGill, Laval and Montreal universities?

Mr. BENIDICKSON: With respect to the question immediately before the last one, with respect to artistic institutions in either Quebec or Ontario, has Mr. Pigeon in mind institutions that confine their activities to those provinces, or has he in mind, perhaps, national institutions that may have a head office in either one province or the other?

Mr. PIGEON: I want to know only the number of scholarships that were granted to these universities—only the number; not the names of students.

Mr. BENIDICKSON: This is not students; this is the one with respect to institutions. It is the question immediately before the last one that you asked.

Mr. PIGEON: In the arts, what amount has the council paid over the last three years to artistic associations of Quebec, and to those of Ontario?

Another question. I do not know if it is on the same line: What salary is paid the executive, director, and other members?

The CHAIRMAN: Are those all the questions?

Mr. PIGEON: No. What is the salary of Mr. John Robbins, adviser; and what is the salary of Mr. Walter Herbert—

Dr. TRUEMAN: These have nothing to do with the Canada council.

Mr. PIGEON: Total administration expenses amount to almost $300,000. How many scholarships to poor students might be awarded if those expenses were avoided?

Dr. TRUEMAN: I refuse to answer that question.

Mr. PIGEON: Another question: What was, for the years 1957, 1958 and 1959, the total amount of money paid by the Canada arts council to the province of Quebec and the province of Ontario?

I have two more questions. Since the establishment of the Canada arts council, what was the number and total amount of the scholarships which have been awarded respectively during each year to (a) graduates; (b) students: (c) professors of the social science faculties of the universities of Laval and Montreal?

What is the name and address of each recipient of these bursaries, and what amount was paid to each one?

I place these questions before the committee because I know the Canada council was created by the former administration—

Some hon. MEMBERS: No, no.

The CHAIRMAN: Order, please, gentlemen.

Mr. PIGEON: I know all former ministers of the last administration had the responsibility, including Mr. Lesage, and if I had these figures, all of Canada

and the province of Quebec would see what part the province of Quebec has from the Canada Council. I know, Mr. Chairman, that you are in a very bad situation now to give me a straight answer.

The CHAIRMAN: You mean the witness, not the Chairman.

Mr. PIGEON: Excuse me—Mr. Trueman. I know you are in a very bad situation, because you embarrass the former government. That is the only point I want to bring.

Mr. PICKERSGILL: On a question of privilege, Mr. Chairman: I would like to withdraw the question I put. I would not wish my question to be associated in any way with the question that has just been asked.

Mr. PIGEON: I have only a last question to ask. Should anyone who has been granted a scholarship by the council of arts require an insurance policy on their scholarship? Why? And who are the insurance companies?

Mr. PICKERSGILL: How ridiculous can you get?

Mr. ROBICHAUD: Stupid!

Mr. PIGEON: It is not stupid. Mr. Chairman, the hon. member told me I am stupid. I would appreciate it very much if he would retire this word: it is not a parliamentary word.

The CHAIRMAN: Mr. Pigeon, I did not hear the word.

Mr. PIGEON: But I did.

The CHAIRMAN: And if I had heard it, I would forget it.

Mr. ROBICHAUD: I said the questions are stupid, and I still say they are.

Mr. PIGEON: No, the questions are not stupid. It is my right. We are a free country. It is my right to place these questions. If Dr. Trueman does not agree, it is his own responsibility. I have done my duty, and my constituents will judge me at the next election, not you.

The CHAIRMAN: Gentlemen, may I make one simple remark. It is meant to pour oil on the waters, and it is true—Mr. Pigeon is a member of this committee—he is a member of parliament. Committees have inherent powers. I agree with him in principle. If he wants to ask any question which is in order, it is his right to do so. He will have to take the consequences, if there are any. It is his right and privilege to ask questions.

On the other hand, it is the right and privilege of the witness to answer, or not answer, as he thinks is within his ability and right to do so. As Chairman, I do not object to Mr. Pigeon's asking these questions; but it is up to Mr. Trueman, of course, to use his best judgment as to whether he will answer in full, or whether he is allowed to answer in part.

Dr. TRUEMAN: Mr. Chairman, I could make a comment on the last question with relation to insurance. It is the practice of the Canada Council to ask its scholarship and fellowship holders who are going overseas on a Canada Council grant to take out a modest amount of insurance to cover medical contingencies and possible loss of their effects in transit. We simply ask them to present us with a kind of certificate that they have done that.

Where they take that insurance out is left entirely in the hands of the individual. We only recommend to students who have our scholarships and fellowships, and are staying in Canada, that it would be to their best advantage, no doubt, to take out some insurance. But we do not absolutely insist on that point. This is a matter of simple precaution on the part of the council to cover a possibly uncomfortable situation, where a scholarship holder might be in Paris, or in London, or in Washington, and be taken seriously ill and not have resources to handle it. He should have some insurance to cover it. And we do ourselves arrange insurance for the non-residence people who come from abroad.

The CHAIRMAN: Starting at the end and working up, there was a question with regard to salaries of various people. Could you answer that?

Dr. TRUEMAN: I would expect, very strongly, that my chairman and the members of the council would say these are not public figures which the council puts in its annual report, and I would not consider I had any authority to give those salaries out. I can see how this might be an embarrassment to other people, and I do not think we should make public these matters of internal administration.

The CHAIRMAN: Perhaps you could advise us on this question of salaries, Mr. Bell?

Mr. BELL (*Carleton*): Mr. Chairman, I think we are confronted immediately, in these questions, with what the authority of the committee is. I do not have the act in front of me, but as I recollect the act it says there shall be an annual report made to the Prime Minister and—I think I am quoting exactly —provision shall be made for a review thereof by parliament.

Miss LILLIAN BREEN (*Secretary, Canada Council*): It is the last paragraph, Mr. Bell.

Mr. BELL (*Carleton*): The words are, "and provision shall be made for a review thereof by parliament." So what we are reviewing is the annual report. It may well be that perhaps we should have the Law Clerk tell us whether we have any authority to go beyond what is the actual annual report. My own view, offhand, is that those words "review thereof by parliament" do confine us to the actual annual report.

Mr. FISHER: Mr. Chairman, this question bothered me last year, and it bothers me this year. We have examples of the problem in another committee, when we have the Canadian National Railways and Trans-Canada Air Lines before us. My understanding of it is that what was in the minds of the people setting up the Canada council, and what was the purpose of parliament at the time—if you could read it—was to give the Canada council a unique position.

That is, I do not think they expected the Canada council would be in the same relationship to parliament as crown corporations or organizations such as the Canadian National Railways.

I wish, if I may, to put this on the record. This is from the *Ottawa Journal*, and it is an editorial of last year, June 5, 1959. I want to put this on the record because it seems to me it opens up a discussion on something close to what Mr. Bell was just suggesting. This reads:

> That inflexible and wise old observer of the processes of government, Mr. Watson Sellar, appears to have surprised the Commons public accounts committee by telling its members that they had no authority over the Canada council or the $100,000,000 it has at its disposal.
>
> "Then what authority has this committee to examine council affairs or make recommendations?", asked Douglas Fisher, C.C.F.
>
> Mr. Sellar replied with that calm which springs from knowledge, "You could make recommendations on the legislation setting up the council".
>
> The *Journal* thinks this brief exchange should be helpful all around. Parliament is supreme, but parliament must exercise its supremacy in the channels that have been given to it. Parliament should not seek to interfere in the administrative processes which it has itself established: not in C.B.C., nor in the Civil Service, nor in the Canada council, even though these bodies may seem to offer lush pickings for the M.P.

I think we are confronted with a problem that this comment illustrates, and the very position Mr. Pigeon is in with regard to the questions he is asking. I would not have asked those questions, but I think he has a perfect right to put them. But we do not really know what to expect from Mr. Claxton or Mr. Trueman in the form of answers.

I have some questions that I think will probably get the same response as Mr. Pigeon's questions had. But what I am very concerned about is finding out exactly how much scope we have. I think that if we do not determine it this year, we will go on like some of the other parliamentary committees. There is the Canadian National Railways committee, which every year fights again over just what its rights are to information from the president of the Canadian National Railways. That is why I bring it up at this time.

I believe that a subcommittee of this committee should meet with the Canada council officials and senior government people to determine just where we stand, to mark out very clearly the boundaries of where we can go and what we can expect. I would like to state here what I believe in this regard, which is that we should have the right to place anything we want, in terms of questions, to make any criticisms we want, publicly and openly, here. I do feel that we could be very limited in the recommendations that we could make in so far as the Canada council is concerned. In other words, I personally would like to see the Canada council have that much freedom; but I also think that we should have the firm knowledge that we can slap—bang at the Canada council if we wish to.

Mr. PICKERSGILL: Mr. Chairman, I would like, as the only person in this committee at the present time who was a member of the government which recommended this legislation to parliament, to say a few words. And may I say I took a certain amount of personal interest in the legislation and discussed it a good deal with the Prime Minister of the day, who, as everyone knows, was its main sponsor. I think I can clear this up, as far as the intentions of those of us who recommended this were concerned. I think it was pretty generally recognized by most of our supporters in parliament—and this legislation was also supported by other parties—that there were two very important considerations to be kept in mind, since this council was to be endowed with a very large sum of money, a great deal of which was to be used to further education in this country. And as Mr. St. Laurent had a very clear view of the constitution of Canada and of the exclusive provincial jurisdiction in the field of education, he wanted to have legislation which would make it abundantly clear that neither directly nor indirectly was the government or parliament seeking by any means to exercise any jurisdiction over education.

That was precisely why the Canada Council was designed to be a trust, a body corporate; and that the only responsibility that the government had would be to appoint citizens of good character and of good report and of good qualifications to act as citizens of Canada to administer this fund.

Those were the considerations which were very much in Mr. St. Laurent's mind as they were in the minds of some others of us who knew what had happened in other jurisdictions. We did not want the Canada Council to be handing out political scholarships, as has been done in some of the provinces of this country, or to be under any suspicion of that kind.

Mr. PIGEON: On a point of order, the hon. member talks of the provinces. I do not think it is his responsibility. He has his responsibility in his riding, but his judgment is not good.

The CHAIRMAN: What is the point of order?

Mr. PIGEON: The point of order arises out of the provinces granting scholarships in a political way, and I do not agree with that.

Mr. PICKERSGILL: I would like to point out that I did not mention any particular province, but if the shoe fits, the hon. member will know it.

The CHAIRMAN: I am glad to say that this is not a court of law. It would be very easy to deal with it, if it were. We have to give a certain amount of leeway to all members.

Mr. PICKERSGILL: I would like to say something about the very serious point which Mr. Fisher raised. Mr. St. Laurent very largely determined these things, or provided the ideas to which most of the rest of us just subscribed.

He was very concerned about the fact that $100 million was being taken out of the treasury of Canada, and he regarded it as a large sum of money which was being taken completely out of the jurisdiction—the normal jurisdiction of parliament. He felt there should be some way in which the activities of this body would be scrutinized, so that the public would be assured that the Canada Council would have regard to the care which would be taken, and which was taken by the previous government, and which I judge is still being taken by the present government. I note the fact that my unsuccessful opponent is now a member of the Canada Council—notwithstanding, every precaution was taken—

Mr. PIGEON: Do not make political speeches.

Mr. PICKERSGILL: You are the one that brought Mr. Lesage's name into this discussion, and you had better not talk about it here. When Mr. Lesage was here he had to do with the policies of the whole country. I do not think it will be very long before he has a lot more to do with the policies of his province; and if the hon. gentleman wishes to make political speeches, I will make them too.

Mr. PIGEON: He has enough problems in the province of Quebec.

The CHAIRMAN: There are only ten minutes left.

Mr. PICKERSGILL: I should think that in this committee any hon. member, however foolish or stupid his suggestion might be, should be allowed to make it quite freely.

I am quite sure that the Canada Council would take very careful account of it, and I think it would be a very retrograde step for any political body to start laying down qualifications for scholarships or for grants to these learned societies, or even for grants made to artistic societies; because, as I look around me, I think more competent people could be found for that purpose than those in this committee.

Mr. MCGEE: The question of relationship between this committee and the council was answered apparently to everybody's satisfaction last year when I put a question to Mr. Claxton. I asked him, in effect, what would be the action taken by the Canada Council if a unanimous opinion about any matter were to be put to them by this committee.

He indicated, if I remember correctly, that it would be of more than passing interest to him. Then I asked him to define what more than passing interest it would be to him, and I think he said that they would attach no compulsion to it, but that it would be of somewhat more influence than an editorial which might appear on a similar subject in one of Canada's newspapers.

The CHAIRMAN: Depending on the paper.

Mr. SMITH (*Simcoe North*): There is one question I think which might be held over. It is on page 52 of the Canada Council's financial statement, where there is an item of $23,145 for advisory service fees. My question is: what is that, who was it paid to, and why?

Dr. TRUEMAN: In answering your question I may have to be a little long winded. We have, as you know, this tremendous flood of applications from individuals for scholarships, which cost us something over $1 million a year. They also come from organizations representing the arts, the humanities, and the social sciences.

From the start we made arrangements principally with three other institutions, namely, the Humanities Research Council of Canada, the Social Science Research Council of Canada, and the Canada Foundation, each of which had had many years of experience in giving out scholarships, usually with money that had been given to them by other foundations.

They had established across Canada many panels or committees of experts in all these fields. The Canada Foundation had to do largely with matters of the arts, while the other two organizations were largely in connection with what their names suggest, that is, the humanities and the social sciences.

So we entered into an arrangement with them whereby we would forward, as we saw fit, applications to them, and they in turn would have them vetted, examined, and assessed by panels of experts from across Canada. I was told that the Canada Foundation at one time had on the list upwards of 150 artists, musicians, and so on.

The point of this is that they perform that service for us. They make assessment of these applications, and they are sent back to us, when the council makes the final decision. But we have agreed to pay them for their out-of-pocket expenses.

Mr. SMITH (*Simcoe North*): They are not hired professionally as advisors?

Dr. TRUEMAN: No. They work on specific applications, and we pay for their out-of-pocket expenses such as stenographic help, correspondence, mail, travel and so on.

Mr. BENIDICKSON: Is Mr. Robbins an official of the Canada Foundation?

Dr. TRUEMAN: No, he is on the board of directors. His full time job is to be that of executive director of both the Humanities Research Council, and of the Social Sciences Research Council. Mr. Walter Herbert is the director of the Canada Foundation.

The question which the hon. member asked about the salaries of Mr. Robbins and Mr. Herbert does not fall within our purview at all.

Mr. MCGEE: I have a question for Dr. Trueman which he might want to think about between now and the next sitting. Some remarks were attributed to Dr. Trueman, and various versions and implications of those remarks appeared in the press. They had to do with the question of the advisability of granting what appeared to me to be a Sabbatical leave type of grant, whereby the person receiving it would go, let us say, to Paris, not necessarily to produce anything in terms of the arts, but simply to absorb the atmosphere, presumably. That was according to the newspaper reports which I saw, and which I presume Dr. Trueman has seen as well.

Would he care to look into those newspaper reports to which I refer and perhaps explain the ideas he had in mind when he made the statement in the first place?

Dr. TRUEMAN: I could do that right now, but I imagine your time is about up.

Mr. MORTON: In connection with the endowment fund on page 52 under the item of expenditures miscellaneous in 1959, it seems to me that it was $6,132 in 1958 and only $741 was spent. I wonder what type of expenditure would be put under miscellaneous?

Dr. TRUEMAN: I would have to look that up.

The CHAIRMAN: Before we break up, Mr. Fisher raised a point which seems to me to have quite a bit of merit. Would it be your wish to have a legal subcommittee look into this question of the relationship between this public accounts committee and the Canada Council and try to report to you at the next meeting?

Mr. MCGEE: Perhaps we might wait to see how satisfactory a pattern the replies from Dr. Trueman take first, and he may not be prepared to answer before that committee would meet.

Mr. FISHER: I think it would be useful in the light of Mr. Pigeon's question; it is something on which I would like to have advice.

Mr. PICKERSGILL: I think it is a very sensible idea, myself.

The CHAIRMAN: It certainly would not do any harm, and it might do a great deal of good. Would you leave it with your chairman and vice-chairman to appoint a small committee?

Is there any objection?

Agreed.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Report of the Canada Council for the fiscal year ended March 31, 1959

WEDNESDAY, MAY 11, 1960

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WITNESSES:

Representing the Canada Council: Dr. A. W. Trueman, Director; and Mr. Peter Dwyer, Supervisor of Arts Programme.

From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General.

And also: Dr. P. M. Ollivier Q.C., Parliamentary Counsel.

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23054-0—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

CORRECTION—(*English Copy Only*)

PROCEEDINGS No. 5—Wednesday, May 4, 1960

On Page 140—Paragraphs 3 and 4 should read:

"Mr. Pickersgill: I would like to say something about the very serious point which Mr. Fisher raised. Mr. St. Laurent very largely determined these things, or provided the ideas to which most of the rest of us just subscribed.

He was very concerned about the fact that $100 million was being taken out of the treasury of Canada, and he regarded it as a large sum of money which was being taken completely out of the jurisdiction—the normal jurisdiction of parliament. He felt there should be some way in which the activities of this body would be scrutinized, so that the public would be assured that the Canada Council was having regard to the care which would be taken to carry out its objects economically. Care was taken by the previous government, and I judge is still being taken by the present government in appointments to the Council. I note the fact that my unsuccessful opponent is now a member of the Canada Council—notwithstanding, every precaution taken—"

MINUTES OF PROCEEDINGS

WEDNESDAY, May 11, 1960.
(7)

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, Bruchési, Danforth, Deschatelets, Fisher, Lahaye, Macdonald (*Kings*), Macdonnell, Macnaughton, McGee, McGrath, McGregor, Morissette, Morton, Pickersgill, Pigeon, Robichaud, Smith (*Winnipeg North*), Stefanson and Wratten.—24

In attendance: From The Canada Council: Dr. A. W. Trueman, Director; Mr. Eugene Bussiere, Associate Director; Mr. D. H. Fullerton, Treasurer; Mr. Peter Dwyer, Supervisor of Arts Programme; and Miss L. Breen, Secretary. *From the Auditor General's office:* Mr. A. Maxwell Henderson, Auditor General; and Mr. A. B. Stokes, Supervisor of Audit of Canada Council. And also Dr. P. M. Ollivier, Parliamentary Counsel.

A letter received from the Honourable Brooke Claxton was included in the Committee's record.

The Vice-Chairman, Mr. Murray Smith, presented the following report of the special Subcommittee appointed to consider the problem of the Committee's powers to elicit information from the officials of Canada Council:

> At the May 4 meeting of the Standing Committee on Public Accounts it was agreed that a subcommittee be appointed by the Chairman and Vice-Chairman to consider the question of the relationship between the Committee and The Canada Council and, in particular, the scope of the Committee's examination of the Council's operations. This Subcommittee was composed of Messrs. Fisher, Benidickson, Robichaud, Morton, Morissette, Bell (*Carleton*), and myself. Your Subcommittee engaged Dr. Ollivier, the Parliametnary Counsel and obtained his opinion on various aspects of the matter.
>
> Members will recall that Dr. Trueman made reference to two statements of Prime Minister Diefenbaker made in the House of Commons in reply to questions asked by Mr. Fisher. The statements appear at page 134 of the proceedings of this Committee and the questions asked by Mr. Fisher appear at page 135. Dr. Ollivier's opinion was that these statements were justified in view of Section 13 of The Canada Council Act which specifically states that the Council is not an agent of Her Majesty.
>
> Section 8 of The Canada Council Act sets out the objects and powers of the Council, and it will be seen that money is disbursed in the form of scholarships, grants, awards, etc. Section 23 of the Act requires the Council to "submit to the member of the Queen's Privy Council for Canada, designated by the Governor in Council for the purpose, a report of all proceedings under this Act"—and I emphasize the words *all proceedings under this Act*—"and provisions shall be made for a review thereof by Parliament."

23054-0—1½

Dr. Ollivier held the opinion that in view of these sections of The Canada Council Act and because the Council has included in its report its financial statements, the Committee is entitled to details of expenditures including awards, grants, scholarships, etc., if it so desires.

In amplifying this Dr. Ollivier felt that the following general principles should apply:

(1) every member of the Committee has the right to ask any question. Questions, however, must be in order and fall within the terms of reference of the Committee.

(2) all questions should be answered but a witness is entitled to say that in his opinion the question should not be answered and state his reason for declining to answer—for example that he does not feel that it would be in the public interest to give such information.

(3) the member asking the question may appeal to the Committee and the Committee has the right to demand full information in spite of the statement of the witness. The procedure would be for the Committee to pass a motion to the effect that the information demanded should be given.

(4) the witness should then produce the information requested.

The Committee thus has the right to closely examine all aspects of the operations of The Canada Council that are included in its Annual Report. As a Committee of Parliament it can seek and gain information that is not available to the Government or any member thereof because of the fact that The Canada Council is not an agent of Her Majesty.

(Sgd) Murray Smith,
Vice-Chairman.

Dr. Ollivier clarified certain points in the Subcommittee report.

Moved by Mr. Pickersgill, seconded by Mr. Broome,

Resolved,—That the abovementioned report be adopted.

Carried unanimously.

The Committee further considered the Annual Report of The Canada Council, 1959, the officials of the Council supplying information thereon.

The witness, Dr. Trueman, supplied information requested at a previous meeting. *Supplemental information, respecting questions asked by Mr. Pigeon on Pages 135-137 of Proceedings No. 5, appears as Appendix "A-4" to this day's Proceedings.*

The Chairman brought to the attention of the Committee a telegram from the Quebec Municipal Library Association.

Mr. Pickersgill requested that alterations be made in the Committee's proceedings at page 140 of No. 5 Proceedings.

At 11.00 a.m. the Committee adjourned until 9.30 a.m., Wednesday, May 18, 1960.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

Wednesday, May 11, 1960.

The CHAIRMAN: Gentlemen, we have a quorum. We have delayed a while this morning until one or two more of our members were here. These members asked certain questions at the last meeting and I wanted to be sure they were here before we started.

Mr. Brooke Claxton has sent us a reply to the remarks that were made at the last meeting and with your permission I would like to table it and have it printed in the record. Is that agreed?

Agreed.

The Canada Council
Ottawa

May 6, 1960.

Alan Macnaughton, Esq., M.P.
Chairman
Public Accounts Committee
Parliament Buildings
Ottawa, Ontario

Dear Mr. Macnaughton:

Having the highest regard for Parliament, its institutions and the amenities between members, I am most grateful for the very kind remarks of yourself and the others and their friendly reception at the meeting of the Public Accounts Committee on Wednesday. I shall never forget the fourteen years of my membership in the House and the wonderful memories it left with me, as well as the associations I made there with members of all parties.

Few people who have not enjoyed the common bond of election in this way can appreciate how much this means, not only in personal satisfaction but in the promotion of the public service.

With renewed thanks,

Yours sincerely,
(Sgd) Brooke Claxton

The CHAIRMAN: At the last meeting of this committee you will recall that it was decided to set up a legal subcommittee, so-called, to look into the relationship between the Public Accounts Committee and the Canada Council in general. Acting on your instructions I asked Murray Smith, the vice-chairman of this committee, if he would set this committee up, examine the question and bring in a report.

Have you the report, Mr. Smith?

Mr. SMITH (*Winnipeg North*): Yes, we have, Mr. Chairman.

May 10, 1960.

At the May 4 meeting of the standing committee on public accounts it was agreed that a subcommittee be appointed by the chairman and vice-chairman to consider the question of the relationship between the committee and the Canada Council and, in particular, the scope of the committee's examination of the council's operations. This subcommittee was composed of Messrs. Fisher, Benidickson, Robichaud, Morton, Morissette, Bell (*Carleton*) and myself. Your subcommittee engaged Dr. Ollivier, the parliamentary counsel, and obtained his opinion on various aspects of the matter.

Members will recall that Dr. Trueman made reference to two statements of Prime Minister Diefenbaker made in the House of Common in reply to questions asked by Mr. Fisher. The statements appear at page 134 of the proceedings of this committee and the questions asked by Mr. Fisher appear at page 135. Dr. Ollivier's opinion was that these statements were justified in view of section 13 of the Canada Council Act which specifically states that the council is not an agent of Her Majesty.

Section 8 of the Canada Council Act sets out the objects and powers of the council and it will be seen that money is disbursed in the form of scholarships, grants, awards, etc. Section 23 of the act requires the council to "submit to the member of the Queen's Privy Council for Canada designated by the governor in council for the purpose a report of all proceedings under this act"—and I emphasize the words "all proceedings under this Act", and later on in that section it says: "and provisions shall be made for a review thereof by parliament".

Dr. Ollivier held the opinion that in view of these sections of the Canada Council Act and because the council has included in its report its financial statements, the committee is entitled to details of expenditures including awards, grants, scholarships, etc., if it so desires.

In amplifying this Dr. Ollivier felt that the following general principles should apply:

(1) every member of the committee has the right to ask any question. Questions however must be in order and fall within the terms of reference of the committee.

(2) all questions should be answered but a witness is entitled to say that in his opinion the question should not be answered and state his reason for declining to answer—for example that he does not feel that it would be in the public interest to give such information.

(3) the member asking the question may appeal to the committee and the committee has the right to demand full information in spite of the statement of the witness. The procedure would be for the committee to pass a motion to the effect that the information demanded should be given.

(4) the witness should then produce the information requested.

The committee thus has the right to closely examine all aspects of the operations of the Canada Council that are included in or flowing from its annual report. As a committtee of parliament it can seek and gain information that is not available to the government or any member thereof because of the fact that the Canada Council is not an agent of Her Majesty.

This report, Mr. Chairman, I believe is unanimous and if any amplification is needed Dr. Ollivier is present this morning.

The CHAIRMAN: I was going to ask for approval of the report. I suppose we had better have discussion before that.

Mr. PIGEON: I would appreciate very much, before this committee, Dr. Ollivier giving a decision now, if it is possible, to answer my other questions I asked at the last meeting.

Dr. P. M. OLLIVIER (*Law Clerk*): That, of course, is up to the committee. I think the procedure was clearly explained in that report of the subcommittee that you are entitled to ask any questions you want to ask within the terms of reference. Then it is up to the witness to either answer exactly your question or give the reason why he does not think he should answer that question. But having done that, you still have the right, or somebody has the right, to make a motion in the committee that the answer be given in spite of what has first been said by the witness. It is then up to the committee, really, to decide whether they want an answer or not. In other words, the committee can overrule the member asking the question.

Mr. PIGEON: But the rules of the Canada Council permit the member of parliament to ask a question?

Dr. OLLIVIER: That is what I think, yes. I think you can ask any questions that flow from the report, that are ancillary to the report.

Mr. PIGEON: Thank you, sir.

Mr. PICKERSGILL: In order to get the proceedings regularized I would be very happy to move that the report of the subcommittee be accepted.

Mr. BROOME: I will second that.

The CHAIRMAN: It has been moved and seconded that the report be accepted. Those in favour? Contrary?

Agreed to, *on division.*

The CHAIRMAN: Gentlemen, you have heard this report. At the last meeting—

Mr. PIGEON: Excuse me, I vote for the report.

The CHAIRMAN: Then it will be unanimous. If there is any doubt I will call it again. Those in favour? Those contrary?

Agreed unanimously.

The CHAIRMAN: At the last meeting Mr. Morton, Mr. McGee, Mr. Pigeon and I think Mr. Fisher asked various questions. I suggest we start with Mr. Morton's, then Mr. McGee's, Mr. Pigeon's and then Mr. Fisher's. Did you have certain answers to give?

Dr. A. W. TRUEMAN (*Director, Canada Council*): Well, Mr. Chairman, before I begin to give my answers sir, might I point out that I handed in last day, I think in response to a question from the hon. member, two tables on administration: one, the head office locations of companies whose shares the Canada Council owns, as of March 31, 1959. That table was printed in *Hansard;* but the second table which we also submitted was not printed. I merely pass this to you, if it is the desire of the committee to have it printed too. You now have an extra copy of it here.

The CHAIRMAN: This is information given to Mr. Pigeon at the last meeting?

Dr. TRUEMAN: Yes, there were two tables and one table was printed. The other table was not printed in *Hansard.*

The CHAIRMAN: Will we print this table, gentlemen?

Agreed.

Note: The table is as follows:

HEAD OFFICE LOCATION OF COMPANIES OF WHICH BONDS OR DEBENTURES ARE HELD BY THE CANADA COUNCIL AS AT MARCH 31, 1959

	Book Value of Investment		
	Ontario	Quebec	Other
	$	$	$
Abitibi Power and Paper	351,000	—	—
Algoma Central Railway	193,000	—	—
Anglo-Canadian Pulp and Paper	—	350,000	—
Anglo-Canadian Telephone	—	200,000	—
B.C. Electric	—	—	476,000
Canada Iron Foundries	—	234,000	—
Credit Foncier	—	200,000	—
Dominion Electrohome	93,000	—	—
Great Lakes Power	279,000	—	—
Greater Winnipeg Gas	—	—	191,000
Home Oil	—	—	479,000
Industrial Acceptance	643,000	—	—
Inland Natural Gas	—	—	195,000
Irving Refining	—	—	100,000
Newfoundland Light and Power	—	—	100,000
North Star Oil	—	—	92,000
Northern Telephone	100,000	—	—
Northern Ontario Natural Gas	155,000	—	—
Pacific Petroleum	—	—	399,000
Pembina Pipeline	—	—	251,000
Power Corporation	—	217,000	—
Quebec Natural Gas	—	630,000	—
Quebec Telephone	—	368,000	—
Hudson's Bay Oil and Gas	—	—	197,000
Steinberg Properties	—	150,000	—
Traders Finance	249,000	—	—
Trans-Canada Pipe Lines	—	—	695,000
Union Acceptance	100,000	—	—
Westcoast Transmission	—	—	563,000
Loblaw Groceterias	200,000	—	—
MacMillan and Bloedel	—	—	100,000
Mid-Western Industrial Gas	—	—	44,000
Producers Pipe Line	—	—	300,000
	2,363,000	2,349,000	4,182,000

Dr. TRUEMAN: Mr. Chairman, one of the hon. members asked the question: "I wonder what type of expenditure would be put in miscellaneous?" and he quoted two or three figures. The figures which he had in mind included safe keeping charges, for the most part to the Montreal Trust company and in 1958 and 1959 some to the Bank of Canada. That was very nearly $3,000 of the $6,000. Then there were legal and other fees, consultants fees. We had two or three consultations and we consulted legal opinion. The other is entertainment expenses, the large part of which that year was for a rather large dinner of 40 or 50 people in honour of the chairman of the organisation which is, so to speak, our opposite number in the United Kingdom, the Arts Council of Great Britain. Sir Kenneth Clark came over here under the auspices of our organization to give a series of lectures.

Mr. MORTON: Mr. Chairman, when you have a legal fee should that not be under the heading of advisory service fees?

Dr. TRUEMAN: That was not for that purpose. I think I explained that at the last meeting. I think the item to which you refer consists largely of the costs which we paid to the Humanities Research Council, the Social Sciences Research Council and the Canada Foundation for processing and submitting our applications to panels and giving us back their recommendations. Those were out-of-pocket costs of these organizations.

The second question, sir, with which I wish to deal, was this. An hon. member asked a question about certain remarks attributed to me in the press dealing with the advisability of granting what appeared to be a sabbatical-type-of-leave grant, whereby the person receiving it would go, say, to Paris, not necessarily to produce anything in terms of the arts but simply presumably to absorb the atmosphere.

I may say, sir, to begin with that grants of that kind are not made by the council. Every applicant is required to present a program of study, research or some other type of activity. These programs, as part of the information furnished by the applicant, are then assessed, reviewed by a panel of judges along with other information that the applicant presents, and must be approved before a grant is made. I do recall, however, talking with a reporter about the difficulty of handling scholarships for artists, and raising and making the point to him that there was often a considerable difference between the programs proposed by scholars and those proposed by artists and writers. The former, that is to say the scholars, have usually a clear-cut program of study which involves attendance at an academic institution or a library, where certain very definite and, so to speak, time-tabled activities are to be followed. But the artist and the writer, however, very often do not want to attend a school or follow some prescribed course in somebody's curriculum. Nevertheless, they are required to submit, as I have suggested, a program of planned and purposeful activities.

I think the misunderstanding, if there is a misunderstanding, arose from my having presented to this reporter the point of view of Mr. Henry Moe of the Guggenheim Foundation in New York, generally regarded, we learn, as one of the most astute pickers of talent in all the American foundations.

Mr. Moe once pointed out to me—and this was the point I was making with the reporter—that the most important and maybe the most difficult thing that any foundation had to do in relation to scholarships was to take as much care as possible to pick the man of outstanding talent, of demonstrated promise, of industry and integrity.

You have to ask him a planned program, continued Mr. Moe. But if, he said, you have picked the right man, if your energies and your ingenuity have been concentrated on that main task of picking the right man, and he then departs somewhat from the proposed program, it may well be, pointed out Mr. Moe, that he is doing the best thing for the development of his art. I remember his giving me a concrete illustration. He may not, in fact, write the book he said he wanted to write; he may start on another book instead, or he may not even start on a book at all, said Mr. Moe. The point is, what did the experience under the grant do for him, and what effect did it have on, say, the writing of his next book, which may not take place until the next year or two years from that time.

This, presumably, is the sort of thing that may happen, and if you have picked the right man it will probably be all right. If you have not picked the right man it will probably be wrong. So much for the point of view that Mr. Moe was expressing.

I wish to assure the hon. member that I know of no such instance of this kind of departure from the program among the successful applicants to the Canada Council; and the Canada Council will not give a grant simply to let a man, let us put it at its worst, loaf about in some attractive place and, as it has been called, absorb the atmosphere.

Furthermore, all holders of grants are required to make reports to the council. I perhaps could break off from my notes here and say that normally our grants are given in three stages, one about a month or three weeks before the actual time at which the man wishes to take up the grant or travel, or

whatever. The second, three or four months later; and before he gets his second portion of the grant, he must write in to the Canada Council and report on what he has been doing, and where he is. The same procedure applies before he gets the final share of the grant. So he is required to make reports to the council to show, in so far as that is possible, that he is following the program of activity indicated in the application.

I trust that is an adequate explanation of the rather difficult and sensitive point which the hon. member raised.

Mr. FISHER: Was this a question that I put?

Dr. TRUEMAN: No, this is Mr. McGee.

Mr. FISHER: The reason I wondered, is that I wanted to carry on in this area.

Dr. TRUEMAN: Shall I proceed, sir, with the next?

The CHAIRMAN: Did you have a similar point?

Mr. FISHER: I have quite a number of points.

The CHAIRMAN: On this particular subject?

Mr. FISHER: Yes. This takes us, it seems to me, into the division of spoils, as it were, between academic and creative categories.

The CHAIRMAN: Perhaps, Mr. Fisher, we had better go straight to Mr. Pigeon. He is anxious and has been waiting. Did you have any reply for Mr. Pigeon?

Dr. TRUEMAN: I have a reply to questions put by the hon. member. I may say, Mr. Chairman, that I have the mimeographed reply here and I am sure there are more than enough to give to you.

I might say, Mr. Chairman, before reading this document, which I should like to read through, that the questions as they appear in Hansard are not numbered. They begin at the bottom of page 135, and as the questions first came to us they seemed to group themselves. The first question: "How many scholarships were awarded last year to students seeking a master's degree, or what we call class 1?", is then followed by "Out of that number how many were awarded to students of Laval and Montreal universities?" We have marked these as one question.

The CHAIRMAN: May I interrupt you here? You referred to Hansard. You meant the minutes of the proceedings of this committee, did you not?

Dr. TRUEMAN: Yes, I am sorry.

The CHAIRMAN: Also, did you agree to have this reply translated into French for Mr. Pigeon?

Dr. TRUEMAN: Yes, we would be glad to do that. In the report of the committee—I am sorry, I should not have said Hansard—we will refer to questions by number, and I am just pointing out that those two halves we have put together and regarded as one question.

I would like also to refer to the fact that in, I think, the third paragraph, towards the end of it—the paragraph begins, "Questions 1 to 5"—I have said, "Copies are attached." A copy will be attached to the document which I file, but this again is a somewhat large document. It was put together only quite recently and we have not had time to duplicate all this. But this can be filed and printed in the proceedings, if required, or a copy can be made available to the questioner, if that is the best method.

The CHAIRMAN: This copy is part of your answer?

Dr. TRUEMAN: Yes.

The CHAIRMAN: Is it agreed, gentlemen, that this be printed as an appendix?

Mr. PICKERSGILL: I wonder, Mr. Chairman. It appears we are going to start printing all over again pages 59 to 63 of a printed document.

Dr. TRUEMAN: No, it is not that.

Mr. PICKERSGILL: It says, "See pages 59-63 of report for 1957-58." I would question whether we want to reprint in our proceedings something that is already in the annual report of a year ago and available to the committee in that way.

Dr. TRUEMAN: This document to which I refer is not in the annual report.

Mr. PICKERSGILL: I beg your pardon.

The CHAIRMAN: Is it agreed, then, gentlemen, that this extra material be printed as an appendix?

Agreed.

(See Appendix "A-4").

Dr. TRUEMAN: Now, may I read the document? This is the answer which has been devised on consultation with the Hon. Brooke Claxton, the chairman of the Canada Council.

The Canada Council exists to carry out the terms of The Canada Council Act; those are its terms of reference. The council holds strongly to the view that its success depends on confidence in its intention and ability to discharge the responsibilities placed upon it by parliament, in accordance with the terms of the act.

Parliament established the council as a body corporate. As set out in section 23 of the act, parliament itself limited its function to the consideration of the annual report of the chairman of the council and of its financial statements and the Auditor General's report. To change this would in effect change the decision of parliament and curtail the independence of the council, which has been widely recognized as a significant feature. This alteration would change the concept of the council held by its members and officers, as well as by educational and other institutions and the public. It might also, it is submitted, discourage donations of grants by private or corporate donors.

Questions 1 to 5 by Mr. Pigeon. The second annual report of The Canada Council for the year ending March 31, 1959 is now before parliament and under consideration by the committee. The information put before parliament in this report deals with questions 1 to 5 of the questions put forward by Mr. Pigeon for that year. (See pages 71-97.) Similar information for the year ending March 31, 1958 was publicly released. Copies are attached. (See also pages 59-63 of report for 1957-58.)

I think I should break off to explain there, again, that in the first annual report of the council, the report for 1957-58, we did not publish the individual names of scholars who had received grants. I do not recall whether this was because we were new and a little confused, and there was some misunderstanding about what should be printed and what should not be printed; but we did print those in the next year's report and plan to do so in the future.

However, all those names of scholars were publicly released, as this document puts it, in the press, and I have given copies of those names to the chairman.

Then to continue with the questions:

Question 6. The salaries of the director and associate director, that is myself and Mr. Eugene Bussiere, which are determined by the governor in council, are at present $17,000 and $14,000 respectively. The other salaries are not available in the reports and come within the administration of the council.

Question 7. Neither Mr. Robbins nor Mr. Herbert is in the salaried employ of the council. The arrangements with the Humanities Research Council of

Canada and the Social Science Research Council of Canada, of which Mr. Robbins is secretary-treasurer, and with the Canada Foundation, of which Mr. Herbert is director, are dealt with in paragraph 15 of the First Annual Report, and paragraph 17 of the Second Annual Report.

Question 8. The administrative expenses of The Canada Council for the year ending March 31, 1958 are shown in the First Annual Report as $180,316 (p. 36), and for the year ending March 31, 1959 are shown in the Second Annual Report as $269,838 (p. 52). These expenses include the costs of safeguarding and investing two funds of $50,000,000 each; they include the costs of administering the programme of the Endowment Fund, of the University Capital Grants Fund, and of the Canadian National Commission for UNESCO. All such costs are charges against the income of the Endowment Fund.

There is no way of estimating how many scholarships to poor students might be awarded if "those expenses were avoided" because (*a*) administrative expenses are unavoidable, and (*b*) if an attempt were made to avoid them the work of the Council would stop.

Question 9. For the years ending March 31, 1958 and March 31, 1959, which are dealt with in the First and Second Annual Reports, nothing was paid to the province of Quebec or to the province of Ontario.

Questions 10 and 11. See the answers to questions 1 to 5.

Question 12. To protect both the scholars receiving grants and the council from payments for hospital and medical expenses, scholars who are going abroad are requested to take insurance policies providing this protection to them. They pay the premiums themselves and select the company with whom they wish to insure. Arrangements have been made by the council for group insurance against hospital expenses, accidents and death, on behalf of scholars in category 8*b* (non-residents), with the Dominion of Canada General Insurance Company. The scholars themselves pay the premiums, which amount to $23 per year per scholar.

Mr. PIGEON: Dr. Trueman, the question I placed about the total administrative expenses, which are almost $300,000, is because in some provinces, like the province of Quebec, we have an office to give scholarships; and I thought, myself, if the province of Quebec or any other province had this money, the cost would be reduced for administration. It is only for that point I wanted to put this question.

Dr. TRUEMAN: Well, I have no means of knowing whether that statement is correct or not; whether the administrative expenses in total of the ten different provinces would be less, to handle, these scholarships, than these administrative expenses of the Canada Council.

Mr. PIGEON: I give you an example. In the province of Quebec we have an office which grants scholarships, and if the province of Quebec had this money the administrative expenses would be less because we have an administration in the province of Quebec to grant scholarships.

Mr. PICKERSGILL: Is that because of such low salaries in Quebec?

Mr. PIGEON: No, you have administration in the Canada Council to grant scholarships. We have an office in Quebec which grants scholarships in the province. To give you an example, if the province of Quebec had this money and administered this money itself, the cost of administration would be less. I only wanted to bring up this point.

Dr. TRUEMAN: I think I should remind the questioner that the figure which he used was for the total administrative costs of the council, which includes costs not only of the scholarship program, which is only part of the endowment fund, but the cost of administering the university capital grants administering the UNESCO grant and several others. I presume, however, when the questioner says if the province of Quebec had this money, he means if

each of the provinces had this money. I have no means of proving this, but I suggest to the committee that if this money had been divided up among each of the provinces and each province was to administer the cost of the National Commission for UNESCO, the university capital grants fund, the scholarship fund, and so on, I would require a little proof myself before I would believe that the total of such administrative costs would be less than having it handled by the Canada Council.

Mr. MACDONNELL (*Greenwood*): Would it not be an altogether hard and onerous job for each of the provinces to keep watch on the others, to make sure the amount each was getting was fair?

Mr. PIGEON: I placed this question because I had in my mind a main reason, a very strong reason. I can give this reason right now, it is only to have information about that.

Dr. TRUEMAN: Thank you.

The CHAIRMAN: Any other questions, Mr. Pigeon? Are you satisfied with the answer?

Mr. PIGEON: I can't say I am satisfied.

The CHAIRMAN: There is the pamphlet here answering in general, and then you have all the details which will be printed.

Mr. PIGEON: Yes, I notice the answer which is going around. I have given a straight question but I have not a straight answer. However, that is the opinion of the Canada Council.

The CHAIRMAN: You have not seen the further information which will be printed, and there are a great many details given in it.

Mr. PIGEON: I hope so.

The CHAIRMAN: Anything else to raise Mr. Fisher, I think you were next.

Mr. FISHER: If I might preface the questions by saying I wrote to and got in touch with a number of people in order to get criticisms of the Canada Council—to get some views. One of the ironies is that three of the people I approached have since won awards this year from the Canada Council. I think it is rather a good statement from people who are prepared to present criticism and who were at the same time applying for help. But the point I want to make is that while some of these may be at odds, they are criticisms that have been presented to me by people who have looked at the annual report; I wanted to underline that they are not necessarily views that I hold, but I thought there were a number of worthwhile criticisms.

In the first place we see grants to academic endeavour and the arts, and evidence would suggest that it is over two to one in balance towards the academic category. Is this an indication that there is more talent in that field, or is it an indication that they are easier to prove, to make an assessment or what?

Dr. TRUEMAN: I will be delighted to answer that question; if I understand the question correctly. When you look through the list of individual awards, scholarship awards to individuals for various purposes, you find that something like 75 per cent—the figure is not exact but within that vicinity—of these individual awards go to academic people; and something like 25 per cent go to awards in one art profession or another.

This is true, and the reasons are more than one. In the first place the constituency which makes the applications is much larger, I think, in the one case than the other.

Mr. FISHER: Are you sure about that?

Dr. TRUEMAN: This again would be hard to substantiate statistically, perhaps, but what I am thinking of is that you have a whole university complex

behind the one side of the thing, the academic people from all over Canada, and you have a certain body of people definitely moving on for graduate work in the humanities and the social sciences. As I say, they seem to represent a very large group of people who have not had too many scholarships, actually, in the humanities and social sciences.

The other reason is that in working out a balance, a reasonable balance between the expenditure of our fund for the arts on the one hand and, on the other hand, for the more academic subjects we find that we have spent in grants to organizations representing the arts something like $1,100,000 or $1,200,000 a year, and to the organizations representing the humanities and social sciences $300,000 or something of that sort. In other words, the whole thing balances up.

Mr. FISHER: Yes, but then the other side, your whole establishment has to do with capital grants to universities, which throws the balance much more the other way.

Dr. TRUEMAN: I think that is a separate operation which would have to be considered as separate in practice; it is another thing entirely. We are talking about the endowment fund here, dealing directly with individual people. It works out that about 55 per cent of the endowment fund—and I would not like to be put on oath about that figure, it is an approximation—about 55 per cent of the endowment fund goes in support of the arts in one way and another, and about 45 per cent goes in support of the humanities and social sciences.

If this is felt not enough for the arts, I would certainly like to point out that we have not failed to hear from the students of the humanities and social sciences that they think the artists are getting a pretty good share of the endowment fund.

Mr. FISHER: The problem, is it is more difficult to find a creative artist than it is to find a person with academic talent?

Dr. TRUEMAN: I would think in general it is more difficult to find people in the arts to whom you would want to give substantial grants than it is to find promising academic people who are going on to the M.A. and Ph.D., degrees, and from whom will be recruited the teaching staffs for our universities.

Mr. FISHER: This gives you a role as talent pickers that in a sense is creative. How are you answering that?

Dr. TRUEMAN: You have got that large establishment on the other side, through the existence of the universities. They are in a position to give you counsel and advice and you know pretty well what is your answer on the academic side.

Mr. FISHER: You have the research foundations on the humanities and social sciences on the one side, but on the other side what are you doing to develop your own establishment, to be able to pick the creative people? I am not trying to make a value judgment now, but I would like to be sure that the creative people have a real opportunity, because they have not got the establishment to support them.

Dr. TRUEMAN: If you have the research councils for the humanities and social sciences. Then another organization that serves us a great deal with the arts is the Canada Foundation; it has assisted us to a great extent. It occurs to me that we have with us Mr. Peter Dwyer, supervisor of the arts program, Canada Council, and if the committee would not mind, perhaps he could say something on this subject.

The CHAIRMAN: Mr. Fisher, have you seen the report of March 1959?

Mr. FISHER: Yes.

The CHAIRMAN: There is a lot of statistical detail.

Mr. PETER DWYER (*Supervisor of Arts Program, Canada Council*): I think the answer to Mr. Fisher's question is that through the Canada Council we have a network of about 130 or 140 judges, who are distinguished people in all the different fields of the arts and who work anonymously without any pay at all. When any application is received in the arts category they are sent out to the appropriate experts and each one will be judged by at least four, possibly six or seven judges, who will give a separate report. These are put together and considered one against the other. The basic idea behind the system is that artists shall be judged by their peers or their betters.

Mr. FISHER: When Mr. Claxton made the introductory remarks at the first meeting he made the point that it would be five years before an estimate could be made of how the council was doing and you are into your fourth year of operations, is that right?

Dr. TRUEMAN: Yes it is.

Mr. FISHER: Has any consideration been given to getting a small committee to appraise how your program is going? I am thinking possibly of a small committee of people who in a sense are free from the academic establishment?

Dr. TRUEMAN: The answer to that is yes. The council has given consideration to that. I might say too that I am sure the questioner understands this, that to date we have held two major conferences and one minor conference with artists and with representatives of the humanities and social sciences to discuss the programs and problems. We held two successive Christmas meetings at Kingston and held a short day-and-a-half one here at Ottawa. So we have kept in touch as we went along with those great bodies of people; that is to say those representing the arts and those representing the humanities and social sciences.

Mr. MACDONELL: Were they both represented at both conferences?

Dr. TRUEMAN: No, we had one for the artists at which we dealt with the problems dealing with the arts, and at the other conference we had representatives of the humanities and the social sciences at which conference we dealt pretty exclusively—although there is this sort of thing, too—interrelation between the groups—with the problems of the humanities and the social science programs.

There is on the council's books a minute to the effect that after three or four years the council would probably do very much the kind of thing the hon. member has suggested, get together a committee, if you want to call it that, or a small conference again and say: "Let us look back over the three or four years of the council's operations, draw what conclusions we can, make what proposals we can and carry on from there". That is very much in the council's mind.

Mr. FISHER: The only suggestion I wanted to make here was that when you do this you would keep in mind what seems to me, and what it would appear other people have expressed to me namely that the academic point of view may have an overweight in the way of requests and influence on the views of your board. I would like to think that this committee or investigative group would have some outstanding people who were detached from that particular sort of thing.

Dr. TRUEMAN: This is a very interesting observation, too. While I certainly would not undertake to argue with the questioner, I would like to point out again the fact remains that the lion's share of the income from the endowment fund is going to the arts and this heavy representation or pressure or whatever you like to call it from the academic side has certainly not succeeded in

reducing that lion's share. But as a matter of fact I am a little concerned about the humanities and social sciences,—not the scholarship side, but the grants given to organizations representing the humanities and social sciences.

Mr. FISHER: Something which might be a relative comparison: we all know the national research council has been in operation for a long time, and I believe awards scholarships.

Dr. TRUEMAN: Yes.

Mr. FISHER: Have you had anybody take a look at them to see how you are doing? This is another government establishment. I am not saying it is in rivalry with you: it is not. But it seems to me we should be doing as much in your particular side as we are doing in the natural sciences. What are we doing there?

Dr. TRUEMAN: We have kept quite closely in touch with the national research council for the obvious reason that we were beginners and they were experienced in this business of giving out fellowships and research grants. We have discussed with them conditions of scholarships, the terms under which the holder holds the scholarship, the amounts which they give, what kind of travel allowance they allow, and the like. We have had their representatives in our office many times, and we have been there many times, just to avail ourselves of their great experience and knowledge,—if that is the answer you want.

Mr. FISHER: It is part of it. Comparatively do they have more funds at their disposal?

Dr. TRUEMAN: Oh yes, I think so, for the giving of scholarships.

Mr. FISHER: What is the comparison?

Dr. TRUEMAN: I do not know if anyone can give me that and I hate to hazard a guess; but, whereas we spend something like $1 million or $1,150,000 on our scholarship scheme, I think it is nearly $3 million or in the vicinity of $3 million on their scale.

Mr. FISHER: But in terms of what parliament has done in setting up the Canada Council, perhaps parliament has built up a greater share on the natural sciences side?

Dr. TRUEMAN: Yes; but of course as I understand it, the national research council comes to parliament for an appropriation each year, which can therefore be adjusted upward.

Mr. FISHER: I thought this point was worth while, because when parliament wishes we are the ones who can think of increasing grants to the social sciences and humanities?

Dr. TRUEMAN: I should point out in all fairness that the council can, if it thought it was right, devote a larger proportion of its income to the scholarship scheme; but if it has an income of something like $2,850,000 a year and it has all the responsibilities laid upon it listed in the act, and separates out from that $1,300,000, $1,100,000 or $1,200,000 for the scholarships scheme, that would seem to be going just as far as it can go. But we could theoretically say spend $2,000,000 of our income on scholarships.

Mr. FISHER: It is a choice you have within your limitations. I am suggesting that perhaps in proportion to the national income, it should be more.

Dr. TRUEMAN: We would be happy to receive another fund of $50,000,000 at anytime.

The CHAIRMAN: Is that particular question cleaned up?

Mr. FISHER: No.

Mr. FISHER: I want to ask a couple more questions on the same point.

What is your liaison in the creative field with writers in the mass media? I have searched through your scholarship list and it seems to me I do not recognize many names of people there from the mass media. Are you not getting applications?

Dr. TRUEMAN: The applications have not been numerous. If I remember correctly you refer to category 9 which is for broadcasters and film makers and journalists in the creative aspects of this work. This category is for fellowships with an average value of $3,000 tenable in Canada or abroad for one year, or for a shorter period and a smaller amount, in accordance with the nature and duration of the program proposed, for experienced creative and interpretative workers in journalism, television, radio broadcasting and film making.

Mr. FISHER: No doubt you are aware of the Neiman fellowships at Harvard. Well, during the period of his fellowship should not a journalist in Harvard for example draw the pay approximately of what he is actually getting in his field? Do you feel this could not be given from your fund?

Dr. TRUEMAN: I think we feel that this would make such a startling exception to the general scheme of grants, if we came to parallel the Neiman thing—

Mr. FISHER: Well, $3,000 a year to a married journalist is not much of an inducement.

Dr. TRUEMAN: It is not much of an inducement and I think perhaps this is the least satisfactory of all the categories that we have had. I think quite frankly this is one that the council could very well sit back and take a look at and say, either we should do something more or not do it at all, or whatever. I would agree this is a point to look at.

Mr. FISHER: Have you ever thought, in so far as journalists are concerned, of tying it down the way Neimans are tied down to the university, and tying the work within the university, and so giving the scope there?

Dr. TRUEMAN: We have not, I think, given consideration to that. No. I do not know if it is possible for me to question the questioner, but to clarify my own mind, is the questioner suggesting that he thinks this would be a good thing to do?

Mr. FISHER: I certainly think that our journalists, broadcasters and film makers should be getting a bit better deal, because it seems to me this is a most popular and in some cases the most creative of all our groups at the present time. I think there should be some encouragement there, and I cannot get enthusiastic about this when I look at your record.

Dr. TRUEMAN: We thought of it as a sort of parallel to category 2. Category 2 picks up the young man who has accomplished his M.A. degree work and then wishes to go on towards a Ph.D. We have given him $2,000 as a basic amount, plus some travel if he wants to hold his scholarship in the United States or somewhere else. So he would come out usually with $2,000 plus travel which might come out to $2,500 or $2,600. We thought here of the younger beginner in the journalist profession, and that perhaps it would cost him no more than it costs an academic to live. But I do not think it works very well, and I do not think we have had many interested applicants.

Mr. FISHER: So this is something you would like to review?

Dr. TRUEMAN: Definitely something we should review.

Mr. PICKERSGILL: On that very point, I would hope that in any review some account would be taken of the fact that well over $50 million a year is now being spent by the taxpayers in providing opportunities to people of this sort through the Canadian Broadcasting Corporation and a very considerable sum every year through the national film board.

Mr. FISHER: That point just expresses the whole scholarship idea, the encouragement. It is just giving the people who work at the C.B.C., the national film board and our people a chance to be free of the obligation for a year.

Dr. TRUEMAN: One consideration, sir, which I might bring up here is that it is quite a different matter dealing with an application, I think, from the C.B.C. and the National Film Board on the one hand, and from an independent journalist on the other. Here, as one hon. member has pointed out, you have two organizations which are in receipt of considerable sums from the federal government; and there can be an argument that if young and creative people in the C.B.C. and the national film board need to have a year off, that responsibility should be the C.B.C.'s.

Mr. FISHER: Well, you could make the same argument, sir, with universities, with some of these senior people who have received awards for work for a year. This might be the universities' responsibility.

Dr. TRUEMAN: Well, of course, the universities do accept that responsibility up to a high level; Many of the people to whom we offer a scholarship—which I know is not adequate to support a man, his wife and three children in London for an academic year—receive an amount from their university, as part of their salary. They do accept this principle to a considerable extent, in varying degrees.

The CHAIRMAN: I have a list of members who want to ask questions, Mr. Broome, Mr. Beech, Mr. McGee and Mr. Macdonnell.

Mr. BROOME: Dr. Trueman, in regard to grants to organizations, I think I mentioned at the conclusion of the last meeting that I was rather interested in whether the 'Theatre under the Stars' in Vancouver had approached the Canada Council. This endeavor I think you know a lot about. It has been a proving ground for some very promising artists. Unfortunately we do seem to get the odd bit of rain out there, which affects the condition of the 'Theatre under the Stars', and makes for some very poor years. This is an organization that is making a tremendous contribution on the west coast. I was wondering whether the Canada Council have been considering the plight of the 'Theatre under the Stars', and have you contemplated any action?

Dr. TRUEMAN: All I can say is that if this organization makes an application to the Canada Council it will be given very serious consideration.

Mr. BROOME: That is the point; have they made an application, or if you do not know could you check?

Dr. TRUEMAN: Well, I know. Mind you, this a question which embarrasses me a little bit. I am not quite sure here on my directions from my bosses. We feel in general, sir, that applications from individuals and organizations are, as it were, private, between them and ourselves. The Prime Minister, as we noted the other day in the House of Commons, said that public discussion on the reason why an organization was turned down would only cause difficulty to the organization.

Mr. BROOME: I am not pressing the question at all.

Dr. TRUEMAN: I am only beating about the bush to see whether I should say "Yes, we have had an application from such an organization", or "No, we have not had an application". I think I will be brave and say "No, we have not had an application" but I do not like saying it.

Mr. BROOME: Would that depend on the initiative of the board of directors of the 'Theatre under the Stars'?

Mr. BEECH: Perhaps I am going to stick my neck out, too. I was wondering if the Canada Council had given some consideration to Olympic training for the development of our athletes?

Dr. TRUEMAN: I would not say our council have given consideration, and if I may go on I might say that I would think the council would not give consideration to it, on the ground that taking the act and the meaning of it in relation to arts and humanities and social sciences, I would expect if we gave a grant for something like that it would be putting a very different meaning on the word "creative".

Mr. FISHER: I think you realize that sport is always put in with the arts in any breakdown of interests. Surely that in itself would give you a kind of a criterion.

Mr. PICKERSGILL: I suggest it would lead to a breakdown of the council very fast.

Dr. TRUEMAN: I would think we would take refuge, if that is the proper word, in what could be regarded as the intent of the act, and I for one would refuse to believe that the framers of this act and the developers of the Canada Council would think that we should become supporters of athletes.

Mr. FISHER: I am not trying to suggest by my question that you should, but if you look at Elliot's Notes in Defence of Culture, he starts with sports and leads right through.

Dr. TRUEMAN: But you are bringing in the word "culture". T. S. Eliot deals with culture in a very broad way. If we are going to bring in everything Mr. T. S. Eliot means, we are going to get the sum total of the different institutions and mores in the whole society making up the western or European culture. I would not buy that.

Mr. A. MAXWELL HENDERSON (*Auditor General of Canada*): Section 2 of the act itself gives the interpretation.

Dr. TRUEMAN: Of the arts, yes.

The CHAIRMAN: Mr. McGee was next.

Mr. MCGEE: Mr. Chairman, I have a proposal to put forward and I am putting it not only to Dr. Trueman but to the rest of the members of the committee, having in mind Mr. Claxton's definition last year that if in their wisdom the members of the committee were unanimous in the support of a certain proposition, this might be of more than passing interest to the members of the council. One could carry that to a wild realm of fantasy and conclude that members well might agree in a particular instance.

I have had requests from a cultural group who have achieved a high degree of proficiency in their particular pursuit. I might say at once I have not witnessed their performance myself, but I have heard very much from very large groups to the effect that everything that has been said about this group is not exaggerated in the least. They are in the position where they are to attend an international festival competition on Canada's behalf and require certain funds or subsidization towards their travels to go through with that international competition.

The specific organization is the East York Chapter of the Society for the Preservation and Encouragement of Barber Shop Quartet Singing in America. This is not a barber shop quartet, but a barber shop choir, which is, I think will be recognized, something quite different from a quartet, in terms that it poses a very much more serious problem in transportation and other problems. This group is one of the top five in the world, as far as proficiency at formal competition is concerned.

The reply received this year from the chairman, Mr. Brooke Claxton, was to the effect—well, the operative part of the letter is that as you can imagine applications for assistance exceed the funds available, and so far the council have not found it possible to extend its support as a council to this kind of activity. My contention is that this group qualifies in every respect as much

as the other choral groups. I was not able to find out whether any of them, or particularly the men's musical club of Winnipeg, sing the very type of song that this group do in their competition, or if the types of songs of the choir and choral groups listed on page 25 of the annual report move into this area. But my point is that in this particular case you have a type of unique, and possibly the only unique North American cultural development in recent years. I am wondering what the council's reasons were for not considering this type of choir as appropriate to receive a grant. If the members of the committee would, depending on their views on this thing, support the proposition that this grant be made, what would the attitude of the council be?

Dr. TRUEMAN: In reply, Mr. Chairman, to the hon. member's question, I would say first of all that as far as the application of any specific individual organization is concerned, I would not like to give the precise reasons why that organization itself, as an organization, is turned down.

Mr. MCGEE: Perhaps that was an unfair question.

Dr. TRUEMAN: And the question is difficult. But I suggest, as a partial answer to the hon. member's question, that Mr. Dwyer might outline briefly what the policy is that the council has followed with respect to choral music, which would give you part of your answer if not all of it.

Mr. MCGEE: May I say, that on page 25 in the annual report it is stated that the council decided to help those choirs which are able to reach large audiences with their concerts. In terms of that qualification, this group, I should say, has reached possibly ten times the number of persons, and created interest and so on, than all these other choir groups listed combined.

Dr. TRUEMAN: That ties in, however, with other conditions. The same thing could be said about jazz bands and rodeos and everything else.

Mr. MCGEE: This is an important point I would like to take up a little further. What about individual jazz groups?

Dr. TRUEMAN: Shall we have the choral policy first?

Mr. MCGEE: Yes.

Mr. DWYER: The reason why certain limitations have been set by the council on assistance to choral groups is that money is so desperately short that it is very difficult to help amateur groups unless they are banded together in a very large national organization or region. One good example would be the amateur theatre, which we are not able to help by giving grants direct to individual amateur theatres. So that we give grants in that field direct to the dominion drama festival, which gives national service to that body.

In the case of choral music no doubt this group of barber shop quartet amateurs has reached a very large audience. The other limitation that has had to be imposed upon choral organizations, because they are primarily amateur, is that they shall use an orchestra of at least twelve or fifteen players for their concerts. This helps in some degree the orchestral musicians. It is also required that they shall perform music which has not previously been performed by the choir, in order to have new works brought forward and not a constant repetition, perhaps, of the Messiah at Christmas time. This goes on throughout the country.

Mr. MCGEE: May I ask how you reconcile that last remark with the Montreal Bach choir, which just sings Bach,—and I don't think he has written any more music lately.

Mr. DWYER: The Montreal choir specializes in Bach, but it sings a lot of other music too, modern music, music by Canadian composers, and so on.

Mr. McGEE: As I said, I was making my pitch not only to the council but to the other members of the committee. It is perhaps an unusual procedure. Is it possible to get some indication from the members of the committee whether they are inclined to give some support to this proposition?

Mr. FISHER: Could I ask Mr. McGee a question? Might we generalize from your remarks that you feel that popular culture is not getting enough recognition or enough opportunity through the Canada Council?

Mr. McGEE: I am not prepared to generalize to that extent. As I say, I have some doubt in my mind considering individual jazz groups that certainly are creating new works and are certainly well within the orbit of my particular definition of culture. I do not want to get into a side issue concerning that. The witness has said this is a discussion for the purpose of nurturing a higher development of a particular form of culture, rather than all these particular components across the country. Here is a group which has demonstrated its ability to rise to the top of the field and, as I say, represents one of the five most prominent groups on the continent. I do not think there is any inconsistency in citing high development of this particular form of culture along with that taken by other groups, such as the National Ballet, and so on.

Mr. PICKERSGILL: I would like to raise, in as uncontroversial a way as I can, the suggestion that we are the public accounts committee of the parliament of Canada. We are not the Canada Council. It seems to me the task entrusted to us by parliament is to examine this annual report and to examine the accounts of the Canada Council,—not to make qualitative judgments on matters of art or of scholarships. If parliament had thought that a parliamentary committee could do the work of the Canada Council, parliament would have entrusted that work to a parliamentary committee; but in fact it did entrust the work to the Canada Council.

Mr. McGEE: If I may speak to that point of order, this was precisely the point I had in mind when I raised this whole question with Mr. Claxton last year. Unless I am very much mistaken in his reply he made remarks along this line to indicate that the council would be delighted, in fact, to hear the points of view of the committee. It was then, when I tried to determine what the effect of that collective information would be, that I found myself in this position. Ordinarily I can see no great difference between this application and the other choral groups here, in terms of what I understand to be the function of the council. Following Mr. Claxton's suggestion, and what might be construed as the reason for seeking an expression of opinion from the committee or attempting to have such an expression made, I would say, for instance that this particular case is not in my constituency. It is not something that has come to me as a personal interest of mine in my own riding. I have not, as I said, heard this group, but I had representations from the group and listed a number of organizations that have been willing to support the presentation I have put forward.

The CHAIRMAN: It seems to me you have done a very good job of presenting your viewpoint. By sheer coincidence I have just received a telegram. It runs on the point that Mr. Pickersgill has mentioned here. I will say, without reading the whole thing, it is from the Quebec Municipal Library Association, and it says:

> Request you kindly authorize the council—

Presumably the Canada Council.

> —the amount fifteen thousand dollars financial help to operate secretary of the association whose duty is to foster the production of the public libraries.

And so on.

With your permission I would like to turn this over to Dr. Trueman. While it is addressed to the Commons committees on art council, obviously it is for the Canada Council.

Mr. PICKERSGILL: I am wondering about that. That is inviting people to send all sorts of petitions to members of parliament who happen to be members of the committee, to possibly put pressure on the Canada Council. I think it would be far better to write back and tell these people that if they want something from the Canada Council they should apply, themselves, and not use this committee as a vehicle for pressure on this organization or that organization. That is precisely why I raised my point of order, because it does seem to me that, notwithstanding what anybody may have said to this committee, what any witness might have said, our terms of reference are laid down by parliament and we should stick to those terms of reference.

Mr. MCGEE: On that point I would submit, if we follow the suggestion of Mr. Pickersgill to its logical conclusion, we should all sit here like a bunch of dummies and say, "Carried" and walk out. According to Mr. Pickersgill's definition, whatever Mr. Fisher has put forward here this morning is of no value, and beyond the terms of reference.

Mr. BENIDICKSON: Nobody agrees with you on that expression.

The CHAIRMAN: All I was trying to do was simply recording the receipt of this telegram, which in fact does not concern us. If they want any grant the request should be made by application to the Canada Council. That is what I was trying to do.

Mr. MACDONNELL: I fully agree with Mr. Pickersgill. On the other hand, it seemed to me Mr. Fisher has been most helpful in the points he has raised this morning. It seems to me the points he has raised as to the distribution of the university grants for the humanities, and so on, are tremendously important things.

I go back to my previous question. You had these conferences in Kingston, where groups met separately. My apology if it is naive, but I cannot help wondering whether it would not be better to get both groups together, so that it would not be then a mutual congratulation society on what they have been doing. I wondered if it could not be possible in that way for those responsible for making the final decision to have a means to compare the two kinds of people, because it is very difficult to know what is best for the benefit of Canada—barber shop music or the Greek classics. That is a very difficult decision; but I wonder if it might be a help for those making those difficult decisons if they might see those two groups together.

Dr. TRUEMAN: I understand the suggestion to be that if we have another conference we should have the artists and the representatives of the humanities and social sciences together at the one time.

Mr. MACDONNELL: Yes.

The CHAIRMAN: I think Mr. Fisher was next on the list, unless there is someone else.

Mr. FISHER: Does Mr. McGee wish to go further?

The CHAIRMAN: I think he has made his point, and we all understand it.

Mr. FISHER: You know the Tamarack Review?

Dr. TRUEMAN: Yes.

Mr. FISHER: Can you explain to me the grant that you gave them for this edition, I have just finished reading, on the West Indies?

Dr. TRUEMAN: It was not given precisely for that. It was the usual grant to help them in the support of the magazine, and I think I am correct in saying that one of the things they proposed to do was to use some of that money for assistance in bringing out a special edition of that kind.

Mr. DWYER: It was a special grant of $3,000 for a year of publication.

Mr. FISHER: The edition before the West Indies edition had a number of very interesting articles that expressed very strong opinions on a variety of topics. Now, I would certainly judge, possibly by the last edition and the previous one, that this was a journal of opinion. I would be willing to argue this a long way. I am convinced that in those two issues and previous issues of the Tamarack Review that they were journals of oipnion. I have here a copy of the Canada Council's policy on aid to periodicals, and I would like an explanation of your policy that would eliminate this from being a journal of opinion.

Dr. TRUEMAN: This is, I am afraid, a question of semantics—what does the phrase "a journal of opinion" mean? As it is used by the council in that statement it was taken in the common and popular sense of meaning a publication whose editorial policy or selection of material was aimed in one direction, either to support a certain political issue or to support a certain economic point of view, or to support a labour point of view—something like that. The idea was that it was the organ of a channelled, determined bias, if you like—I do not mean that in the bad sense—based on opinion. This was the general notion. All journals, as I think you are suggesting, that are worth their salt are going to publish a great many opinions; but as far as the Tamarack Review is concerned, I would happily suppose that the opinions in one issue might very well cancel out the opinions in another, and that does not throw the journal into the class, journal of opinion, in the sense in which I employed it.

Mr. FISHER: Whom do you have to advise you; what group do you have to advise you on this question of whether a journal should properly receive support? The reason I ask that is that your policy would eliminate:

(*a*) university quarterlies;
(*b*) journals published by a faculty or department of one university;
(*c*) bulletins or "house organs" of societies;
(*d*) journals of opinion;
(*e*) magazines of specialists such as philatelists, numismatics, et al.

Now, what have we got left?

Dr. TRUEMAN: Academic journals published by associations of scholars. The policy, I should say, that eliminates the university quarterly like the Toronto university quarterly, the Queen's quarterly, the new British Columbia quarterly review, is not aimed at suggesting that these are not worth support, but—

Mr. FISHER: No, but I want to know what you have got left, after you are through with these five?

Dr. TRUEMAN: You have got journals published by associations of scholars, if we are dealing with the academic side. You hear of historians publishing a Canadian historical review and they may call it the Canadian Historical Journal. That is not published by a university or a faculty of a university, but an organization of scholars generally having national membership. They also have no money at their disposal except possibly $5 a year membership fee.

Mr. MCGEE: I might ask Mr. Fisher if he thinks the Canadian Forum should receive a grant?

Mr. FISHER: This may be incidental to the point. What I am coming to is the number of applications you have had from journals that have been turned down because they were journals of opinion, because I want to say the Tamarack Review have support. It, to me, is a very stimulating magazine; but I can think of several others which to me are in the same category, publishing short stories, publishing poetry for critical interpretation; and yet I have not heard of their receiving anything.

Dr. TRUEMAN: We have given some grants. As a matter of fact we have not had a tremendous list of applications for grants of this kind, and we have tried to avoid—this seemed to have the support of everybody on both sides of the fence—giving support to what are called the little magazines. These are the ephemeral journals and magazines. They are put together by a group of enthusiastic people in one corner acting with great faith and high hopes. They get out three or four issues a year for two years, and then they can only get out two issues, and then one issue, and it finally folds up. This is what it ought to do, according to our advisers.—By all means let these people get rid of their enthusiasm this way. It can't last, and it won't last and it should not last. We have tried to avoid any general giving of grants to ephemeral publications of this kind which by their nature must be ephemeral.

Mr. FISHER: Nearly all journals, which are hopelessly esoteric will tend to express opinions, possibly political opinions, that you do not want to support.

Dr. TRUEMAN: The board's editorial policy and the selection of material, in the journal of opinion, seems to be made for the purpose of propagandizing a certain body of uniform opinion. This could be an opinion of a political party, it could be the opinion—I am just pulling illustrations out of the air—of the labour movement, or it could be the opinion of a religious group. As we have said, we are not subsidizing publication of a magazine in which there seems to be a propagation of one line of opinion. That ought to be supported by people who hold that opinion and want to express it.

Mr. FISHER: That brings up a question that was bound up in a question Mr. McGee brought up. When you have an application from a particular journal where do you turn to have advice on what it is?

Dr. TRUEMAN: Well, we read it ourselves, to begin with, and we certainly ask the opinions of academic people. We might even pass this along to an organization like the humanities research council or the social sciences research organization or the Canada Foundation and say, "What are your views about this?" We try to find outside opinion.

Mr. FISHER: Since you have got into this policy of aid to periodicals, have you ever turned down a request from a periodical that is approved by one of those bodies?

Dr. TRUEMAN: Have we ever turned down—

Mr. PICKERSGILL: Mr. Chairman, this seems to me a rather big question at 11 o'clock.

The CHAIRMAN: I was just going to ask Mr. Fisher, have you many questions?

Mr. FISHER: Yes.

The CHAIRMAN: How long do you assume it may take? I am thinking of the next meeting, whether we should still continue Canada Council or not?

Mr. FISHER: I would say half an hour.

Mr. PICKERSGILL: I would like to speak to a question of privilege for a second, sir, to ask for a correction to be made. At page 140 of the record there are two sentences which seem to have got telescoped into one, and do not make any sense at all as they stand. The sentence starts at line 12 and should read this way:

> He felt there should be some way in which the activities of this body would be scrutinized, so that the public could be assured that the

Canada Council was having regard to the care which should be taken to carry out its suggestions."

Then the next line should start with a capital "C".

Care was taken by the previous government, and I judge is still being taken by the present government, on appointments to the council.

And then it goes on, "I note . . . ".

The CHAIRMAN: Is that agreed, gentlemen?

Agreed.

The CHAIRMAN: Next meeting May 18, Canada Council.

APPENDIX "A-4"

The following information was tabled by Dr. Trueman in reply to questions asked by Mr. Pigeon, M.P., on May 4, as printed on pages 135-137 of the Committees Proceedings No. 5.

AWARDS OF SCHOLARSHIPS, FELLOWSHIPS AND OTHER GRANTS TO INDIVIDUALS TO BE USED IN 1958-59

CATEGORY 1—PRE-MASTER'S DEGREE SCHOLARSHIPS

Awards for use in 1958-59

NAME	*ADDRESS*
ABBEY, David Samuel	835 Roselawn Ave., Apt. 305, Toronto, Ont.
ABRAMS, Mable Helen (Mrs.)	6992 Angus Drive, Vancouver, B.C.
ASSELIN, Suzanne	446-61st Avenue, L'Abord a Plouffe, Que.
AUCHINACHIE, Gerald	R.R. 2, Gibbins Road, Duncan, B.C.
BELANGER, Pierre Wenceslas	Lotbiniere, Cté Lotbiniere, Que.
BERNHARDSON, Clemens S.	c/o Mrs. S. Bernhardson, Camrose, Alta.
BISHOP, Peter Victor	3843 W. 4th Avenue, Vancouver 8, B.C.
BONYUN, David Austin	4395 Grand Boulevard, Montreal, P.Q.
BOUDREAU, Thomas J.	830-3rd Avenue, Quebec 3, P.Q.
*BREGMAN, Albert S.	42 Roseneath Gardens, Toronto, Ont.
*BRUCHMANN, Monika Martha	232 Mountain Park Avenue, Hamilton, Ont.
CALDER, Eileen R.	Spruce Lake, Sask.
CARRIERE, Marie Rose	3110 Maplewood, Apt. 18, Montreal, P.Q.
CAUX, Réal	325 St. Vallier E., Quebec, P.Q.
CLOUTIER, Normand	East Broughton, C.P. 103, Co. Beauce, Que.
*COUSENS, James Philip	287 Frontenac Street, Kingston, Ont.
CUDDIHY, Anne	315 Taschereau St., E., Rouyn, P.Q.
DARBIS, Doreen	54 Vaughan Road, Toronto, Ont.
DUPASQUIER, Maurice	Notre Dame de Lourdes, Man.
DUPONT, Jacques	1033 rue Courcelette, Sherbrooke, P.Q.
*EICHNER, Joan M. (Mrs.)	85 Wellington Street, Kingston, Ont.
ELLMAN, Sheila	362 Brunswick Street, Fredericton, N.B.
EMBREE, Bernard L. M.	Summerland, B.C.
FONTAINE, Fernand	292 St. Andrew, Ottawa, Ont.
FREDDI, Sylvia E.	259 Metcalfe Ave., Westmount, Montreal, P.Q.
HEPPNER, Christopher	135 Clandeboye Avenue, Westmount, Que.
GENNO, Charles Norman	1302 Woodbine Ave., Toronto, Ont.
*GITTINS, John Ramsay	1863 Gonzales Avenue, Victoria, B.C.
GLENDINNING, Robert J.	1235 Troy Ave., Winnipeg 4, Man.
GOSSELIN, Guy	Seminaire de Valleyfield, Valleyfield, Que.
HEROUX, Valbert Rev. Pere	Seminaire Saint Antoine, Trois Rivieres, Que.
HILL, Douglas A.	Apt. 909, 206 St. George St., Toronto 5,
HOEFERT-WEWERIES, S. P.	106 Lawlor Avenue, Toronto, Ont.
HOFFMAN, John David	1286½ King Street, E., Hamilton, Ont.
JACKSON, Eric	131 Lowther Avenue, Toronto, Ont.
JOHNSON, Rodrique	4389 rue Fabre, Montreal, Que.

* Award declined.

NAME	*ADDRESS*
JONCAS, Pierre	647 rue Donovan, Montreal 8, Que.
KALEFF, Joseph	7745 Sherbrooke, Montreal, Que.
KAMPFF, Gisela	Ste. 6, 10924—87th Ave. Edmonton, Alta.
*KEFFER, Lowell William	391 Timothy Street, Newmarket, Ont.
KERR, Donald C.	220-9th Street, Saskatoon, Sask.
KLEINER, John Walter	Saskatoon, Sask.
KOERBEL, Kurt	2376 Melrose, Apt. 15, Montreal, Que.
KOPETSKY, Elma Emily	c/o Mrs. R. Stark, 54 Aragon Ave. R.R.2 Agincourt, Ont.
KOSOWSKI, Irene	550 Palmerston Blvd., Toronto, Ont.
MARTTILA, Walter R.	5 Marttila Drive, Sudbury, Ont.
MOWAT, Vaila S. (Miss)	2 Studyley Avenue, Halifax, N.S.
*McLEAN, Sheila B.	359 Oak Street, Winnipeg, Man.
MEUNIER, G. (Award Can.)	7687 Edouard, Ville Lasalle, Que.
NEMIROFF, Stanley Allan	4268 Madison Avenue, Montreal, Que.
NOBLE, PAUL C.	4441 Oxford Avenue, Montreal, Que.
O'NEIL M. Pierre	3 des Ursulines, Que.
*OSMERS, Helga	P.O. Box 883, Quesnel, B.C.
OUELLET, Ferdinand	St. Philippe de Neri, Kamouraska, Que.
OUELLET, Lionel	9 des Remparts, Quebec.
OWENS, Jane	757 Dorchester Avenue, Winnipeg 9, Man.
PALMASON, Diane	1985 Hanover Road, Montreal 16, Que.
PAQUETTE, Jean Guy	4294 rue de Mentana, Montreal 34, Que.
PEDERSEN, Paul	Box 111, Camrose, Alta.
*PERRON, Madeleine	1253 Ave. Luxembourg, Quebec 6.
PICHETTE, Claude	40 Brooks Sud, Apt. 2, Sherbrooke, Que.
*RICHARDSON, Robert L.	251 William Street, Kingston, Ont.
RIPLEY, John D.	Londonberry, Col. Co. N.S.
*ROBERTS, John Clement	56c Mansfield Street, Glace Bay, N.S.
SMITH, Stuart Allen	66 Barton Street, Ottawa, Ont.
ROSE DU CARMEL, Soeur	Maison Provinciale, Bienville, Levis, Que.
*SWAYZE, Nansi E.	319 Glencairn Avenue, Toronto, Ont.
TIGER, Lionel	5625 Park Avenue, No. 4, Montreal, Que.
TISDALL, Douglas	14 Whitney Avenue, Toronto, Ont.
TRUDEL, Nicole	753 Chemin Ste. Catherine, Outremont, Que.
*TUCK, Donald Bruce	c/o Mr. and Mrs. R.V. Tuck, 554 King Street, Woodstock, Ont.
VUCKOVIC, Milorad	224 Watson Ave., Riverside, Windsor, Ont.
*WHEELER, Frances Mina	95 Wildwood Park, Fort Garry, Winnipeg, Man.
WHITESIDE, Mary E.	15 Lapthorne Ave., Charlottetown, P.E.I.
WITHFORD, William J. R.	109 Invernay Avenue, Downsview, Ont.
WIEDEN, Fritz	Christ the King College, Waterloo Street, London, Ont.
WILLIAMSON, E. L. R.	P.O. Box 1282, Ottawa, Ont.

CATEGORY 2—PRE-DOCTOR'S DEGREE FELLOWSHIPS

Awards for use in 1958-59

NAME	*ADDRESS*
ABBOTT, Eric	259 Elizabeth Avenue, St. John's, Nfld.
ADAM, Ian William	Box 40, Ponoka Alberta.
ALLARD, Jean Louis	170 Glenora, Ottawa, Ontario.

* Award Declined.

NAME	ADDRESS
*APPELBE, Jane Lund	12 Belvedere Avenue, Parry Sound, Ontario.
BANKS, Robert K.	Box 27, Erindale, Ontario.
BERTRAND, Robert	1705 Blvd. St. Joseph East, Montreal, P.Q.
BESSETTE, Emile	783 rue Dollard, Montreal South, P.Q.
BLOSTEIN, David	215 Yale Avenue West, Transcona, Manitoba.
BOLGER, Rev. Francis W. P.	Charlottetown, P.E.I.
BOWEN, Rev. Desmond G.	St. Andrew's Rectory, Sharbot Lake, Ontario.
BRAULT, Jacques	5806 Avenue du Parc, Montreal, P.Q.
BRINE, Margaret Ann	9701-111 Street, Edmonton, Alberta.
BRUCKMANN, John	600 Markham Street, Toronto, Ontario.
BURSILL-HALL, Geoffrey	University of British Columbia, Vancouver, B.C.
CAIRNS, Hugh Alan	Galt, Ontario.
CALDER, Loren David	Trail, B.C.
CHOLETTE, Gaston	850 Avenue des Jésuites, Apt. 3, Quebec.
CLARKSON, G. Austin E.	70 Lowther Avenue, Toronto, Ontario.
*CRISPO, John G.	116 Mona Drive, Toronto, Ontario.
CRUNICAN, Rev. P. E.	Christ the King College, London, Ontario.
DAGENAIS, Marcel Gilles	255 De l'Epee, Outremont, Montreal, P.Q.
DALLAIRE, Raymonde	343 Chemin Ste. Chaterine, Montreal, P.Q.
DANIELS, Stanley	Toronto, Ontario.
DE CHANTAL, Rene	100 Wilbrod Street, Ottawa, Ontario.
DESGAGNE, Andre	981 Murray, Quebec, P.Q.
DREYER, Frederick August	101 Hogarth Avenue, Toronto, Ontario.
EARL, John F.	58 Bruce Street, London, Ontario.
EVANS, Rev. Donald P.	United Church Manse, Grand Forks, B.C.
FARIS, Kenneth H.	c/o J. D. Faris, R.R. #9, Picton, Ontario.
FERGUSON, John Duncan A.	218 Sask. Crescent, West, Saskatoon, Sask.
GARON, Pere Yves	1679 Chemin Saint Louis, Québec, P.Q.
GILES, Frederick J.	122 Everden Road, Toronto, Ontario.
GODIN, Father Guy	Residence des Etudiants, Univer- Laval, P.Q.
GRAHAM, John F.	Dalhousie University, Halifax, N.S.
GRANTER, Harry S.	191 Oxford Street, Halifax, N.S.
GRASHAM, W. E.	390 Spadina Road, Toronto, Ontario.
GRUBERT, Harry	84 Scotia Street, Winnipeg, Manitoba.
GWYN, Julian	Thelwell House, Rosemere, P.Q.
HARPER, Robert J. D.	10318 Whyte Avenue, Edmonton, Alberta.
HARRIS, Leslie	8 Ellis Place, St. John's, Newfoundland.
HEWSON, John	111 Military Road, St. John's, Newfoundland.
HICKS, John R.	Main Street, Exeter, Ontario.
HIRTLE, Walter Heal	Oliver, B.C.
HOEY, Father Thomas F.	Jesuit Novitiate, Guelph, Ontario.
HUGHES, Kenneth R.	871 Garwood Avenue, Winnipeg, Manitoba.
HULCOOP, John F.	3139 West 3rd Avenue, Vancouver 8, B.C.
*KENNE, Lorne Milford	Seeley's Bay, Ontario.
KERPNECK, Harvey I.	27 Walmer Road, Toronto, Ontario.
*KING, Ralph F. B.	Box 48, Amherstview, Collins Bay, Ontario.
KLEMPA, William J.	322 Crossely Avenue, The Pas, Man.
KRUGER, Arthur Martin	379 Rusholme Road, Toronto, Ontario.
*KYRITZ, Heinz G.	1009 Glengrove Ave., N. York, Toronto, Ont.
LACHS, John	3235 Ridgewood Avenue, Montreal, P.Q.
LA PIERRE, Laurier L.	1095 Perry Street, Sherbrooke, P.Q.
LAPOINTE, Roger E.	7353 rue St. Andre, Montreal, P.Q.

* Award declined.

NAME	ADDRESS
LAZURE, Rev. Jacques	Ottawa University, Ottawa, Ontario.
LEMIEUX, M. Vincent	37 Fraser, Lévis, P.Q.
LESSARD, Marc André	157 St. Cyrille (est), Québec.
*LUPUL, Manoly Robert	7708-94th Avenue, Edmonton, Alberta.
McCLELLAN, John	Fonthill, Ontario.
McCONICA, James Kelsey	c/o University of Saskatchewan, Saskatoon, Sask.
McLEOD, John T.	2847 Queen Street, Regina, Saskatchewan.
MacDONALD, Dominic Francis	St. Dunstan's University, Charlottetown, P.E.I.
MacKENZIE, Patrick	6401 N.W. Marine Drive, Vancouver 8, B.C.
MacKENZIE, William	Department of Political Economy, University of Alberta.
MARION, Gerald	R.R. #2, St-Felix-de-Valois, Joliette, P.Q.
MARSHALL, Robert G.	95 College Avenue, Guelph, Ontario.
MARTIN, Fernand	2625 Beauparlant, St-Hyacinthe, P.Q.
MEISEL, John	218 Albert Street, Kingston, Ontario.
MILLWARD, William G.	482 Duplex Avenue, Toronto, Ontario.
MORRISON, Barrie	St. Anthony's College, Oxford, England.
O'GORMAN, George D. (Rev.)	50 St. Joseph Street, Toronto 5, Ontario.
PARE, Léo	Deschambault, P.Q.
PARENT, Charles	913, avenue Cardinal Rouleau, Québec, P.Q.
PRANG, Margaret E.	Winnipeg, Manitoba.
PROCTOR, George A.	88 Dalewood Crescent, Hamilton, Ontario.
PIETERSMA, Henry	R.R. #2, Lyn, Ontario.
POWRIE, T. L.	Apt. 15, 140 Bronson Avenue, Ottawa, Ont.
REA, Kenneth J.	2053 Edward Street, Regina, Saskatchewan.
REDFORD, Donald B.	233 Main Street, S., Weston, Ontario.
REIMER, Elmer E.	Pine Falls, Manitoba.
ROMOFF, Harvey M.	48 Courcelette Avenue, Montreal, P.Q.
ROSEN, Joseph	682 Bathurst Street, Toronto, Ontario.
ROSS, Dorothea M.	3505 W. 39th Avenue, Vancouver 13, B.C.
ROSS, Sheila	3505 W. 39th Avenue, Vancouver 13, B.C.
RUDZIK, Orest H. T.	221 Humbercrest Blvd, Toronto, Ontario.
SADDLEMYER, E. Ann	c/o Mr. O. A. Saddlemyer, Humboldt, Sask.
SCHACHTER, Albert	c/o 5727 Hudson Road, Apt. 1, Montreal 26, P.Q.
SEVIGNY, Robert	25 rue Duchesnay, Beauport, P.Q.
SMITH, Philip E. L.	Fortune, Burin District, Newfoundland.
STEWART, David D.	101 Rosslyn Avenue, North, Hamilton, Ont.
*SUMMERHAYES, Donald C.	121 Sherwood Avenue, Toronto, Ontario.
TENER, Robert H.	3294 Carson Street, Burnaby, B.C.
THOMPSON, Eleanor	198B Church Street, Cobourg, Ontario.
TREMBLAY, Louis Marie	37 Ste. Anne, Baie St. Paul, Charlevoix, P.Q.
VALLILLEE, Gerald	3980 Cavendish Blvd, Apt. 22, Montreal, P.Q.
VOGEL, Muriel	26 Ahrens Street, West, Kitchener, Ontario.
WALTON, Paul Henry	Picton, Ontario.
WARWICK, Jack	University of Western Ontario, London, Ont.
WICKENDEN, Nicholas	3832 6th St. West, Calgary, Alberta.
WOOD, William Donald	46 Oxton Avenue, Toronto 7, Ontario.
WOODRUFF, James F.	81 Ball Street, Niagara-on-the-Lake, Ont.

* Award declined.

CATEGORY 3—SENIOR FELLOWSHIPS

Awards for use in 1958-59

NAME	*ADDRESS*
ARCHER, Miss Violet	University of Oklahoma, Norman, Oklahoma.
BEARE, Dr. Frank W.	122 Roxborough Drive, Toronto 5, Ontario.
BELLEFLEUR, Léon	1440, avenue Bernard ouest, App. 11, Outremont, P.Q.
BLISSETT, William Frank	University of Saskatchewan
*BURCHILL, Charles S.	Royal Roads, Victoria, B.C.
CAIRNS, John Campbell	Dept. of History, University of Toronto, Toronto, Ont.
CHABOT, Cécile	2435 Maplewood Avenue, Montreal, P.Q.
de TONNANCOUR, Jacques G.	211 Walnut Avenue, St. Lambert, P.Q.
DUFF, Wilson	Curator of Anthropology, Provincial Museum, Victoria, B.C.
GLYDE, Henry George	4 University Campus, Edmonton, Alberta.
GRAHAM, James Walter	112 Ridge Drive, Toronto 7, Ontario
HUGHES, Edward John	Shawnigan Lake, B.C.
KOLNAI, Aurele Thomas	71 Clifton Hill, London, N.W. 8, England.
McCAULEY, William Alexander	972 Woodroffe, Avenue, Ottawa, Ontario.
McMURRAY, Gordon Aylmer	1315, 14th Street, East, Saskatoon, Saskatchewan.
MacLURE, Millar	78 St. Mary Street, Toronto, Ontario.
MENARD, Rev. Jacques E.	445 St. Catherine Street East, Montreal, P.Q.
PELLAN, Alfred	649 Grand Cote, Ste-Rose est, Cte Laval, P.Q.
RIVERIN, Alphonse	969 Des Erables, Quebec, P.Q.
SCHULL, Joseph	544 Grand Cote, Rosemere, P.Q.
SWAYZE, Walter Eugene	279 Clare Avenue, Winnipeg 13, Manitoba.
VINGOE, Robert Henry	Dept. of Philosophy, Dalhousie Univ., Halifax, N.S.
WATTERS, Reginald Eyre	4663 West 12th Avenue, Vancouver 8, B.C.
WILES, Roy McKeen	23 Kipling Road, Hamilton, Ontario.
ZAGORIN, Perez	496 Lansdowne Avenue, Westmount, P.Q.

CATEGORY 4—JUNIOR ARTS SCHOLARSHIPS

Awards for use in 1958-59

NAME	*ADDRESS*
BEDARD, Yves	161 Chemin Ste-Foy, Quebec 6, P.Q.
BOUTET, Pierre	387—21 ieme rue, Quebec, P.Q.
BOYDEN, B. John	32 Waddell Street, Stratford, Ontario.
BRASSARD, Therese	45 avenue Ste-Genevieve, Quebec, P.Q.
BRETON, Langis	370 avenue des Chenaux, Ste-Foy, P.Q.
BROWNE, Peter J.	97 Rennies Mill Road, St. John's, Nfld.
BRUCHESI, Nicole	185, avenue Laurier, Quebec, P.Q.
CARTIER, Jean	8645, blvd L'Acadie, Apt. 1, Montreal, P.Q.
FERRON-HAMELIN, Marcelle	1285 Chemin Chambly, Ville Jacques-Cartier, P.Q.
FINLEY, Gerald E.	63 Warland Avenue, Toronto, Ontario.
FORRESTAL, Thomas D.	Box 72, Middleton, Annapolis County, N.S.

* Award declined.

NAME	*ADDRESS*
GABORA, Taras	Mikado, Saskatchewan.
GARANT, Andre	1, rue St-Jean, Levis, P.Q.
GIGUERE, Roland	306 est, blvd St-Joseph, Montréal, P.Q.
GOBEIL, Madeleine	142, rue Osgoode, Ottawa, Ontario.
GUNDY, Carolyn	c/o H. P. Gundy, Queen's University, Kingston, Ontario.
HEPNER, Lee	10648—50th Street, Edmonton, Alberta.
IRVINE, Helen Daryl	R.R. No. 1, Verona, Ontario.
JAMIESON, Martha G.	33 George Street, Kingston, Ontario.
JUTRA, Claude	3682 rue St. Famille, Montreal, P.Q.
KIYOOKA, Harry M.	9631—87th Street, Edmonton, Alberta.
KOWALUK, Alexander B.	5232 Globert Street, Montreal 29, P.Q.
LAMONTAGNE, Gilles	485—ieme rue, Quebec, P.Q.
McDONALD, Boyd	801 Osborne St., Saskatoon, Saskatchewan.
MAJOR, Leon	57 Oakwood Avenue, Toronto, Ontario.
MORIN, Maurice	18 St-Antoine Bienville, Levis, P.Q.
MORIN, Pierre	221 avenue Outremont, Montreal, P.Q.
MULCASTER, Wynona	1118 avenue N. North, Saskatoon, Sask.
NADEAU, Lise	2115 rue Dickson, Sillery, P.Q.
PARENT-BENOIT, Mimi	305 Grande Allee, Quebec, P.Q.
PATENAUDE, Joan T.	112 Hamilton Avenue, Ottawa, Ontario.
PINSONNEAULT, Jean-Paul	27, rue Shaw, Waterloo, Comte Shefford, P.Q.
RICHLER, Mordecai	61 Hallowell Street, Montreal, P.Q.
*SMITH, John Ivor	3435 Grey Avenue, N.D.G., Montreal 28, P.Q.
TREMBLAY, Gilles	439 ouest, Blvd, St-Joseph, Montreal, P.Q.
TURINI, Ronald W.	3 Granville Road, Hampstead, P.Q.
WILLIAMS, Norman	101 Hogarth Avenue, Toronto, Ontario.
WILSON, Donal S.	319 W. 77th Street, New York, N.Y., U.S.A.
WISEMAN, James Morley	Unity, Saskatchewan.

CATEGORY 5—SECONDARY SCHOOL TEACHERS SCHOLARSHIPS

Awards for use in 1958-59

NAME	*ADDRESS*
ALSTON, J. Winnifred	9 Hawthorne Avenue, Toronto, Ont.
BARRETT, Harry	90 Berkinshaw Crescent, Don Mills, Ont.
BEAUMONT, Rév. Roger	College de Levis, Levis, P.Q.
BROCKINGTON, John	No. 6-5516 Dalhousie Road, Vancouver, B.C.
CHAFE, James Warren	197 Oak Street, Winnipeg, Man.
COUGHLIN, V. L.	3800 Wilson Avenue, Montreal, P.Q.
*DODD, Eric Maxwell	97 Edward Street, Halifax, N.S.
GAGNE, Napoleon (Abbe)	College de Levis, Levis, P.Q.
GAGNE, Raymond C.	The Mountain Sanatorium, Hamilton, Ont.
GRPPINICH, Rev. Alphonse	1145, ouest rue St-Viateur, Montréal, P.Q.
HEBERT, Pierre (Frere)	Scolasticat Ecole Normale, Mont-Sacr-Cœur, Granby, P.Q.
HEICK, W. H.	c/o Dr. O. W. Heick, 65 Ezra Ave., Waterloo, Ont.
HINCZ, Victor	3125 Maplewood, Apt. 2, Montreal, P.Q.
KENT, Charles D.	R.R. No. 4, London, Ont.

* Award declined.

NAME	ADDRESS
LAVALLEE, Claude (Abbe)	Seminaire de Joliette, Joliette, P.Q.
MACNAIR, D. L. (Mrs.)	1828 Grand Blvd., North Vancouver, B.C.
MAUGER, Rev. Claude M.	College Bourget, Rigaud, Comte Vaudreuil, P.Q.
MAY, Joseph A.	20 Church Street, East, Brampton, Ont.
MICHAUD, Raymond (Abbe)	College de Sainte-Anne-de-la-Pocatiere, P.Q.
MOULT, Walter	991 Duchess Avenue, West Vancouver, B.C.
MURRAY, John S.	1886 West 13th Avenue, Vancouver, B.C.
*NIEUWSTRATEN, Johannes	480 Oakhill Road, Ottawa 2, Ont.
PETERS, Victor J.	113 Borebank Street, Winnipeg 9, Man.
PETERSON, Thomas	223 Bracken Street, Flin Flon, Man.
RIOUX, Bertrand	4080 Van Horne, Montreal, P.Q.
SHAW, Wilfred T.	309 Revelstone Ave. West., Transcona, Man.
SIDER, Earl Morris	Niagara Christian College, Fort Erie, Ont.
STEELE, James A.	137 King Street, Guelph, Ont.
RAICHE, Victor	216 rue Main, Bathurst, N.B.
WATSON, R. M.	512-27th Avenue, Calgary, Alberta.

CATEGORY 6—ARTS TEACHERS FELLOWSHIPS

Awards for use in 1958-59

NAME	ADDRESS
BELL, Robert	27 Turnbull Street, Belleville, Ontario.
FISCHER, Trudy	621 McPherson Avenue, Saskatoon, Sask.
HOFFMAN, Louise	100 Leinster Street, Saint John, N.B.
LEFKOVITZ, Sylvia	5203 Musset Avenue, Montreal, P.Q.
PERRY, Frank	4671 Slocan Street, Vancouver 16, B.C.

CATEGORY 7—SHORT TERM GRANTS

Awards for use in 1958-59

NAME	ADDRESS
AUDET, Bernard (Father)	Seminaire de Chicoutimi, Chicoutimi, P.Q.
BALIKCI, Asen	National Museum of Canada, Ottawa, Ont.
BATES, Ronald G. N.	963 Wellington Street, London, Ont.
BILODEAU, Rosario	College Militaire Royal de Saint-Jean, St. Jean, Que.
BINET, Jocelyn	5256 Trans-Island, Montreal, P.Q.
BLAKE, Gordon	813 Grosvenor Ave., Winnipeg 9, Man.
BLISHEN, Bernard Russell	Dept. of Anthropology and Sociology, U.B.C.
BOCIURKIW, Bohdan R.	14640-92 A Ave., Edmonton, Alta.
BOOTE, Maurice John	P.O. Box 62, Fredericton, N.B.
BOOTH, Michael Richard	1221 Beach Drive, Victoria, B.C.
BOREHAM, Gordon F.	255½ St. Andrew Street, Ottawa, Ont.
*BOYLE, Mrs. Doris	77 Pleasant Street, Antigonish, N.S.
BRYCE, Lucy Winifred	321 Willowdale Ave., Willowdale, Ont.
BUTZER, K. W.	Adulfstr. 77, Bonn, Germany.
CARSTENS, Patricia Jean	2695 Topp Ave., Victoria, B.C.
CARTER, Mary C.	Lott 44, Longbridge Road, Thornhill, Ont.

* Award declined.

NAME	ADDRESS
CECIL, Curtis O.	Dept. of English, McGill University, Montreal, P.Q.
CLEGHORN, Edward	The Montreal Museum of Fine Arts, 1379 Sherbrooke St. W., Montreal, P.Q.
COGSWELL, Frederick W.	495 Regent St., Fredericton, N.B.
COLLINS, Peter	417 Metcalfe Ave., Westmount, P.Q.
CONACHER, J. B.	151 Welland Street, Toronto 7, Ont.
CONNELL, Allison B.	Box 430, Woodstock, N.B.
COOK, George Ramsay	Box 174, Morden, Man.
COOKE, Edwy F.	190 Heward Ave., Toronto 8, Ont.
COSSETTE, Joseph, s.j.	Collège Saint-Ignace, 2919, rue de Bellechasse, Montreal, Que.
*DAILEY, R. C.	Dept. of Anthropology, Univ. of Toronto.
D'ANDREA, Antonio	3551 University St., Apt. 3, Montreal, Que.
DANDURAND, Father Marcel	Valleyfield Seminary, Valleyfield, Que.
DASSONVILLE, Michel A. R.	1425, ave. Preston, Sillery, Que.
de GROOT, Herre	31 Pariseau Blvd., Ile Bigras, Que.
de KERGOMMEAUX, Robert D.	15 Chestnut Street, Ottawa, Ont.
de MARGERIE, Yves	College Militaire Royal, Kingston, Ont.
DESGAGNES, Jean	10, Terrasse Dufferin, Apt. 3, Quebec, Que.
DION, Léon	Faculte des Sciences Sociales, Universite Laval, Quebec, Que.
DOMARADZKI, Theodore F.	5146—16th Ave., Rosemount, Montreal, P.Q.
DONNELLY, M. S.	Dept. of Political Science, Univ. of Man.
DORE, Ronald Philip	2435 West 13th Ave., Vancouver 9, B.C.
DOW, Helen Jeannette	52 First Ave., Ottawa 1, Ont.
DRYSDALE, P.	Dept. of English, Memorial Univ. of Nfld.
DUNNING, R. W.	Dept. of Anthropology, Univ. of Toronto.
*EICHNER, Hans	85 Wellington St., Kingston, Ont.
ESTALL, H. M.	414 Elmwood Street, Kingston, Ont.
EVANS, James A. S.	193 Waterloo College, Waterloo, Ont.
FAUCHER, Albert	Universite Laval, Quebec, P.Q.
FELTHAM, John	39 Kitchener Ave., St. John's Nfld.
FRASER, Duncan Grant Lovat	Post Office, Box 215, Wolfville, N.S.
FREGAULT, Guy	The University of Montreal, Montreal, P.Q.
FYFE, Stewart	70 Barrie Street, Kingston, Ont.
GALLOWAY, D. R.	435 University Avenue, Fredericton, N.B.
GARRY, Robert J.	P.O. Box 6128, University of Montreal, Montreal, P.Q.
GATTINGER, F. Eugene	19 Echo Drive, Guelph, Ont.
GENDRON, Jean-Denis	135 Chemin Ste-Foy, Quebec, P.Q.
*GINGRAS, Arcade (Père)	1800 est, boulevard Henri-Bourassa, Montreal, P.Q.
GINGRAS, Henri (Frère Archille)	Les Freres de l'Instruction Chretienne, Maison Notre-Dame du Saint-Laurent, Saint Romuald, Levis, P.Q.
GOETZ, Marketa C.	4204 West 10th Avenue, Vancouver, B.C.
GRASBERG, Eugene	379 Connaught Street, Fredericton, N.B.
GRENIER, Fernand	2797, rue Valcourt, Sainte-Foy, Quebec 10, P.Q.
GRIFFITHS, David A.	Faculty, Apt. 8, McMaster University, Hamilton, Ontario.

*Award declined.

NAME	ADDRESS
GULSOY, Y.	4822 Narvaez Drive, Vancouver, B.C.
HALPERIN, I.	368 Elmwood Street, Kingston, Ontario.
HAMELIN, Jean	64 Myrand-Nord, Quebec, P.Q.
HEASMAN, D. J.	Dalhousie University, Halifax, N.S.
HELLING, Rudolf A.	2473 Lothrop, Detroit 6, Michigan, U.S.A.
HEMLOW, Prof. Joyce	Dept. of English, McGill University, Montreal, P.Q.
HEUSER, Dr. Alan	4056 Melrose Ave., Montreal, P.Q.
HILLS, Theo L.	Geography Dept., McGill University, Montreal, P.Q.
HISCOCKS, C. R.	Department of Political Science and Int. Relations, University of Manitoba, Winnipeg, Manitoba.
HOPWOOD, V. G.	5915 Agronomy Road, Vancouver 18, B.C.
HUMPHREY, Jack W.	10 Spruce Street, Saint John, N.B.
HUMPHRYS, G.	c/o Geography Dept., McGill University, Montreal, P.Q.
JENKINS, Maya	333 Walmer Road, Toronto, Ontario.
JENSEN, C. A. E.	University of Manitoba, Winnipeg, Man.
*JUDEK, Stanislaw J.	1915 Saunderson Drive, P.O. Elmvale Acres, Ottawa, Ont.
KENNY, Douglas T.	University of British Columbia, Vancouver, B.C.
KING David B.	711 Avenue E, North Saskatoon, Sask.
KINGHORN, Alexander M.	King's College Residence, Halifax, N.S.
KLIBANSKY, Raymond	McGill University, Montreal, P.Q.
KLIMA, Dr. Slava	1001 Sherbrooke St. W., Montreal, P.Q.
LABBE, Gustave	College Militaire Royal du Canada, Kingston, Ont.
LACROIX, Benoit	831, avenue Rockland, Montreal 8, P.Q.
LAWRENCE, Joseph Collins	1b, 3557 West Broadway, Vancouver 8, B.C.
LEMELIN, Charles	Universite Laval, Quebec, P.Q.
LINDEN, Philip J.	706 Oxford Street, East, London, Ont.
LITWINOWICZ, Victor N.	Faculty of Arts, McGill University, Montreal, P.Q.
LIVERMORE, H. L.	University of British Columbia, Vancouver, B.C.
LORTIE, Paul Eugene (ptre)	4300 Blvd. Lasalle, Verdun, P.Q.
LUCAS, Alec	3484 Durocher Avenue, Montreal, P.Q.
LUCAS, Rev. A.	P.O. Box 676, Wolfville, N.S.
McFEAT, Tom F. S.	211 Cedar Avenue, Nashwaaksis, N.B.
McGILLIVRAY, R. G.	47 King's Road, Valois, Montreal, P.Q.
McMASTER, R. D.	50 Westwood Avenue, Wolfville, N.S.
McNAUGHT, Kenneth	United College, Winnipeg, Manitoba.
MacCALLUM, Hugh R.	570 Princess Avenue, London, Ontario.
MacDONALD, Alastair A.	52 Circular Road, St. John's, Newfoundland.
MacDONELL, Malcolm (Rev.)	St. Francis Xavier University, Antigonish, N.S.
MacLEAN, Guy R.	53 Richardson Avenue, Sydney, N.S.
McPHERSON, Hugh A.	33 Hillcrest Park, Toronto 5, Ont.
MALCOLM, John	Bailieboro, Ont.
MALLOCH, Archibald	524 Lansdowne Ave., Westmount, Montreal, P.Q.

* Award declined.

NAME	ADDRESS
des MARCHAIS, Gilles	5903, rue Beaulieu, Montreal 20, P.Q.
MARDIROS, Anthony M.	11622-76th Avenue, Edmonton, Alta.
MATTHEWS, J. P.	314 Borebank Street, Winnipeg 9, Man.
MERRILL, Gordon C.	1242 Summerville Avenue, Ottawa, Ont.
MICHELSEN, Peter	77 Inglis Street, Halifax, N.S.
MILNER, Esther	University of Alberta, Edmonton, Alta.
MOIR, John Sargent	885 Hemlock Road, Ottawa 2, Ont.
MORRISON, K. L.	R.R. 1, Cardinal, Ont.
MULLINS, S. G.	Faculty of Arts, University Laval, Quebec.
MUNN, Allan M.	R.R. 2, Aylmer East, Quebec.
NAEGELE, Kasper D.	University of British Columbia, Vancouver.
OPPENHEIMER, E. M.	c/o Carleton University, Ottawa 1, Ont.
PARKER, Harley W.	255 Dunview Avenue, Willowdale, Ont.
PARSONS, Jacob	98 Grenfell Avenue, St. John's, Nfld.
PEACOCK, Kenneth	540 Brierwood Avenue, Ottawa, Ont.
PECH, Stanley Z.	c/o Dept. of Slavonic Studies, University of British Columbia, Vancouver 8, B.C.
PITT, David G.	77 Craigmillar Avenue, St. John's, Nfld.
POISSON, Rodney Peter	1494 Dallas Road, Victoria, B.C.
PORTER, John	University of Toronto, 273 Bloor St., Toronto, Ont.
PRANG, Margaret E.	Box 416, Grimsby, Ont.
PUHVEL, Martin	1557 St. Mark St., Apt. 11, Montreal, P.Q.
ROBSON, Clifford J.	228 Brock Street Winnipeg 9, Manitoba.
PIETERSMA, H.	R.R. No. 2, Lyn, Ontario.
REID, J. H. Stewart	United College, Winnipeg, Manitoba.
RIESE, Laure	Victoria University, Toronto 5, Ont.
ROBSON, Ann	Ste. 7, 10660—105th Street, Edmonton, Alta.
ROGER, Philip (Brother)	Assumption University of Windsor, Windsor.
ROPER, Gordon	95 Glencairn Avenue, Toronto 12, Ontario.
ROTHNEY, Gordon O.	10 Darling Street, St. John's, Nfld.
RUDNYCKYJ, J. B.	498 Anderson Avenue, Winnipeg, Manitoba.
RUMBOLDT, Agnatius A.	35 Parade St., St. John's, Nfld.
SANTERRE, Laurent (Rev.)	Séminaire de Rimouski, Rimouski, P.Q.
SAYWELL, John T.	54 Duggan Avenue, Toronto, Ontario.
SEARY, E. R.	Memorial University, St. John's, Nfld.
SENIOR, Hereward	Bonnerman House, Circular Road, St. John's, Nfld.
SIMARD, Emile	861, rue Louis-Fréchette, Québec, P.Q.
SPENCER, Robert A.	228 Cottingham Street, Toronto 7, Ontario.
STANLEY, G. F. G.	The Royal Military College, Kingston, Ont.
STOKER, John T.	Memorial University, St. John's, Nfld.
STORY, G. M.	Memorial University, St. John's, Nfld.
STRAKHOVSKY, Leonid I.	29 Avenue Road, Apt 62, Toronto 5, Ont.
STROLL, Avrum	6450 Elm Street, Vancouver, B.C.
SUMMERS, David (Rev.)	Carleton Place, Ontario.
SURERUS, J. A.	Victoria College, Toronto, Ontario.
TAIT, Michael S.	125 Farnham Avenue, Toronto, Ontario.
THEUBET, L.	643, rue King Edward, Ottawa, Ontario.
TOLGYESY, Victor	157 Stanley Avenue, Ottawa, Ontario.
TRUDEL, Marcel	1090 Coulonge, Sillery, P.Q.
ULLMANN, Walter	1295 Mathers Avenue, West Vancouver, B.C.
VALIN, Roch	349 Rue Saint-Jean, Québec, P.Q.

NAME	ADDRESS
*VOGT, Reinhardt, H.	Box 1236, Steinbach, Manitoba.
VOISINE, Nive (Rev.)	Séminaire de Rimouski, Rimouski, P.Q.
WALKER, Ralph S.	3582 University Street, Montreal, P.Q.
WALTER, Thomas Dayman	2442 Gladstone Avenue, Windsor, Ontario.
WEST, Paul	Dept. of English, Memorial University, St. John's, Newfoundland.
WHITE, W. L.	3885 Avon Drive, Windsor, Ontario.
WISE, S. F.	287 Meadowdust Road, Reddendale, Ontario.
WOODFINE, William J.	c/o St. Francis Xavier University, Antigonish, N.S.
WOODMAN, Ross	12 Tower Lane, London, Ontario.
WYCZYNSKI, Paul	626 King Edward Avenue, Ottawa, Ontario.
YAROSKY, Harvey W.	1336 Lajoie Avenue, Apt. 3, Outremont, P.Q.

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Bolivia	Mr. Febo Varas.	648 Belzu Street, Oruro, Bolivia.
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* Award declined.

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Germany	Mr. Hans Joachim Haarbeck.	Wuppertal Bavmen, Ob. Lichtenplatzer Str 250, Germany.
	*Mr. Christian Helfer.	Schumannstrabe 53, Bonn-Rhineland, Germany.
	Mr. Kurt M. Schulz-Schonhausen.	Offenbach (Main), Seyerstr. 17—Deutschland, Germany.
Ghana	Mr. G. Kportufe Agama.	c/o Mr. J. K. Fenuka, Court Registrar, Big Ada, Ghana.
Haiti	M. Louis Lamarre.	Case postale 354, Port-au-Prince, Haiti.
Iceland	Mr. Gunnar Ragnarsson.	Eskihlid 10A, Reykjavik, Iceland.
India	Mr. H. N. L. Sastri.	No. 17 Kayasi Building, Govindgi Keni Road, Naigaum, Dadai, Bombay 14, India.
	*Mr. Ablash Parshad Varma.	33-E/18, East Patel Nagar, New Delhi, India.
Indonesia	Mr. Ismail Suny.	23 Dil. Djonggala II Kebajoran Baru, Kjakarta, Indonesia.
Ireland	Mr. Daniel Colman Lyne.	Castle House, Berehaven, Co. Cork, Ireland.
Israel	*Mr. Alan Joseph Marbé.	51 Gordon Street, Tel Aviv, Israel.
Italy	M. Emilio Casetti.	Via Marianna Dionigi N. 16, Roma, Italia.
	*M. Giuseppe Giglio.	Piazza Castelnuovo N. 16, Palermo, Italia.
	M. Giuseppe Turi.	Via Enrico Alvino 129, Napoli, Italia.
Japan	Mr. Tomohiko Sekine.	57, 1-chome, Logi, Suginamiku, Tokyo, Japan.
	Mr. Takashi Yamaguchi.	No. 132, Ogibuko, 3-chome, Suginami-ku, Tokyo, Japan.
Korea	Mr. Joseph Hee Soo Chung.	19-45 rue Ulchiro, Seoul, Corée.
	Miss Columbia S. Kim.	31-2 Kawhzdong, Chong No-ku, Seoul, Corée.
Malaya	Mr. Kernial Singh Sandhu.	22, Jalan Awang, Segamet, Johore, Malaya.
Mexico	Mr. Livingstone V. A. Denegre.	Oklahoma 24, Col. Napoles, Mexico, D. F.
	Mr. Sergio B. Martinez.	Moctezuma Oriente 16, Franc. R. de Torreros. Coyoacan 21, Mexico, D. F.
Morocco	M. Mohamed Guessous.	7 Derb Dekkeg. Rue Gzsm Berkouka, Fes, Maroc.

*Award declined.

COUNTRY	NAME	PERMANENT ADDRESS
Netherlands	Miss Dirkje Laurentius.	Van Griethuysenplein 4, Oegstgeest, The Netherlands.
New Zealand	Mr. Roland George Frean.	University of Canterbury, Christ Cuhrch, New Zealand.
Norway	Mr. Per T. Haugestad.	Gjennomfaret 21, Oslo U.H., Norway.
Pakistan	*Mr. A. F. Salahuddin Ahmed.	10 Joynag Road, 1st Floor, Dacca, East Pakistan.
	Miss Akhtari Sharif.	Government College of Commerce and Economics, Karachi, Pakistan.
Peru	Mr. Antonio Pena Cabrera.	2606 Arenales Avenue, Lima, Peru.
Poland	Miss Iwona Sowinska.	Warszawa, Niemcewicza 9, Poland.
South Africa	Mr. Albert Mohale.	Tsepo's Mission, Mohale's Hoek Basutoland.
Spain	M. Rafael Martinez Torres.	Plaza de la Virgen del Romero, 7 Madrid, Espagne.
Sweden	Mr. Carl E. Kohler.	Stora Nygatan 33, Stockholm C., Sweden.
Switzerland	M. André Jeanneret.	36, Crêt Taconnet, Neuchâtel, Suisse.
Turkey	Mr. Mahir Canova.	State Theatre, Ankara, Turkey.
United States of America	Mr. Bruce Karl Braswell.	111 Pritchard Street, Berryville, Arkansas, U.S.A.
	Mr. Robert Craig Brown.	20 Washington Street, Livonia, N.Y., U.S.A.
	Mr. Thomas Michael Sanford.	1122 B. San Pablo Avenue, Albany 6, California, U.S.A.
Uruguay	Mr. Alvaro Larravide.	603 F. Vidal, Apt. 11, Montevideo, Uruguay.
Yugoslavia	Mr. Mladen Zvonarevic.	Zagreb, Derencinova 32, Yugoslavia.

CATEGORY 9—GRANTS FOR JOURNALISTS & BROADCASTERS

Awards for use in 1958-59

NAME	ADDRESS
CLOUTIER, Jean P.	334 Avenue de l'Epee, Outremont, Montreal, P.Q.
de GRANDPRE, Pierre	6589, 14e avenue, Rosemont, Montreal, P.Q.
GAGNE, Jean Real	456, avenue Elm, Westmount, P.Q.
LAWRENCE, Wendy R. M.	5 Rosedale Road, Toronto, 5, Ontario.
*WORTHINGTON, Peter	16 St. Joseph Street, Apt. No. 30, Toronto, Ont.

* Award declined.

CATEGORY 10—ARTS

Awards for use in 1958-59

NAME	*ADDRESS*
ALFSEN, John M.	182 Main Street, Markham, Ontario.
AQUIN, Hubert	9919 avenue d'Auteuil, Montreal, P.Q.
ARTHUR, Eric	University of Toronto, Toronto, Ontario.
BELL, Donald	Suite 314, 73 Adelaide Street, W., Toronto 1, Ont.
BYRD, Christopher	4779 Meridian Avenue, Montreal 29, P.Q.
CAMPBELL, Marjorie W.	465 Avenue Road, Toronto, Ontario.
CHAMPAGNE, Dr. Claude	3425 Ridgewood Avenue, Montreal, P.Q.
DAVIES, Susan	10826-84th Avenue, Edmonton, Alberta.
De PEDERY-HUNT, Dora	112 Cumberland Street, Toronto, Ontario.
FRICK, Miss N. Alice	100-A Admiral Road, Toronto 5, Ontario.
HIMES, Norman Donald	27 Berkley Road, Galt, Ontario.
JEPHCOTT, Miss Geraldine	80 Glengowan Road, Toronto 12, Ont.
LANNEVILLE, Collette	2069, rue St-Olivier, Trois-Rivieres, P.Q.
LeBLANC, Yvon	113 Steadman Street, Moncton, N.B.
LINDNER, E.	Saskatoon, Sask.
MacDONALD, Angus	131 Northwood Drive, Willowdale, Ontario.
MANN, Richard C.	2491 West 47th Ave., Vancouver, B.C.
MICHAUD, Charles	Maison Montmorency, Courville, P.Q.
PALMER, George	Flat 3, 1 Pont St., London S.W.1, England.
ROBERTSON, Nancy E.	1 St. Margarets Drive, Toronto 12, Ontario.
SAVOIE, Robert	7690 avenue des Vendeens, Montreal, P.Q.
STEWART, J. D.	288 Collingwood Street, Kingston, Ont.
WEINBERG, Tobi	2045 Ottawa Street, Regina, Sask.

CATEGORY 10—HUMANITIES & SOCIAL SCIENCES

Awards for use in 1958-59

NAME	*ADDRESS*
BAYEFSKY, Aba	7 Paperbirch Drive, Don Mills, Ont.
CARTER, A. E.	R.R. No. 3, Sutton, P.Q.
CELOVSKY, Angela	R.R. No. 2, Box 339 Billings Bridge, Ottawa, Ont.
CHAPMAN, J. D.	Dept. of Geology & Geography, University of British Columbia, Vancouver.
CHIDZERO, Bernard T. G.	3535 Shuter Street, Montreal, P.Q.
DAVIES, G. O. B.	Office of the President, University of British Columbia, Vancouver, B.C.
*DUMONT, Fernand	Dept. of Sociology, Laval University, Quebec P.Q.
DUPAS, Rev. Amedee	Universite de Sudbury, Sudbury, Ont.
ELLIS, Rev. C. Douglas	Fort Albany (via Moosonee), Ont.
*HAIGHT, F. Arnold	8 Chemin des Clochettes, Geneva, Switzerland.
HAMLIN, D. L. B.	London House, Guilford, St., London, W.C.1, England.
HUNTER, W. D. G.	Apt. 7, McMaster University, Hamilton, Ont.

* Award Declined.

NAME	*ADDRESS*
INGERSOLL, L. K.	Grand Harbor, N.B.
KOSTKA, V. Joseph	School of Architecture, University of Manitoba, Winnipeg, Man.
LAMBERT, Wallace E.	Peterson Hall, McGill University, Montreal, P.Q.
*LOWTHER, Gordon Readman	McGill University, Montreal, P.Q.
McILWRAITH, T. F.	Dept. of Anthropology, University of Toronto, Toronto, Ont.
McKINNON, Richard	113, Avenue Vitre, Quebec, P.Q.
MacLEOD, M. A.	138 Maryland Street, Winnipeg 10, Man.
MIGUE, Jean-Luc	207, rue Charlotte, Apt. 8, Ottawa, Ont.
PAUL, John	University of Western Ontario, London, Ont.
PRATT, Robert Crawford	4402 Madison Ave., Montreal 28, P.Q.
RAMUNAS, Anthony P.	14 Osgoode Street, Ottawa, Ont.
RODYS, Dr. Witold	224 Gilmour Street, Ottawa, Ont.
ROSS, Aileen D.	Dept. of Sociology and Anthropology, McGill University, Montreal, P.Q.
SHERWOOD, Edward T.	Institute of Social and Economic Research, Rhodes University, Grahamstown, South Africa.
SINICROPI, John A.	568 College Street, Toronto, Ont.
WOOD, J. S.	143 Lascelles Blvd., Toronto 7, Ont.
YATSUSHIRO, Toshio	Dept. of Anthropology, McGill University, Montreal, P.Q.

*Award declined

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

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ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

Report of the Canada Council for the fiscal year ended March 31, 1959

WEDNESDAY, May 18, 1960

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(Quorum—10)

E. W. Innes,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, May 17, 1960.

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

Attest.

L.-J. RAYMOND,
Clerk of the House.

23056-5—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, May 18, 1960.
(8)

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, Drysdale, Fisher, Macdonnell (*Greenwood*), Macnaughton, McGee, McGregor, Morissette, Morton, Pickersgill, Pigeon, Regier, Robichaud, Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Tucker and Wratten.—(22)

In attendance: *Representing Canada Council*; Dr. A. W. Trueman, Director; Mr. Eugene Bussiere, Associate Director; and Miss L. Breen, Secretary.

From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; Mr. A. B. Stokes, Supervisor of Audit of Canada Council; and Mr. E. Cook.

And also: Dr. P. M. Ollivier, Q.C., Parliamentary Counsel.

The Committee resumed its consideration of the Report of the Canada Council 1959, Dr. Trueman and his associates answering questions thereon.

The Chairman announced that the Committee will proceed at the next meeting, to its consideration of the operations of the Export Credits Insurance Corporation and the Crown Assets Disposal Corporation.

The Chairman, on behalf of the Committee, thanked the officials of the Canada Council for their attendance and assistance.

At 11.00 a.m. the Committee adjourned until 9.30 a.m., Wednesday, May 25, 1960.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, May 18, 1960.

The CHAIRMAN: Gentlemen, we now have a quorum. I declare the meeting open.

At the last meeting we were considering the Canada Council report, for the year ending March 31, 1959.

Mr. Fisher should be here shortly, but I am sure there are many other members who have questions to raise.

Mr. DRYSDALE: Mr. Chairman, I do not know if this is entirely in order, but I would be interested in obtaining information regarding scholarships concerning the McGill institute of space and air law. The reason I bring this up, Mr. Chairman, is that this organization, which provides a graduate degree in air and space law at McGill university, in Montreal, is actually in the world centre of civil aviation, because you have both ICAO and IATO having their headquarters in Montreal.

I understand, from talking to the dean of the school, that there are many years when there are no Canadians taking this particular course. I, for one, feel it is of tremendous importance, since we have the situation of Canada having to barter, shall we say, with other nations on the matter of these bilateral air agreements.

We are faced with the situation of training people coming from other countries and, to a certain extent, I do not think Canada has the number of people trained in these categories, to get the best possible deal, perhaps.

I was wondering, Dr. Trueman, if you could provide some information as to what would be the best way of encouraging interest among Canadians, so that they might take such a degree, and as to how your organization could assist financially.

Dr. A. W. TRUEMAN (*Director, Canada Council*): Mr. Chairman, the council has had some little difficulty in deciding just what aspects of law ought to be regarded as coming legitimately within our terms of reference. Our terms of reference, as you know, are the arts, the humanities, and social sciences. No one has been able to come up with definitions—particularly as to social sciences—which are completely satisfying to everybody.

As far as law is concerned, we have made scholarships available in law. We have tried to make some distinction between what seems to be purely professional and technical, on the one hand, and what seems to be scholarly and investigating, with a broader scope, on the other.

I recall that we have given scholarships in air or space law to at least two non-residents—if I have the terms correctly. That will at least tell the honourable member who put the question that we do not rule out, but actually rule in the study of law in this particular area.

As to what might be done to stimulate further interest in Canada in the study of air and space law, this is pretty much a problem for the academics themselves. The best we can do is to say we have scholarships available; and this is a perfectly legitimate branch of law, as far as we are concerned, for students who may require support.

Mr. DRYSDALE: Would you suggest, for example, in this particular case, the McGill institute, in their brochure, could indicate the Canada Council would provide a grant, so that they could circulate that information to students who might be interested in taking the course? Would that be the best way of doing it?

Dr. TRUEMAN: I see no objection to McGill making some such statement as that. However, I would not like to have McGill say positively to people coming to this institute, "You will get, and can have the Canada Council fellowship." I say that because each application for a fellowship—quite apart from the legitimacy of the application, as such—must be considered by a group of specialists. That is to say, the man himself must be considered, and the project; he must be in competition with other people.

There would be no objection, as far as I can see, to any university publishing in their particular publications that certain disciplines fall within the scope of the Canada Council; and people are quite free to apply for scholarships or fellowships within these subjects. It then rests with the academic panels whether certain individuals are recommended for scholarships or not.

Mr. DRYSDALE: You have granted two scholarships for non-residents, but none for Canadians, so far.

Dr. TRUEMAN: I think that is so; and whether that is because this branch of study has not yet been taken up in Canada or not, I really do not know.

Mr. DRYSDALE: Perhaps opportunities available through the Canada Council have not been made widely known?

Dr. TRUEMAN: That may be, and people have not realized this is something for which they may apply. This has a good deal to do with the distribution of scholarships. We cannot give scholarships unless people apply for them. And in some categories of our scholarships—where numbers in a certain section or certain part of the country are not high—you will find the number of awards is in pretty direct relation to the number of applications that have been made.

Mr. PICKERSGILL: I would like to raise again the point of order I raised the other day, when Mr. Drysdale was not here, about bringing forward claims of individual institutions, and that sort of thing. It seems to me that if this committee starts in on that, we are never going to finish this inquiry.

Mr. DRYSDALE: On the point of order raised by Mr. Pickersgill, I am sorry I have had to miss some of the meetings of this committee, due to other committees sitting; but I would point out that contained in specific application are also general principles. I think it is much more helpful to people, generally, if they can have the general principle illustrated by a specific illustration. That is the reason I brought up the McGill institute of air and space law—my own *alma mater* being the university of British Columbia, my own province being British Columbia, and this being in the province of Quebec.

I thought that perhaps bringing it up in this fashion, there would be no personal bias insinuated on my part—

Mr. PICKERSGILL: I was not thinking that at all.

Mr. DRYSDALE: But I think at times you have to have specific institutions in order to understand the general application of the rule. If Mr. Pickersgill's suggestion was followed, I think we would be up in the air in generalities.

The CHAIRMAN: Do I understand the McGill school is the only one of its kind in Canada?

Mr. DRYSDALE: That is right.

Mr. SMITH (*Simcoe North*): I have a question following on Mr. Drysdale's. Is there not a danger, Dr. Trueman, in awarding scholarships in the field of a profession such as law, that you are assisting people who, when they finish

their scholarship course, will go into a field of commercial activity which is extremely well rewarded? Lawyers who become specialists in air law are among the best paid in the profession.

I had a feeling—and maybe I was wrong—that scholarships with the Canada Council were generally designed to help people who were in the less remunerative professions.

Mr. DRYSDALE: Teaching?

Dr. TRUEMAN: You pose a rather difficult question.

Mr. PICKERSGILL: I was wondering, along the same lines, whether you would class air law as art or letters or social sciences.

The CHAIRMAN: I think I would typify it as a quasi-science; and there is not too much law with respect to it.

Mr. MACDONNELL (*Greenwood*): As regards what Mr. Smith has said and what Mr. Pickersgill has said, what was in my mind was not, perhaps, regarding the excessive emoluments they were bringing in, but I wondered how that fitted in with what I understood to be the aims of this council.

Dr. TRUEMAN: This is a problem which I hinted at in my first remarks. We have this all across the board—Where do you draw the line, in certain disciplines, between what may properly be regarded as a social science, within the intent of the act, and what do you not regard as such?

Mr. MACDONNELL: Would it be possible to argue that that particular form of aid will be provided to the full by the necessities of economy, without charitable institutions—I mean "charitable" in the broad sense—coming to its support?

Mr. DRYSDALE: It has not been the experience of this particular organization.

The CHAIRMAN: Could I, at this point, welcome to our committee Mr. Regier, who has been appointed to replace Mr. Winch?

Mr. PIGEON: If it is possible, I should like very much to ask three or four questions through the French secretary of the Canada Council, Mr. Bussière.

The CHAIRMAN: Yes, Mr. Pigeon?

Mr. PIGEON: Mr. Bussière, is it correct that you explained on the French TV network of the C.B.C., weeks ago, the way scholarships are given by the Canada Council?

Mr. EUGÈNE BUSSIÈRE (*Associate Director, Canada Council*): Yes.

Mr. PIGEON: Is it correct that you have been asked on this occasion, what happens when you have received a letter of recommendation from a member of the House of Commons?

Mr. BUSSIÈRE: I am sorry, I did not get your question.

Mr. PIGEON: Is it correct that you have been asked on this occasion, what happens when you receive a letter of recommendation from a member of parliament?

Mr. BUSSIÈRE: I do not remember.

Mr. PIGEON: Did you give explanations on the C.B.C. TV, when you receive a letter from a member of parliament?

Mr. BUSSIÈRE: Yes, I think so.

Mr. PIGEON: Is it correct that you answered this question, or a similar one, saying that you considered such recommendations, following your opinion of the intellectual value of the said members of this house?

Mr. BUSSIÈRE: Well, I do not think it was stated that way. I said that the letters of recommendation coming from members of parliament were sent to the file of the applicants, and they were considered on their own merits; and that

their value was in proportion to the knowledge the M.P. has of the applicant and of the field in which he applies. That is what I have explained, but perhaps not in the same words.

Mr. PIGEON: But on the C.B.C. network you did not give explanations about when you receive a letter from a member of parliament—you did not give an explanation that, to the best of your judgment or your opinion, you give a scholarship on the intellectual value of the member? I say that because I remember that. I listened to this program.

Mr. BUSSIÈRE: No, I do not remember saying that.

The CHAIRMAN: Were you speaking in French?

Mr. BUSSIÈRE: Yes.

Mr. PIGEON: I read this morning, in the newspaper *Le Devoir,* that Mr. Paul Toupin had resigned.

Dr. TRUEMAN: Yes, Mr. Toupin resigned, I think it was, on May 9.

Mr. PIGEON: Could I have the reason why Mr. Toupin resigned?

The CHAIRMAN: This is really a matter of internal organization and administration; but if the doctor cares to answer it?

Dr. TRUEMAN: Yes, Mr. Chairman. There is nothing mysterious about it. I would say—and I have to use my memory here—that between two and three months ago Mr. Toupin raised the question of resigning from the Council. Mr. Toupin is a writer. I understand from some of my French-Canadian friends that he is regarded as one of the most distinguished writers of French prose in the country today.

After being with us for six or seven months, the question arose as to whether Mr. Toupin wanted to continue in an administrative and rather clerical type of position. He discussed the matter with us two or three months ago; and he expressed the view that he thought, perhaps, he was in the wrong slot. This moved along and, naturally, he resigned.

Mr. MORTON: This is a question with respect to scholarships. From the past experience they have had in respect to needs and requirements for scholarships, does Dr. Trueman feel the amount of money available is approximating the need; or is there still greater need for more scholarships under the jurisdiction of the Canada Council?

Also, in their requests for scholarships, generally, have they found other fields of endeavour which perhaps are not within the scope of the Canada Council, but in which there is a need for further scholarships?

Dr. TRUEMAN: I cannot give you anything specific about the second half of your question.

I may say, in reply to the first half of your question, that it is a fact, specially in certain categories of scholarships, that we receive large numbers of applications. I have had it reported to me by our advisers that they could easily have recommended to us a great many more people than our budget would allow us to provide scholarships for.

In other words, we have had some experience to date which points to the fact that we could usefully use more money for scholarships in the arts, humanities and social sciences than we have.

I think I could give you one recent illustration. We are just about to announce, shortly, the awards in category 4. Category 4 is for scholarships in the arts for the more junior, as opposed to the more senior, established professional people. We have room in our budget for something, I think, between forty and fifty awards; and we have an application list of over 400. Putting it at 40 out of 400, that is one in 10. Actually, we have been giving something like 1 in 3½ in most categories. Something of that sort has been the ratio.

This fluctuates or varies between categories. One was brought up by one of the honourable members just the other day. That was category 9, in journalism, where we have not had a large number of applications. This may be because the thing is not set-up in such a way to be sufficiently attractive. But in category 2, the pre-doctoral group, and category 4, and one of the others, we plainly could use more money, if we had it.

Mr. MORTON: In respect to those fields in which there are a large number of applications, would Dr. Trueman feel that within our country we require people in those fields, and, if so, whether these scholarships would provide the means for their becoming qualified?

Dr. TRUEMAN: I think these are fields in which we need the people concerned.

Although I do not want to repeat myself, I think, perhaps, I should point out what the statistical evidence is in regard to increases in registration at our universities. Within a decade, it may be up to 229,000. This means that whereas we now have 6,600 trained full time professors in our universities and colleges, by the same ratio, we would need 16,000 in 1970-71. We certainly require people in category 1—pre-masters; category 2—pre-doctors, and in category 3—senior research.

Mr. MORTON: I think, particularly in the field of science, we need more. We are experiencing a great shortage of science teachers in our high schools. Is there anything further the Canada Council could do, in respect to scholarships, to encourage people to go into that field?

Dr. TRUEMAN: This is outside of our terms of reference. We are confined to the arts, humanities and the social sciences. Social science is an unfortunate piece of terminology, because it is difficult to define, and it is not generally understood what the difference is between a social science and a science. The natural sciences, such as physics, chemistry and biology, are outside our scope.

Mr. MORTON: Then, we have no organization which is giving particular encouragement in that field?

Dr. TRUEMAN: The national research council does.

Mr. MORTON: But that is more for research?

Dr. TRUEMAN: Yes.

Mr. MORTON: But there are no teachers in the field?

Dr. TRUEMAN: I do not know of any particular thing that would correspond with what we do. I know of nothing on that scale. Generally speaking, I think it is much easier to provide scholarships from other sources for scientists, than it has been for people in the humanities, social sciences and the arts. When we came into existence in 1957, a book appeared by Willson Woodside, called The University Question. He pointed out there were available to graduate students approximately 3,600 scholarships and fellowships. I think there were something like 200 or 300 of these for the arts, humanities and social sciences, and the rest were on the scientific and technical side. They have had an initial advantage.

Mr. PICKERSGILL: Mr. Chairman, I have a supplementary question.

Mr. Morton raised the question of training people as high school teachers. I would like to ascertain from Dr. Trueman whether my view is correct, when I say that this kind of training would be completely outside the scope of the Canada Council, and that it is working in another sphere. The training of teachers surely is a provincial field.

Dr. TRUEMAN: We have felt this very strongly. This is not to challenge the need, or to say it should not be done; but we have had one or two applications along those lines which, I think, the council has felt it should not grant, simply because it did look as if we would then be undertaking something which is really the responsibility of the various provincial departments of education.

Mr. SMITH (*Simcoe North*): Going back to my previous question, I would like to draw the attention of the committee to an appendix to this year's annual report. It is in regard to the speech of Mr. Brooke Claxton. The part to which I particularly refer is at page 58. I think there are two paragraphs in that page which express much better than I tried to do my concept of what the Canada Council is. I think, perhaps, I might read these two paragraphs, if there is no objection.

> Moreover, every increase in material prosperity brings an opportunity for greater spiritual as well as material development. Over the years the greatness of a nation is measured chiefly by the accomplishments of its artists, poets, dramatists, painters, and by the thought and work of its leaders in the fields of religion, education, the humanities and social sciences, and by the contributions of its scientists.
>
> For it is in the field of arts, of religion and philosophy and literature and of those other so-called "useless things", that the spirit of man is expressed, achieves the greatest fulfillment and builds the most lasting monument.

I think that is a doubt which some of us had, in relation to Mr. Drysdale's question. I wanted to bring this to the attention of the committee, because it expressed far better than I could my feelings in this matter.

Mr. DRYSDALE: It does not include politicians though, does it?

Dr. TRUEMAN: We have had this represented to us by the legal profession, and the sanest opinion we get is that they agree that we should not handle the technical and professional, and the directly commercially related things, but that there is a great need in the legal profession in this country for the creation of scholarships for the investigation of law at the highest level, for the development of jurists and the study of jurisprudence, and things of that sort, that this has not been sufficiently encouraged, and that we should come in at the graduate level. It is the feeling that if a man has his B.C.L., or whatever it is, and he wants to specialize in some branch of the law from an academic and research point of view, he should be given the opportunity, as there is a great need for it. It is difficult to define this. I think we are not apart in our view of the matter.

Mr. PIGEON: I would like to ask a question of Mr. Bussière. Do you receive many letters of recommendation from members of parliament?

Mr. BUSSIÈRE: Well, I am afraid I will not be able to answer you because, as you know, until recently we had a supervisor of the scholarship program. Such letters used to go direct to the scholarship division, and it was only occasionally that a letter would come to me—and that would be when the member of parliament happened to know me.

Mr. PIGEON: But, I am referring to before this appointment was made.

Mr. BUSSIÈRE: Generally speaking, we have very few compared with the number of other letters of recommendation.

Mr. PIGEON: What consideration do you give to these letters?

Mr. BUSSIÈRE: Well, I think I have to repeat what I said on television—that the letter of recommendation, coming from anyone who knows the field and the applicant, and who is in a position to testify in favour of an applicant, is considered on the same basis as others.

Mr. PIGEON: But do you inquire as to the intellectual capacity of the member?

Mr. BUSSIÈRE: I think you misunderstood what I said on T.V.

Mr. PIGEON: Do you prefer not to receive recommendation letters from members of parliament? Do you prefer to have the applications direct?

Mr. BUSSIÈRE: No, we would not say that. I think I have given all the answers to your questions. All I can say is to repeat what I have just said. If a person knows the candidate, his intellectual capacities, and knows the field, he can testify in favour of the candidate as well as anybody else, and the recommendation is considered on its own merit.

Mr. PIGEON: I raised this question because I suppose, you know Mr. Fisher is a great intellectual man, and I suppose he has sent you a recommendation letter, as well as other members of parliament, who have not had the opportunity to pursue the studies, and perhaps your judgment is false.

Dr. TRUEMAN: Mr. Chairman, could I make a comment on this?

The CHAIRMAN: Proceed.

Dr. TRUEMAN: I think this might be of some assistance to the hon. member. We have been asked more than once by a panel of judges, to whom all these applications go, to encourage, if we can, the bringing forward of recommendations from people who know the candidate personally, who know his work, and who are in a position to make an effective judgment on it. We get too many testimonials—too many letters, which say: I have known this young man and his family for many years; he is a fine man, and never been in jail; I recommend him for the consideration of the council. Our academic people say that this is fine, that they like to know that they are dealing with respectable people, but what is of most assistance is to know whether this man has shown a capacity in his study, and that the person who is writing the letter of recommendation is in a position to know he is a good student and an intelligent man, and has covered certain areas of work.

Mr. MACDONNELL (*Greenwood*): I suppose you have too many letters ending with the words that he is an upright, noble man, of Christian character, and you would prefer not to have the letter ending in that way?

Mr. PICKERSGILL: Or, boy scout.

Mr. PIGEON: Suppose I have a person who wants to take a master's degree; would it give a better chance to this candidate if I saw Father Levesque, and gave a recommendation to him?

Mr. BUSSIÈRE: This is not the normal procedure, because all the applications should be directed to the Canada Council office. If anyone wants to see a particular member of the council outside, it is his privilege, but what the members of the council do—and this has always been the practice—is to refer recommendations to the office, where they are screened.

Mr. PICKERSGILL: I have one supplementary question which I would like to direct either to Mr. Bussiere or Dr. Trueman. My question might clear up all the difficulty.

Could either Mr. Bussiere or Dr. Trueman assure us that a letter of recommendation from a member of parliament would not prejudice the candidate either way—either for him or against him

Dr. TRUEMAN: I think we could give the hon. member that assurance.

Mr. FISHER: Mr. Chairman, to clear up any misapprehension on the part of Mr. Pigeon, may I state that I would not think of writing a letter of recommendation to anyone, in connection with the Canada Council. He drew my name into it, and I just thought I should make that statement.

Mr. PIGEON: It could be that a candidate would be recommended by Mr. Fisher for a scholarship to take a master's degree, because Mr. Fisher is a very intellectual man, and knows the wide story of our whole country.

The CHAIRMAN: Mr. Regier is next.

Mr. PIGEON: Mr. Fisher needs a scholarship.

Mr. PICKERSGILL: Would you recommend it?

Mr. PIGEON: Yes, he knows the whole story of our country.

Mr. REGIER: At the time the Canada Council was first established, the Prime Minister of the day made it perfectly clear that it was the intention of the government to put a certain fixed number of millions of dollars into the endowment fund. He expressed the hope at that time—and it was the intention—that the funds ought to be greatly enhanced in the years to come from bequests and otherwise, on the part of corporations and individuals. I would like to know if there have been any receipts of this nature within the past year. I do not notice it in the annual report.

The CHAIRMAN: They are in the 1958-59 annual report, at page 19, paragraph 45.

Mr. REGIER: I should like to ask what effort is being made by the Canada Council to acquaint people with means, and who might be favourably inclined, of the aim of the institution in this regard. Is there any canvass undertaken?

Dr. TRUEMAN: This question was put to us before, but I would be delighted to answer it again. The council has 21 members sitting in session, and it has not, as far as I know, adopted any program of canvassing or soliciting donations to the council. What the chairman and vice chairman may have done as individuals in talking with members of corporations or wealthy individuals, I do not know,—although I suspect that Mr. Claxton has had some interviews of that kind. However, so far, there have been no major donations. We have had a few small sums given to us for specific purposes, and we have agreed to use the money for that kind of purpose.

I would suspect the council might reply, to a direct question of this kind, by saying it felt that these are rather early days, that the program is still being fashioned, that the council is still getting its legs firmly under it, and that our best bet is to do as good a job as we can and, thereby, recommend ourselves to the Canadian people as well as we can. This would be done in the hope that it will encourage the idea that this is a sound institution, that more money would be useful to it, and that it would be a good place to deposit it. I do not think the council has gone beyond that.

Mr. REGIER: Is the council not contemplating that the day is not far distant when it will have to make specific arrangements for publicity by way of a public relations campaign. After all, even though a man agrees to leave you $1 million in his will, he may live another 18 years, and it would seem to me that the earlier such a program is initiated, the earlier we might be able to enhance the fund.

Dr. TRUEMAN: All I can say is that I am glad to have this idea put forward. We will discuss it with the members of the council.

Mr. FISHER: I suppose I should express appreciation to Mr. Pigeon for acting as my press agent. Perhaps I can do the same for him.

I wonder if either Dr. Trueman or Mr. Bussiere noticed the stories in *Le Devoir* and *La Presse* last Thursday, which were filed by Marcel Gingras and Clement Brown suggesting, as I read the story, that the general theme was that the French Canadians were not getting a fair break. Is that a fair interpretation of the story? I wondered how you reacted to that.

Dr. TRUEMAN: It is a fair interpretation of an unfair allegation. However, I would like to speak to that. I gave sort of half a story the other day, and I referred to it again this morning.

In regard to the question of scholarships, not everything, but a great deal certainly depends upon the number of applications that one receives from any province or any group of people or on behalf of any particular subject. You cannot give a lot of scholarships in economics if, for some reason, not many apply for it. And so it goes. In this connection, I might state—and I think it was at our first meeting—that I read a list of 100 applications in connection with one category, and in looking over this I noticed there were only six applications from French Canada in that group. Therefore, the maximum number of scholarships you could give out of the 50 or 60 available in that category, was six to French Canada. I might say what I said before, that as far as the arts scholarships are concerned, we have a very large number of excellent applications from French Canada.

Category 4 will be released shortly, and when that comes out, I think you will find a very large number of French Canadian names. It is true that the same number, proportionately speaking, in the academic scholarships, which have been referred to as 1, 2, and 3A, does not exist. This is due mainly, I think, to the fact that the number of applications, for some reason or other, have not been as great.

As far as the other part is concerned—and that is the number of grants given to organizations representing the arts, humanities and social sciences, in the provinces of Quebec and Ontario, we have said we do not want to make this kind of analysis and I would like to explain why. If you go through our annual report, where we publish the name of every individual and organization receiving grants, and check simply the home address of the organization, you get one set of figures—the wrong set of figures. For instance, we have in the city of Toronto, Ontario, a new organization called the Canadian music council. The Canada Council agreed to give it quite substantial support. Probably over two or three years, although we do not make grants in advance in that way, the total would be something like $60,000, at $20,000 a year.

The home address of this organization is Toronto, Ontario—

Mr. BENIDICKSON: Mr. Chairman, has this not been put on the record before?

Dr. TRUEMAN: Not that one.

Mr. BENIDICKSON: It may have been the steering committee; I apologize.

Dr. TRUEMAN: If I could have the hon. member's indulgence, I would like to put this one as an illustration of the difficulty to which I refer. This organization's home address is Toronto, Ontario; but it is common knowledge that the only full-time director it has is Mr. Jean-Marie Beaudet, of Montreal. On its board of governors are distinguished French-Canadian musicians, such as Jean Papineau Couture, and others. The function of this group is to acquire Canadian music in the form of published works, recordings, tape recordings, for conductors and other people interested in music; so that they can get hold of music which they would not otherwise be able to obtain. It has a lending service, and is a national service. Its whole purpose is to disseminate information about music and stimulate the use of Canadian music. Its home address is Toronto, but to say that it is a wholly Ontario grant is an entirely wrong interpretation. It is nothing of the kind.

The same applies to the Dominion Drama Festival, the one group that deals with amateur drama across the country. Its headquarters are in Ottawa, and its chairman is Colonel Yves Bourassa of Montreal. That group divides the country up, holds competitions, and then brings the groups together in a national competition every year. It publishes a brochure every so often in English and in French, and we have helped them with it. These grants are not

to Ontario, even though the home address of these organizations is Toronto and Ottawa; and to say the grants are to Ontario would give a completely wrong impression as to what is being done.

I have looked into this thing, because it is my business, and without going into details or giving figures, I would say that the organizations in the province of Quebec representing the arts, humanities and social sciences, are getting, indeed, a very fair share of the endowment fund.

Mr. FISHER: What steps are you taking to overcome this, what might be called a lack of initiative on the part of French-Canadians to make application?

Dr. TRUEMAN: This is something that the council will look into to see what the situation is. If there is something more that the council ought to do, then the council will do it, in the way of publicity; or if there is something in the system which could be adjusted to bring about what would seem to be a little better distribution, the council will be interested to investigate that too.

Mr. FISHER: Have you ever considered that it might be possible that a certain kind of what you might call reticence of people to apply might come from an attitude towards these funds being federal?

Dr. TRUEMAN: Your guess on that would be just as good as mine,—probably better, in your position. I presume it is a possibility, in that the council has been subjected to a certain type of criticism in the province of Quebec, to which it has not been so widely subjected elsewhere. That is, the theory of the council, not the council itself.

Mr. FISHER: I want to turn to this question of publications again and ask you whether the council has made use of any special committees in coming to decisions on applications to support publications?

Dr. TRUEMAN: We do this in many ways. We send out certain types of applications to the humanities research council, to the social sciences research council, where they are looked at by panels of judges.

Mr. FISHER: Have you invariably followed the advice of these groups?

Dr. TRUEMAN: No, we have not. Do you want a comment on that?

Mr. FISHER: Yes.

Dr. TRUEMAN: The logic of that is that, whereas it is, of course, obviously necessary that the council must consult outside opinion, either of panels of judges or of individuals, since the ultimate responsibility for making the grant must always rest with the Canada Council, the council does not bind itself automatically to accept the recommendations of these advisory groups and individuals.

Mr. FISHER: Take another field, such as scholarships—that is, individual scholarships: do you invariably follow the recommendations there?

Dr. TRUEMAN: No, we do not invariably follow the recommendations. But I should say that the incidence of disregard of recommendation is comparatively low there.

Mr. FISHER: On this question of support of journals, you support *Tamarack Review, The Fiddlehead, Emourie, Ecrits du Canada Francais, Canadian Art, La Vie des Arts, The Canadian Music Journal, The Phoenix,* and *The Canadian Geographical Journal.*

What kind of committee did you turn to for advice?

Dr. TRUEMAN: I think in most instances here, these went out to either one of those three organizations mentioned, the humanities research council, the social sciences research council, or the Canada foundation, which has its own group of panelists and judges; its own list.

I think the procedure with them is to try to pick out from the available numbers of people that they know will cooperate with them, those which would seem to have a direct bearing on or some significant relationship to the application under consideration.

Mr. FISHER: Supposing you have a favourable recommendation from the committee to which you refer this, and yet the council decides to turn it down; is this for all time, or would you suggest that an organization that publishes a periodical could come back again and make a new presentation?

Dr. TRUEMAN: Certainly.

Mr. FISHER: And ask for reconsideration?

Dr. TRUEMAN: Certainly. Anyone is free, of course, to apply. I suppose if the officers of such an organization got in touch with the officers of the council to discuss this point, and if the issue had been a policy issue quite clearly defined, and there had been no change in the policy concept of the council, the officers of the council would probably say, "You are free to apply; but we know of no change in the climate which would assist you and we cannot, therefore, offer you much encouragement. But if you want to apply and run it through the mill again, and see if a different type of presentation will get around the policy difficulty, go ahead".

Mr. FISHER: I will not come down to specifics in this, but I must say your policy as enunciated to the journals of opinion, is, it seems to me, a most indefinite one. I will not give you any specific example, but I would certainly like to see a clearer statement of policy in support of opinion journals and periodicals, because as I look at even *The Fiddlehead,* to me it is a journal of opinion, in a sense. I hate to say it is a journal of maritime propaganda at times, but—

Dr. TRUEMAN: I would doubt that.

Mr. FISHER: Well, that is as I read *The Fiddlehead.* I just think your policy there might also be orientated to being a bit more bold in this field.

Dr. TRUEMAN: This could be a possibility. On the other hand, asking for a more precise definition is difficult, I put it to the hon. member, in fields of this kind, if you are to be specific.

Mr. FISHER: I presume you would support *The Canadian Journal of Economics* and *Political Science* and *The Canadian Historical Review?*

One of our own members of the House of Commons, Mr. Macquarrie, has written articles for both those periodicals—a voluminous history of Canada's political past—on Sir Robert Borden.

I have been very interested in these articles, and in a sense it could be argued that they were expressions of opinion. Many of those articles are; but it is this boundary that it seems to me is very hard to draw. As a consequence, I suggest you might take a bold policy, rather than an extremely cautious one, in this field.

Dr. TRUEMAN: I have no comment to make on that, except that professionally I am in favor of being bold. I have to be realistic about this and try to keep reasonably out of trouble.

Mr. FISHER: I want to turn my question around to a journal that is supposed not to be opinion, the *Tamarack Review.* We get an article there on drama in Canada, by Miss or Mrs. Michener, by Mr. Cohen, and a number of other people, including Vincent Tovell, taking a rather gloomy look at drama.

Is the council taking a fresh look, to see the kind of support it is giving? I understand the "Crest theatre" in Toronto is in trouble. I understand the "Theatre Under the Stars" in Vancouver is not as financially stable as it might be. I understand Calverts are getting out of the support of dominion drama.

As a matter of fact, from reading the *Tamarack Review*, I gather from one group in Montreal that drama is in a rather parlous condition in Canada.

What has been the Canada Council's thinking about this, and has it got any special program in mind?

Dr. TRUEMAN: It has no special program in mind that arises out of that issue of the *Tamarack Review* and that type of criticism. We are constantly studying the situation, as far as drama is concerned in this country. I might say that as far as the officers are concerned, and I think as far as the members of the council are concerned, they do not take anything like the pessimistic view which seems to have coloured all the pages of that *Tamarack Review*. I do not think that was too sound, quite frankly.

This is a time when we are just getting started on drama in this country, and there are all kinds of healthy activities being evidenced in the amateur dramatic field. As I am sure you know, there are literally hundreds and hundreds of amateur societies which we cannot help directly because their members would outrun, in capacity, the budget that we have.

But we do try to work through the Dominion Drama Festival to encourage this. I cannot say that we have any startling revelation to make about the future of Canadian drama, but I can assure you these subjects are watched and studied all the time, and we have no reason to feel pessimistic.

Mr. FISHER: Is not your policy of support, in essence, fixed upon organizations such as the Stratford festival in various ways, and even the Crest theatre to a degree?

Dr. TRUEMAN: We have supported as much of the professional theatre as we can in providing ways—

Mr. FISHER: And you have taken the stand, have you not, that because there is such a prolification of amateur groups, you cannot really make any concentrated effort in that field?

Dr. TRUEMAN: Not to individual amateur groups. We do, through their one national organization. This is a question of arithmetic, not a conviction of the unimportance of it.

Mr. FISHER: The Crest theatre, for example finds it is having trouble and may collapse; that seems to be the suggestion. If we are getting this suggestion —and the Stratford festival is really no longer contributing anything unique to Canadian drama, even as an employment agency for people working up to other levels—it seems to me it might be worth while taking another look at the drama situation.

For instance, what is the scope of the funds you have put out in connection with bringing these students to watch the Stratford festival?

Dr. TRUEMAN: Is that the council train?

Mr. FISHER: Yes.

Dr. TRUEMAN: We estimated—this is a very difficult thing to estimate—that it would cost in the vicinity of $40,000. Actually, the figure is something like $29,000. This took about 200 students from all the provinces, the Northwest Territories included, for three days, I think it was, to Stratford.

Mr. FISHER: What was the objective of that kind of support? I would imagine you would agree that would be support for drama?

Dr. TRUEMAN: In a way. They also attended the music festival there. There was an ancillary musical festival going on at the same time, which was very important in the function which the trip served. I think there was a film festival on, too, at the same time.

The big thing was the play—simply to bring students, many of whom had never really seen professional theatre at its best, and to suggest to dozens of

high school students across the length and breadth of Canada that a Shakespearean play on the boards is one thing, and a Shakespearean play, when you read it out of textbooks in the class, when you have never seen live theatre, is another thing.

It was to afford some kind of opinion and feeling on these things; to bring the young people up from Quebec to be in touch with young people from British Columbia, if we could; really to give them a stimulating and exciting experience of the theatre at a level which has achieved international recognition.

Of course, I would say that the result of this venture, as far as we can determine from the letters we have received from the students and from the chaperones who accompanied them across the country, has really been startling. We feel it is one of the most imaginative and useful things in this way that we have done.

Mr. FISHER: Does this fit in at all with the Canadian players, in the support you have given them in their tours across the country?

Dr. TRUEMAN: The idea of letting people see the drama at the professional level, you mean? Yes, that is right.

Mr. FISHER: Has that got into difficulties, as it has been suggested? I gather it branched out off into the United States and beyond the Canadian scene, which is fine for the group, but is one of the reasons why they did not extend their operations because they did not have enough support within the Canadian structure?

Dr. TRUEMAN: I think probably that may be true. There are several considerations, as I understand the position of these companies, that you have to keep in mind. One is the straight box office thing. It is a temptation to slip across the border. If you can set up a tour in a populous area and get a box office return that will meet your expenses. It is a temptation to do that.

The other difficulty which they have experienced— and this is true of ballet as well as drama—is that you cannot keep professional people on your roster unless you can give them a reasonable season of employment. If you find with, we will say, the Canadian players, or with the national ballet, that you cannot provide 40 weeks, or whatever it is, of ballet for your professional artists in this country, you tend to secure the other 20 or 25 weeks you need by touring the United States. This gives you the kind of program that a professional will be content to follow. And it does another thing which all these people have represented to us: it brings their professional people under the criticism of somebody outside Canada; it introduces an international flavour and helps to create a standing abroad. In that way, they are subjected to the criticism of the leading reviewers in the leading New York papers and magazines and others. So they win by length of season, by box office, and by the experience and criticism.

That seems to be the kind of reasoning back of this thing, plus our own responsibility as laid down by the act, to do some projection of Canada and its arts, humanities and social sciences abroad, if we can.

Mr. FISHER: The next thing I want to ask you about, Dr. Trueman, is the question of recurring aid to worthy projects. I can think of a number of examples, but I will take the periodical *Index*, which is a fundamental tool in our libraries, and yet it cannot be put, seemingly, on too solvent a basis in any commercial way. I have noticed this report—whether it is you or Mr. Claxton—underlines again that the council cannot be committed to these recurring grants.

Are you doing anything to help these projects out of the, I suggest, impasse that they are in?

Dr. TRUEMAN: Yes, within the limitations of the budget and within the limitations of that policy. I think you probably understand the difficulty that confronts the council as far as these recurring grants are concerned. The council has taken the point of view that it will not tell any organization, "Yes, you can have a grant of $10,000 a year for five years". We are warned against this by all the foundations with whom we have consulted, on the grounds that this sort of procedure leads you very quickly into the commitment of your budget as far into the future that you no longer have any elbow room; you no longer have any capacity to respond to the suggestions which are made, for example, in this committee, because we have already committed our money. I think a certain amount of that is possible.

What we have done in many instances has been a kind of compromise. We have said, in effect, to an organization that wants a grant for three or five years, "This is against the policy of the Canada Council, but we like your program. We approve of it, and we want to help. We will give you the amount that you have asked for in the first year of this three or four year period. Further grants will depend on the kind of report that you are able to put in at the end of this period for which the first grant is made". In that way, the project is moved along, and it receives very sympathetic consideration from the council.

This is not quite the same thing as saying, "If you are a good boy, you will get it again"; but it comes rather close to saying, "If the project goes on as you feel it will, and if you feel it is a sensible thing, by all means apply again, and you will be given the most careful consideration".

This has kept us from absolute advance commitments in finance, and at the same time has enabled us to give many organizations grants for three years in succession. This has been done with many of the musical organizations, the orchestras, and so forth.

You have put your finger, of course, on a very difficult problem for the council.

Mr. MACDONNELL (*Greenwood*): I am interested in your sympathetic attitude, and no one can criticize it. But what is your experience when, in fact, you give what is asked at the outset: do you find that by and large the organization scurries around and gets other help, so that in fact they are able to do more and more under their own steam and require less and less assistance from you?

Dr. TRUEMAN: We have not got to the happy state in which they require less and less assistance from us; but I think it is fair to say that on the whole they have, as you have put it, scurried about and tried at least to maintain, and if possible, increase the level of local support which they have got. We have made this a policy.

I might illustrate, to make it clear. When we give a grant to an orchestra for, we will say, $10,000 or $20,000, we have said to them quite bluntly, "If your financial report at the end of the year for which this grant is made shows that your local support has dropped by $10,000 or $20,000, the amount of our grant, you are in trouble with the Canada Council".

We say, in other words, "We will not replace the support that you have had: on the contrary, we expect you to increase it".

I would think, on the whole, this has been (a) well accepted as a reasonable policy by the organizations in the country, and (b) that, again on the whole, they have scurried about and increased their subscriptions, some not too much, some by a good deal.

I can think of only one orchestra amongst all those we have helped where public support seems to have dropped. The annual campaign seems not to have been so good. But, generally speaking, they have done as you suggest, I am glad to say.

Mr. FISHER: Perhaps I could take the example of the periodical *Index*. One of the problems that confronts the group that publishes that is that the better work it does, the bigger the job gets. As Canada grows, so the job grows. It has a semi-cash nexus in so far as subscribers are concerned, but it cannot be put on a cost basis which is generally accepted right across the world, because this kind of periodical is charged on its service, and Canada is too small. Yet you could certainly predict that in 10 or 15 years that kind of operation will become very much a self-sustaining operation, perhaps a real money-maker, in terms of Canada's growth, with regard to the number of periodicals and the intensity of use.

I would suggest you have a detailed, long-term look at anything as practical as that, and you should not be so severe in cutting off.

Dr. TRUEMAN: I would agree with this.

Mr. SMITH (*Simcoe North*): There is also the possibility that a publication like the *Index* to which Mr. Fisher is referring should perhaps be supported by the departments of education in the various provinces, rather than the Canada Council. It gets close to the field of practical education, beyond the scope of the Canada Council.

Mr. FISHER: I would quarrel with Mr. Smith on that. It is an educational tool, but it is much more than that. I would suggest it would come under the national library, as the national library is producing *Canadiana*, which is a complete bibliography of books about Canada by Canadians. This is another book that fits into that role.

Dr. TRUEMAN: There are many things that fit into that. You can argue that many people ought to be doing this. We find this, that sometimes it is a question of determining, whether—apart from its being theoretically right or wrong—this thing will survive. If it will not survive unless somebody helps it, and the Canada Council feels in the position of doing a little helping, and nobody else will help, we feel we should lend a hand until somebody else is in a position to do so. This is rather long-winded, but I hope I have made the point.

Mr. FISHER: Dealing with three specific projects that have recently been launched, *Problems of Canadian Growth, Literary History of Canada, History of Canada,* I just wanted some information, not so much on the specific, but where this type of study is going to take us. There is, as you probably know, quite a debate raging in academic circles about what you might call the behaviourist school versus the theoretical school, and a strong feeling has established in Britain and the United States that these surveys and projects, because they have a superior status, give something definite to do. But they tend to be drawing off funds that might more properly be spent on an individual basis to encourage an individual to get out and think and produce something that is a bit more creative.

I wondered if you could give us some background on these three projects.

Dr. TRUEMAN: This is a little bit difficult. I can tell you what we have done, and the basis upon which we have done it. I think we have felt, in the council generally, that the project which gets a large number of people working together under one roof and on one thing may, as you say, tends to get out of hand, tends to be sometimes artificial, tends to be a project which has been developed by somebody who has an interest, not so much in the subject as in having a project to develop.

We have been rather cautious about supporting projects as projects. I think in all these instances we have refused to make a grant to the project, as a project; but we have said that if the individual scholars and professors who are working in relation to this project wish to put in applications under the scholarship and fellowship scheme, outlining a summary of work which they

intend to do, or the research that they intend to do as related to the project, such individual applications would be regarded by our panelists as proper, and we would consider such persons proper applicants. But we have not said, "We will give you $50,000 for your project, which you can redistribute as you like". We have tried to make the best of the situation.

Mr. FISHER: Is the culmination of these three projects to be a printed work?

Dr. TRUEMAN: I believe so.

Mr. FISHER: There will be a Canadian growth study, a literary history of Canada, and a history of Canada.

Dr. TRUEMAN: Yes, and I believe the history of Canada is contracted and arranged for with one of our bigger publishing houses—I think McClelland and Stewart,—and that it is under the general editorship of Professor Morton, who is head of the department of history at the University of Manitoba. It will probably involve nine or ten volumes which are now envisaged, and these will be parcelled out to a group of Canadian scholars.

Mr. FISHER: The new Canadian encyclopedia has a history of national biography. Are you supporting it?

Dr. TRUEMAN: I do not think so.

Mr. FISHER: There is not very much indication that you are supporting projects in the field of economics. I know that many economists in Canada do a great deal of work through government agencies such as the Gordon commission, as an outstanding example, and others. But have you considered that that is one field which might properly be given a great deal of encouragement for some independent studies?

Dr. TRUEMAN: Yes, I think we are aware of the problem, and we warmly welcome individual applications for work. We have given this block grant to nobody yet, I think, with perhaps one or two exceptions. Am I permitted to ask questions, Mr. Chairman?

The CHAIRMAN: Yes, anything which would help to clear the matter up.

Dr. TRUEMAN: Are you suggesting that the council might, in relation to some project in economics that is to be headed up by some distinguished scholar, with a team of people working under him— that we should give them a grant of $50,000 to $60,000 for the project, and say "you may spend it as you like?"

Mr. FISHER: No. I was merely thinking about the balance that was going into different fields, and I hoped that economics would be looked at.

In the problem of Canadian growth studies there are several people who are technical economists and I am pleased to see them there; but I wondered when the project was set up who was going to coordinate it?

Dr. TRUEMAN: I am afraid that I cannot give you any detailed information about it at the moment, but I would be glad to look it up and give it to you privately if you wish.

Mr. FISHER: Yes, I would be glad to have it.

Mr. MACDONNELL: May I raise one point; it is a question of how much time we should spend on this particular subject. I want to make it very clear that I think we all owe a debt to Mr. Fisher for the work he has done. I simply raise the question as to the amount of time we are spending on this matter, and whether or not we are becoming so enthusiastic about this point that we are using up too much time.

I hope the steering committee is looking ahead and considering how much future time we have in which to consider other important things that we wish to cover before the end of the session.

I presume that the Auditor General himself would have some views about it. I have found this very interesting; but my point is whether or not in our enthusiasm over this thing we are perhaps shutting out other things and not leaving enough time for them later.

The CHAIRMAN: We were hoping to finish with the Canada council today and to go on with crown corporations next week. I think out of courtesy we should speak to the cabinet minister concerned. The steering committee was going to suggest that we start with the Export Credits Insurance Corporation and then take up Crown Assets Disposal for next week; but we would like to speak to the minister as a matter of courtesy first.

Have you more questions, Mr. Fisher?

Mr. FISHER: I would not have taken up so much time if I had not been encouraged by the chairman. I came here especially to question the Canada Council, and in view of the fact that the chairman told me it was arranged that the Canada Council would be here for the full sitting today.

Dr. TRUEMAN: We feel very much the same way in that we are indebted to the questioner. If it is not improper for me to refer to it, let me say that I realize the limitations of time, and that I would be delighted to welcome Mr. Fisher, should he find time to come to my office, when we could take a couple of hours to talk over and to go into many of the points he wishes to raise.

Mr. PICKERSGILL: Perhaps Mr. Pigeon could go along with him.

Dr. TRUEMAN: With pleasure.

Mr. PIGEON: At the end of this meeting do not be surprised if I send you a very strong letter recommending the setting up of a scholarship for Mr. Fisher in the province of Quebec in order to give him a better idea of that province, and the part that it has played in the progress of our country.

Mr. FISHER: I think there is a famous phrase: "Come out of Tibet into China."

Mr. PIGEON: I have one question: I asked a question at the first meeting about how many scholarships were granted to Laval university and to the university of Montreal in social science—that is for those two universities in the province of Quebec. Do you think it is possible to have the number of scholarships which were granted or awarded by the Canada Council in that respect?

Dr. TRUEMAN: I think this opens up a whole question which I thought we had concluded.

Mr. PICKERSGILL: May I ask a question which may already have been answered: is it not true that these scholarships will go to individuals and not to universities?

Dr. TRUEMAN: That is true.

Mr. DRYSDALE: But individuals would have to go to some university.

Mr. PICKERSGILL: Individuals who get scholarships may go to several universities.

Mr. PIGEON: When you award a scholarship do you not try to have a recommendation from the chairman of the university?

Dr. TRUEMAN: Not necessarily; it might be from scholars at other universities who know the field of investigation of the applicant.

Mr. FISHER: I am wondering about your own administrative corps. Have you had a large turnover of employees?

Dr. TRUEMAN: No, I would not say so. I looked that question up in this year under review, and I found there were five changes. Two of those were

young ladies—and good young ladies—who went away to get married. Another was that of an office boy who left for reasons which I do not know. I believe he thought he could get a better job; and two others were for people who found jobs which they thought to be more attractive and at more money.

Mr. FISHER: This brings up the question of salaries and working conditions of people in the Canada Council. Is it possible that they may be overworked and underpaid?

Dr. TRUEMAN: That is a popular suggestion to make to a member of the staff. However we have worked our staff very hard at times. We found that our operation has something of a seasonal cast to it. When the scholarship applications begin to come in September, and up to May, there is a very heavy piece of work to be done.

In the early days of the organization we advised everyone who came on the staff that they would have to work hard. But we give them all the conditions which obtain in the civil service, that is, as far as vacation and that sort of thing is concerned, plus one benefit, a medical health plan to which they contribute half the cost, while the council pays the other half.

Mr. FISHER: Do they get a fair rate of overtime pay?

Dr. TRUEMAN: We have no rates of overtime pay.

Mr. FISHER: Do you mean that no one works overtime?

Dr. TRUEMAN: Yes, they do work overtime. We give them compensating time off. But we have no salary structure for overtime pay.

Mr. FISHER: I am interested in how your liaison works between the permanent officials, and the chairman, and all these members of your board. There would be a need for surveillance, and ideas from the chairman and the staff of the council from time to time with respect to the permanent officials?

Dr. TRUEMAN: That is right.

Mr. FISHER: How is that going on?

Dr. TRUEMAN: I think it is going on fairly well. I have had very excellent arrangements with our chairman, who is right here in town—until recently when he has been ill. We have had very close association with the chairman. It has been possible to consult him whenever we wanted to do so, and for him to consult us when he wanted to.

Then we have the executive committee which can meet on call. It does not meet very often, but sometimes it is polled by post, when we send out in the mail things which we want the executive committee to consider, or we want to get their views about a problem.

We keep in touch with the members of the council by sending out to them, well in advance of every meeting, an agenda, and a summary of the applications which are to be considered at the meeting. From time to time we send other documents to members of the council, and members of the council write in to us if they have problems, or solutions to suggest, or queries to make.

Mr. FISHER: That has taken place. And you have a number of very distingushed French Canadian members in Father Levesque, and Dr. Morin, and people like that. Are they conscious of the fact that you are not getting enough applications in certain categories?

Dr. TRUEMAN: Yes. It is a matter which has come up, and recently they have been conscious of that fact. The matter is being looked into at the present time.

Mr. FISHER: Is your liaison with French Canada satisfactory?

Dr. TRUEMAN: Yes, I think it has been satisfactory. I do not say that these things cannot be improved as we get more experience.

Mr. FISHER: My last question is whether you think that university grants can be made more flexible in respect to the new colleges being built at Sudbury, North Bay, and Peterborough. This raises special problems on the university grant side, and I wondered if the board—I do not see how you can separate things—give them much help on a per capita basis. But have you considered your very special position in the field, and are you prepared to make recommendations to both the provincial and the federal authorities as to what you cannot do in this particular field for these new schools?

Dr. TRUEMAN: I think we have been rather averse from making recommendations to the federal and provincial authorities.

Mr. FISHER: I mean in setting out your limitations—not in making positive recommendations. I know that at the Lakehead college hopes were raised a little bit too much as to what they might expect from the Canada Council—although they were very pleased with the support that they did get; and the same thing has developed at Subury.

Dr. TRUEMAN: It is a matter of which we are conscious, very conscious, and it is a matter which is related to the disposition of the profits and interest in connection with the university capital grants fund.

Mr. FISHER: Everyone accepts that the university of Toronto has become too big. That is one of the ideas behind establishing York, and those other colleges. Yet on a per capita basis your grants are still going out to support Toronto, whereas the need has been switched to build up other things. So it does not seem to me that you have enough flexibility.

Dr. TRUEMAN: At the present time we do not have much flexibility. The only flexibility which might come in is in relation to the profits and interest which are being considered at the present time. I cannot give you an answer to it, but I follow your point with interest.

The CHAIRMAN: Are there any other questions? If not, I am sure you would like me on your behalf to thank Dr. Trueman for his assistance in being here for so many days and giving us such useful information.

If there are no further questions the next meeting will be on Wednesday, May 25, when I expect we will make a start on the Export Credits Insurance Corporation.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

Respecting

EXPORT CREDITS INSURANCE CORPORATION

WEDNESDAY, MAY 25, 1960

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WITNESSES:

Mr. H. T. Aitken, President and General Manager, *Export Credits Insurance Corporation;* and Mr. A. Maxwell Henderson, *Auditor General.*

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23195-1—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, May 24, 1960.

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

Attest

L.-J. RAYMOND,
Clerk of the House.

23195-1—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, May 25, 1960.
(9)

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, Brassard (*Chicoutimi*), Chown, Danforth, Drysdale, Keays, Macdonald (*Kings*), Macnaughton, McGrath, Payne, Robichaud, Smith (*Simcoe North*), Stefanson, Tucker and Villeneuve.—(16)

In attendance: From the Export Credits Insurance Corporation: Mr. H. T. Aitken, President and General Manager; Mr. A. W. Thomas, Assistant General Manager; and Mr. T. Chase-Casgrain, Secretary.

From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Mr. A. B. Stokes, Supervisor of Audit of Export Credits Insurance Corporation Accounts.

The Committee proceeded to its consideration of the operations of the Export Credits Insurance Corporation and the report of the Auditor General thereon.

The Auditor General read a prepared statement expanding on his report to Parliament respecting the operations of the Corporation.

The Chairman introduced Mr. Aitken and his associates. Mr. Aitken enumerated certain documents distributed to the Committee and then outlined the set-up, purposes and finances of the Corporation.

Letters from Canadian Exporters' Association and the Canadian Chamber of Commerce were read into the record.

Mr. Aitken replied to the points raised in the letters mentioned above and he was further questioned.

A request was made that the Corporation's Annual Report and other informational pamphlets be reproduced in future in both official languages.

Certain questions raised in a newspaper article were answered by the witness.

Agreed,—That a copy of a press release dated June 12, 1959, setting forth the principles of the *Berne Union* be printed as *Appendix "A-5"* to today's Proceedings.

The Chairman thanked the officials of the Corporation for their attendance and assistance.

At 11.00 a.m. the Committee adjourned until 9.30 a.m., Wednesday, June 1, 1960.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, May 25, 1960.
9.30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. I would like to point out that this is the first time, so far as I know, that a public accounts committee has gone into the question of crown corporations, so that, in effect, we are breaking new ground.

This morning we have asked the President and General Manager of the Exports Credits Insurance Corporation, Mr. Hugh Aitken, to come along, and he has brought with him Mr. A. W. Thomas, assistant general manager, and Mr. T. Chase-Casgrain, secretary. We also have along with the Auditor General, who is our chief advisor, one of his chief assistants, Mr. A. B. Stokes, who is the auditor in charge of this particular crown corporation, the Exports Credits Insurance Corporation.

I thought this morning, with your consent, we would call upon the Auditor General to make his statement first. Then I would introduce Mr. Hugh Aitken. If there are other witnesses, we can hear them later.

I might say that we have also received letters from the Chamber of Commerce of Canada and also from the Canadian Exporters' Association.

At this time I would like to welcome a new member, Mr. Payne, who I think was on this committee last year, if I am not mistaken. If not—well, we are glad to welcome you, Mr. Payne.

Now the Auditor General. Have you a report on the Export Credits Insurance Corporation?

Mr. A. MAXWELL HENDERSON (*Auditor General*): Yes, Mr. Chairman.

Section 18 of the Export Credits Insurance Act provides for the accounts of the Exports Credits Insurance Corporation to be audited by the Auditor General of Canada and the audited statements of such accounts included in the corporation's annual statement. Pursuant to this appointment and in accordance with the requirement of section 87 of the Financial Administration Act, the audit reports have been included in the annual report of the corporation, which, under section 85 of the Financial Administration Act, are required to be laid before parliament by the Minister of Trade and Commerce.

The audit report and financial statements of the corporation are included in the public accounts of Canada referred to this committee during its now current session, and as such cover the financial year ended December 31, 1958. Since this reference to the committee last March, the corporation has issued its sixteenth annual report and financial statements for the year ended December 31, 1959. This was submitted by the corporation to the Minister of Trade and Commerce under date of March 21, last, and tabled in the House of Commons on March 24, 1960. We therefore have more up-to-date figures available and for this reason, Mr. Chairman, it is proposed to refer to the 1959 figures at this time. I understand that the members of the committee have copies of both the 1958 and the 1959 annual reports and financial statements of the corporation.

The reports on the audit of the corporation's accounts both for the years 1958 and 1959 were given in the form prescribed by section 87 of the Financial Administration Act, and, as has been the case in past years, contained no qualification.

On the result from operations:

The excess of income over expense for the year ended December 31, 1959 amounted to $1,005,335, representing an increase of $34,273 over the result for the year ended December 31, 1958. After taking into consideration net recoveries from policyholders' claims, which dropped during 1959 as compared with 1958, the net result of operations for the 1959 fiscal year amounted to $1,164,400 as compared with $1,303,578 in the year previous.

The net result of operations for each year was credited to the underwriting reserve on the balance sheet in accordance with the requirement of section 11A of the Export Credits Insurance Act, which directs that any excess of revenues over disbursements is to be credited to this reserve to the extent required to increase it to $5 million. Since section 11A also permits the corporation to deduct from taxable income any amount so credited, no income tax has been payable with respect to operations in the two years.

Income for the year 1959 included $114,688 being the earned portion of the corporation's share of premiums in respect of contracts of insurance entered into under section 21 of the Export Credits Insurance Act. This share is 25 per cent of the original premium, 75 per cent of which was remitted upon its receipt to the Receiver General. The 25 per cent is retained by the corporation to meet its expenses and overhead arising out of such contracts.

Legislation to amend the Export Credits Insurance Act received royal assent on July 8, 1959. The main purpose of the amendments was to permit the corporation, when authorized by the governor in council, to give direct guarantees to lenders covering payment of negotiable instruments given the Canadian exporter by foreign buyers with respect to export transactions, and it also provided, amongst other things, that any losses under the guarantees would be paid out of the consolidated revenue fund. No guarantees under the amendment were required during the financial year ended December 31, 1959.

It will be noted from the statement of assets and liabilities that the balance at the credit of the underwriting reserve on December 31, 1959, of $4,905,479, together with paid-in capital of $10 million, totalled $14,905,479. This was covered by investments in government of Canada bonds and treasury bills at the year-end carried in the accounts of the corporation at a total amortized cost of $15,204,763.

Deferred premium income includes $584,265 being the unearned portion of the 25 per cent of premiums collected under section 21 of the act as at the close of the fiscal year.

There were no changes in the capital position of the corporation during either 1958 or 1959. The authorized capital of the corporation is set by section 10 of the act at $15 million. On the scope of the audit:

The corporation's books of account are maintained at its offices in Ottawa where our audit was carried out.

Our examination, both with respect to the 1958 and the 1959 fiscal years, included a review of all claim payments, recoveries and write-offs. Action taken to effect collection of old or outstanding claims was reviewed and we noted that all reasonable steps appear to have been taken in effecting such recoveries.

Documentation supporting trading transactions was examined and a test verification made of exporters' monthly declarations together with relative contracts for the purpose of verifying premium income.

The balances on deposit with Canadian chartered banks were confirmed by direct certificates from the bankers and government of Canada bonds and other securities held at the close of the fiscal year were verified by certificate from the depositaries.

That completes our report, Mr. Chairman.

The CHAIRMAN: Are there any questions for the auditor general, gentlemen?

If not, at this time I would like formally to introduce Mr. Hugh T. Aitken, C.A.

Mr. Aitken was born in Montreal in 1912.

Graduating from West Hill high school in 1929, he entered the firm of P. S. Ross & Sons, chartered accountants, and obtained his C. A. degree in 1935.

During the war he worked in New York for the British Purchasing Commission as assistant director of finance for the British government in the U.S.A.

Mr. Aitken was appointed general manager of the Export Credits Insurance Corporation in May, 1945, and became president in 1954. He is widely travelled and spends a portion of each year abroad, visiting comparable organizations in other countries, and attending meetings of the Berne Union (Union d'Assureurs des Crédits Internationaux), an international organization of government owned export credits insurers, of which he is president.

I might say, in passing, that the Berne Union, as it is called, represents some 18 world countries, operating credit insurance along lines similar to that in Canada. This appointment, as was mentioned in the House of Commons some time ago, is a signal tribute both to Mr. Aitken, and to Canada as well.

It is my pleasure, at this time, to ask Mr. Aitken if he would care to tell us about his corporation.

Mr. H. T. AITKEN (*President and General Manager, Export Credits Insurance Corporation*): Mr. Chairman and gentlemen; first of all, I would like to refer to the documents in front of you.

You have a mimeographed copy of the remarks I will make, outlining the operations of the corporation.

In addition, you have a copy of the Export Credits Insurance Act, with a consolidation of part I of the act, under which this corporation operates.

Then, you have a small green pamphlet, which describes the facilities provided by the corporation.

There is a booklet entitled Export Credits Insurance Corporation, which covers what it is and how it operates. This is widely distributed in Canada.

Next, there is the annual report and the financial statement for the year ending December 31, 1959 and, lastly, a specimen copy of our Shipments Policy, which follows closely all the policies issued for export sales from Canada.

The Export Credits Insurance Corporation operates under the authority of the Export Credits Insurance Act which was passed by parliament in 1944. The act has since been amended several times. The corporation is administered by a board of directors including the Deputy Minister of Trade and Commerce and the Deputy Minister of Finance. In addition, there is an advisory council made up of men representative of wide fields of endeavour from coast to coast who meet periodically to advise the board of directors on the administration of the corporation.

In passing, I might mention that the amendments to the act, to which I have referred, have, in all cases, been made as a result of the recommendations and on the advice of the advisory council.

A list of the directors and the advisory council members appears on the back page of the corporation's annual report.

The corporation provides insurance at a suitable premium to Canadian exporters to protect them against non-payment by foreign buyers due to credit and political risks involved in foreign trade. The purpose of the provision of the insurance is to help increase exports from Canada.

The corporation insures persons carrying on business in Canada against risks involved in the export, manufacture, treatment or distribution of goods, or the rendering of engineering, construction, technical or similar services. The main risks covered include: insolvency or protracted default on the part of the buyer; exchange restrictions in the buyer's country preventing the transfer of funds to Canada; cancellation of an import licence or the imposition of restrictions on the importation of goods not previously subject to restriction; the occurrence of war between the buyer's country and Canada, or of war, revolution etc. in the buyer's country.

Incidentally, these risks are spelled out on the front page of the shipments policy.

The corporation was set up by the government because there are no commercial insurance organizations which will protect an exporter's foreign accounts receivable, except for one commercial concern which will insure an exporter's credit risks on sales to buyers in the U.S.A., but exporters who sell abroad cannot insure both credit and political risks with commercial insurers.

The insurance is available under three main classifications: general commodities, capital goods, and services. Coverage for general commodities may be procured by exporters under two types of policies: a contracts policy which insures an exporter against loss from the time he books an order until payment is received; or a shipments policy which covers the exporter from the time of shipment until payment is received. These policies may be described as whole-turnover or global policies, and cover all an exporter's business for a twelve-month period.

Insurance of capital goods offers protection to exporters selling plant equipment, heavy machinery, and so on, where credit terms may involve payment spread over three, four or five years. A specific policy is issued for each individual transaction involving capital goods, but the general terms and conditions are the same as those applicable to policies for general commodities. Specific policies are also issued to cover engineering, construction, technical or similar service contracts entered into between Canadian firms and buyers in foreign countries.

The corporation insures exporters on a co-insurance basis up to a maximum of 85 per cent of the amount owing by the buyer. Any recoveries obtained after payment of a claim are shared in the same proportions and thus the final net loss, if any, is borne 85 per cent by the corporation and 15 per cent by the exporter.

The corporation's capital structure provides for capital stock of $15 million of which $5 million is issued and fully paid, and $10 million is subscribed but not paid. In addition there is a capital surplus of $5 million paid in by the Minister of Finance. Thus the present paid-in capital is $10 million, all invested in government of Canada bonds, and this serves as a guarantee fund. The corporation is authorized under the act to take on liabilities up to $200 million which is ten times the aggregate amount of the subscribed capital and the surplus of the corporation.

Having regard to the limited capital, the corporation must spread its risks and cannot underwrite too great a concentration of risk in any one foreign country. Accordingly, where the board of directors of the corporation is of the opinion that a proposed contract of insurance would impose upon the corporation a liability for a term or in an amount in excess of that which the corporation would normally undertake in relation to any one contract, exporter, commodity or country, and in the opinion of the Minister of Trade and Commerce it is in the national interest that the proposed contract of insurance be entered into, then under section 21 of the Export Credits Insurance Act it is provided that the governor in council may authorize the corporation to enter into the

contract of insurance. In such a case any losses would be paid out of the consolidated revenue fund and the corporation's assets would not be affected. Premiums collected less the amount required to meet expenses and overhead arising out of such contracts are paid to the Receiver General.

Under the most recent amendment to the act (section 21A) the corporation may, when authorized by the governor in council, provide a guarantee in respect of an export transaction. Such a guarantee would be given to the financial institution lending money to a Canadian exporter to carry out the export transaction. The Minister of Trade and Commerce when introducing the amendment to the act in the House of Commons last year said that the guarantees would be given in connection with export contracts involving amounts of not less than $250,000 and where more than two years credit was required. The guarantee would be effective only after delivery of the goods by the exporter and acceptance of the goods by the buyer. Any losses under the guarantees would be paid out of the consolidated revenue fund. The guarantees are to assist in the provision of financing. Experience has shown that financing for smaller amounts and shorter terms is readily available.

From its inception to December 31, 1959 the corporation insured export sales valued at $511 million for its own account and $307 million for the account of Government under section 21 of the act. Premiums on the corporation's business totalled $5,337,084, and gross claims paid to exporters during the same period amounted to $9,792,884. Recoveries obtained were $6,994,857. Most of the claims resulted from exchange transfer difficulties with relatively few arising from insolvencies. The corporation was set up to help Canadian exporters but not to subsidize them nor, on the other hand, is it trying to make profits.

We are hoping to break even, over the long run.

The premiums which are charged are intended in the long run to cover the net losses and expenses. The excess of premium income over operating expenses and net claims, to December 31, 1959, was $733,730. This is less than 1/10 of 1 per cent on the $818 million of exports insured.

Internationally, credit insurance is considered to be so important that in almost al lthe industrialized countries of the world there are similar government facilities. While each country's credit insurance organization exists to help its national exporters compete in world markets, among themselves the insurers co-operate to promote orderly competition in credit. There is an international organization, Union d'Assureurs des Credits Internationaux, popularly known as the Berne Union, whose members represent export credits insurers from 18 countries.

The Berne Union was organized in 1934 and last year celebrated its 25th anniversary. The union fosters the development of credit insurance through the regular exchange of information, technique, policy and procedure, and members review, on a confidential basis, their experience in various countries. One of the most important questions discussed by members is that of credit terms. As insurers of suppliers' credits it is generally agreed that the maximum terms of credit for consumer goods should not exceed six months, and in the case of capital goods should not exceed a maximum of five years after delivery for even the very heaviest of capital equipment. The corporation has been a member of the Berne Union since 1947.

The corporation has its head office here in Ottawa, with branch offices in Montreal and Toronto, and is represented in Vancouver by a member of the Department of Trade and Commerce. The total staff at present is twenty-nine.

The CHAIRMAN: Thank you, Mr. Aitken.

I am sure you will appreciate, as all of us here do, that our purpose for having you here this morning is to learn as much as we can about the Export

Credits Insurance Corporation, have you explain any points that we may not understand, and obtain from you information concerning your corporation.

I do not want to appear to talk too much this morning, gentlemen, but I thought it migth lay the groundwork, if I read to you two letters which we have received. These letters are addressed to the committee.

The first letter is from the Canadian Chamber of Commerce, which raises certain points. I am sure you will be able to reply to these points, Mr. Aitken.

The second letter is from the Canadian exporters association, who submitted a brief some time ago to Mr. Churchill, the Minister of Trade and Commerce. A copy of that letter has been sent to us for our consideration.

I also have a very critical report—it is a write-up as published in the Montreal Gazette on May 4, 1960, containing a series of nine questions. I think we could put these questions to you, with the idea of drawing you out, and getting as much information as possible. Would that be suitable to the members of the committee?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: May I read this first letter? It is from Mr. D. L. Morrell, general manager of the Canadian chamber of commerce. It is dated May 20, 1960, is addressed to the chairman, and reads as follows:

> We understand that your committee is in the course of reviewing the operations of the various crown corporations and in this connection it occurred to the chairman and members of our foreign trade committee that your committee might like to have the following views should you be giving consideration to the powers under which the Export Credit Insurance Corporation operates.
>
> The Canadian chamber of commerce believes that there are no grounds for complacency in respect to the future financing of exports. All the evidence points to the fact that the future level of international trade depends upon the developing countries being able to get adequate financial assistance.
>
> Canada is providing financial assistance through its adherence to the world bank, the international finance corporation and the Colombo plan. The adequate financing of exports is but another step.
>
> Canadian exporters find themselves in competition with exporters in other countries not only in regard to the price and quality of their goods, and on delivery dates, but on the credit terms which they are prepared to offer.
>
> It is desirable that facilities be provided that will enable Canadian exporters to compete on an equal footing with those in other countries in respect to medium and longterm financing, both as to duration and costs.
>
> This is not necessarily incompatible with Canada's status as a net importer of capital, as the classes of capital goods that would be imported and those whose export would be financed, would not be the same. Government assistance is required.
>
> We have noted the amendments of last July to the Export Credits Insurance Act which were designed to promote the objectives set out in this letter and we feel that further experience is necessary before the general effectiveness of the new provisions can be properly assessed.

Mr. Aitken, have you any comments, in regard to this letter?

Mr. AITKEN: If I may, Mr. Chairman.

I think the clearest thing from this letter is that the Canadian chamber of commerce, through its general manager, Mr. Morrell, is really asking for assistance in financing.

The point is frequently cited that the Export Credits Insurance Corporation is, as its name implies, an insurance corporation. We do not finance, but we assist in obtaining financial assistance. With his policy, an exporter can go to his banker, assign any claims to the bank, and obtain the necessary financial assistance. However, Mr. Morrell is referring to financing of exports on long term credit.

The gist of all the requests from organizations, such as the Canadian chamber of commerce, is that they would like a Canadian counterpart of the U.S. Export Import Bank, to loan money abroad, on a longer terms basis, say 10, 15 or 20 year terms, in order that the Canadian exporter could get paid cash, and Canada would provide the loan to the foreign country. That is really what these organizations are requesting.

Mr. SMITH (*Simcoe North*): There was a point in that letter—and it also was mentioned in your statement—to the effect that the longest policy is for a term of five years.

Mr. AITKEN: Yes.

Mr. SMITH (*Simcoe North*): I was glancing through the act. Is that limited by statute?

Mr. AITKEN: No; it is limited by international practice.

Mr. SMITH (*Simcoe North*): It is limited by international practice, and not by statute.

Mr. AITKEN: Yes.

Mr. SMITH (*Simcoe North*): Have representations ever been made to you that you should have a seven-year policy?

Mr. AITKEN: Frequently.

Mr. SMITH (*Simcoe North*): That has been made by capital goods exporters.

Mr. AITKEN: Yes.

Mr. SMITH (*Simcoe North*): Five years does not seem necessarily to relate to the write-off or the depreciation period of most types of capital goods. What is the reason for limiting it to what, on the surface, appears to be an arbitrary five years?

Mr. AITKEN: There is nothing sacrosanct about the five-year period. It seems to us, in operating on the basis on which we are supposed to operate, that to try to look beyond five years is looking beyond a horizon past which we cannot go. Perhaps the figure should be three years. Perhaps, in using a reasonable business judgment, it should be three years. However, we have to consider international competition, and the legitimate requests of underdeveloped countries. Do not forget; it is the supplier who must obtain the financing.

Mr. SMITH (*Simcoe North*): He has to discount his contract.

Mr. AITKEN: Yes. His draft or promissory note is payable under the contract and, since we insure suppliers' credits, if seven years were granted, he would be carrying an account receivable on his books. It would be a sort of semi-frozen asset for a very extended period.

Mr. SMITH (*Simcoe North*): Assuming that a supplier was prepared to carry the account, there is nothing specifically that prohibits him from taking the seven years, to use any arbitrary figure.

Mr. AITKEN: That is correct.

May I refer to the Berne union. It was established, as I explained in my opening remarks, to promote the exchange of information, technique, policy and procedure and, at the same time, to promote what I might refer to as

orderly competition in the field of credit. No one wants to start a credit rat race. As far as consumer goods are concerned we would not insure fish and eggs sold on six months credit. Similarly, as insurers, in regard to agricultural equipment, such as large combines, tractors and so forth, which are sold internationally on terms extending up to three years credit, we will go as far as other exporter credit insurers in other countries, but we will not go past. We do not want a credit rat race. Therefore, for heavy capital equipment, we will go up to five years, which is what all the others will do. However, our position is that if terms longer than five years are required, then other means of assisting the sales should be sought, rather than the insurance of the Export Credits Insurance Corporation, which is really to insure suppliers' credits on a co-insurance basis.

Mr. SMITH (*Simcoe North*): In respect of many other countries, where the state interferes more with trading, there is nothing to stop them from starting a credit rat race in another phase, whereas we are more limited to the forms of credit insurance.

Mr. AITKEN: Yes. Yes; but at the same time the major exporting nations of the free world are members of the Berne union and as such observe the agreement. If you go to seven years, one might say why not go eight, nine or ten years. The question is where do you draw the line. There must be some place you stop. In our view the maximum to which we reasonably can go in providing insurance is five years.

Mr. SMITH (*Simcoe North*): Are we bound to the Berne union by treaty?

Mr. AITKEN: No sir. It is what you might refer to as a gentleman's agreement in international competition. We think we facilitate exports by providing credit insurance backing, but on a basis which is commensurate with what exporters in other countries can get. Frequently one hears the allegation by Canadian exporters that the Germans, Italians, and the British are giving eight, nine or ten years credit. When I go to Europe I hear exactly the same counter-charges by the Europeans.

Mr. SMITH (*Simcoe North*): Could we have attached as an appendix a list of the members of the Berne union.

Mr. AITKEN: I have it here. Norway, Sweden, Denmark, Germany, Holland, Belgium, France, Austria, Switzerland, Spain, Italy, the United Kingdom, Israel, India, South Africa, Australia, Canada, and the export-import bank of the United States is an associate member.

Mr. SMITH (*Simcoe North*): The United States?

Mr. AITKEN: Yes.

Mr. SMITH (*Simcoe North*): They are a member?

Mr. AITKEN: Yes.

Mr. PAYNE: Where a supplier enters into a contract for capital goods and the terms of repayment are over seven years, will you insure that portion which will fall due during the five year period.

Mr. AITKEN: No sir. We will go into an operation with an exporter on a complete basis or not at all. For instance, if he wants to grant a credit for $100,000 and it is a buyer whose credit standing in our opinion would warrant a credit limit of $10,000 we would not let him extend it to $100,000 and just cover the $10,000.

Mr. SMITH (*Simcoe North*): Have there ever been any discussions or representations made to you concerning re-insurance or co-insurance? Generally speaking what I hear about your organization is that it is good, but there is not nearly enough of it. Have there ever been any representations

made concerning re-insurance or co-insurance in the sense that perhaps commercial insurers would share the risk or underwrite or reassign your contracts? Has any suggestion ever been made in that connection?

Mr. AITKEN: No sir; there have not. I believe the reason is that there are no commercial insurance organizations operating in the field of export credits insurance covering commercial and political risks. Even Lloyds of London which everybody believes will insure anything at a premium will not handle credit insurance.

Mr. SMITH (*Simcoe North*): I wonder why some of the heavy exporting companies have never thought of perhaps supporting a new insurance company which would take that type of risk.

Mr. AITKEN: It is considered, from the point of view of export credits insurance protection against political risk, that those risks are incalculable and there is no actuarial basis on which premium can be computed. Accordingly no business concern will underwrite such insurance.

Mr. BISSONNETTE: On a question of privilege, would it be possible to have French copies of these documents?

The CHAIRMAN: Have we any copies in French?

Mr. AITKEN: We have, of our policy.

The CHAIRMAN: Do you have copies in French of these other documents which you have produced?

Mr. AITKEN: No.

The CHAIRMAN: They are not produced in French?

Mr. AITKEN: No.

The CHAIRMAN: Do you have a copy of your report in French?

Mr. AITKEN: No.

The CHAIRMAN: Is the report printed in French?

Mr. AITKEN: No. There has not been any demand for it.

Mr. DRYSDALE: There is now.

The CHAIRMAN: At your next meeting would you consider having your report printed in French?

Mr. AITKEN: Yes; we would be pleased to do so.

Mr. CHOWN: Are these premiums in any way dealt with as a separate bargaining piece within the Berne union? Are they in any way tied one with the other in different lines of export?

Mr. AITKEN: We discuss premiums at our meetings. My own view is that by and large the premium structure of all the countries tallies very closely one with the another, and with ours. Since we are all in the same type of business, we all insure credit and political risks abroad and the transfer risk, and we are all set up as non-subsidy organizations and do not try to make profits because we are acting on behalf of a government or are a government owned company, and of necessity the rates must be very similar over the long run. There could be occasions where our premium for a particular country might be higher than the premium of the United Kingdom for the same country, and conversely the opposite may apply in another part of the world. There was a case back in 1952 where Brazil had quite a holding of United States dollars but was very short of sterling, and therefore the risk of its being unable to pay the United Kingdom was much greater than the risk of its being unable to pay Canada, because Brazil's attitude was that even though it had enough dollars it would not want to convert them to pay sterling debts.

When Brazil got short on sterling she fell behind in her sterling payments and the United Kingdom had to raise its premium rates, and at that time it was higher than Canada's. Two or three years later, in 1955, Brazil ran short of United States dollars but had improved its sterling trade position, and our exporters were not paid. Gradually over the months our premium rate increased. We paid out some $3 million in credits to exporters who had blocked accounts in Brazil, and United Kingdom exporters were being paid on the button.

Mr. CHOWN: When you pay out on a premium do you obtain the subrogation rights and proceed in the name of your corporation or in the name of the insured?

Mr. AITKEN: As a rule we prefer to leave it in the hands of the insured. It is his business; we are not in the business, for instance, of exporting agricultural machinery and we prefer to leave it to the exporter to get after the buyer through his agents or bankers or the trade commissioner to collect the money. If it develops that we think we could handle it more efficiently, or get the money back quicker, we would certainly do it. I think there is only one case in which we actually took over an account.

Mr. CHOWN: There are insurance companies by the thousand in Canada which will insure risks.

Mr. AITKEN: Just domestic risks.

Mr. CHOWN: Are there not any in Europe?

Mr. AITKEN: There is the Trade Indemnity Company of the United Kingdom which insures domestic risks and also export credit risks, but just credit; in other words the insolvency of the buyer, and only to a selected group of countries—mostly the commonwealth, South Africa and the Middle East.

Mr. CHOWN: Is there any place in which there could be a field of cooperative effort between your corporation and a private insurer so that the work of your corporation could be extended in the sense that if, for instance, the private insurer underwrote the credit risk portion of the contract—maybe I am getting into a subject with which I am not too familiar—or the insolvency portion of your policies, it would thereby permit you to extend political risks.

Mr. AITKEN: That system is operated in Holland and in Germany. In Holland it is the N.C.M. and in Germany it is Hermes. Those organizations are private companies which handle export insurance business for the account of the state. In some cases they will take on a portion of the commercial risk—the credit risk; they do not cover the transfer risk and do not take on all the commercial risk. They are very selective.

However, in respect of the possibility of our corporation working with a private company, I really cannot see that it would increase the volume of business which we could do because at present it is very difficult to say precisely what volume of potential business we are covering. Suppose we say Canada exports $5 billion; we know that 60 per cent goes to the United States and we do not insure to the United States because there is a commercial concern which will insure. That leaves 40 per cent. Of the 40 per cent perhaps as much as 30 per cent out of the 40 per cent is done on a cash or letter of credit basis. That might leave 10 per cent. Of the 10 per cent there are the exports to NATO and the Colombo plan, and purchases made by the Canadian Commercial Corporation on behalf of foreign government buyers, none of which requires insurance.

On the average over the years we feel we have insured something in the order of 50 per cent of our maximum potential each year. We would be only too happy to increase the volume of business we do, because we are set up to increase exports.

Mr. SMITH (*Simcoe*): Under section 14, approximately what is the percentage of your limit of $200 million?

Mr. AITKEN: If you look at the annual report on page 6 in the left hand side of the page you will see the following:

> The liability of the corporation under the contracts of insurance issued and outstanding as at December 31, 1959 totalled $159,117,357, of which $98,956,360 was for contracts entered into under section 21 of the act—

That means the corporation had about $61 million. We were on risk for approximately $61 million.

Mr. SMITH (*Simcoe North*): Out of $200 million?

Mr. AITKEN: Yes.

Mr. SMITH (*Simcoe North*): So you would have lots of room.

Mr. AITKEN: Yes.

Mr. DRYSDALE: Since the majority of the liabilities is under section 21, why is there no detail in the report as to the loans under section 21? For example, I notice your liabilities in the 1959 report were some $69 million and in the 1958 report they were $51 million odd. Actually, there was a decrease of $8 million under your section 14 loans, the effect being that approximately out of every $3 loaned, $2 is under section 21.

Then I notice you have gone into an analysis of the countries, excluding contracts entered into under section 21 of the act. You have stated in the report there are only some 29 insurance policies. Would it be possible to have the breakdown as to the countries and the amount owing? I am wondering why this was not done in the statement.

Mr. AITKEN: I think you have an interesting point. The main reason is that all section 21 business is done by instruction from the cabinet to the corporation to insure, and since it does not affect the liability of the corporation in respect of its own assets, any payment we have to make, as you will note from the act, is paid out of the consolidated revenue fund.

Mr. DRYSDALE: Do you have any breakdown as to how the losses are incurred?

Mr. AITKEN: We have had no losses under section 21. We have never had a claim. There have been cases where a buyer asked to defer payments, but we never actually had to pay a claim under section 21 business.

In 1959 we insured exports of $13.9 million of wheat to Poland, $9.3 million of barley to Poland, and two sales by Canadair of CL44D aircraft totalling $68 million to buyers in the United States. One reason we do not report in detail on these sales in our annual report is that they are the subject of orders in council which are by the act required to be tabled in the house; so the information, so to speak, is there in advance.

Mr. DRYSDALE: I thought you said there were commercial enterprises which would handle transactions to the United States.

Mr. AITKEN: Not of this size.

Mr. PAYNE: Are the terms required under section 21 on the same basis as that which you have outlined for your general insurance?

Mr. AITKEN: Generally speaking I would hope they would be; but here is a case where the governor in council instructed us to insure sales of wheat to Poland. Those sales were made on three-year credit terms. Wheat generally is a cash business. On its own the corporation would not insure wheat on

credit terms. Therefore, it can be said that the government was going beyond the recognized terms for wheat sales in instructing the corporation to insure under section 21.

Mr. PAYNE: What about the other details of the sales insured under section 21?

Mr. DRYSDALE: In other words, those are the three, and your report says 29. This is on page 4:

> In 1959 goods to a value of $90,713,366 were insured under this section and the premiums on the 29 policies issued amounted to $2,291,096.

Mr. AITKEN: The wheat to Poland may have been by fifteen different exporters.

Mr. DRYSDALE: So these were the only transactions.

Mr. AITKEN: Wheat and barley to Poland and aircraft. 29 policies were involved. There were not necessarily 29 different exporters. There may have been 10 exporters, and 1 exporter might have had 4 separate contracts and 4 policies.

The CHAIRMAN: If I might at this point, I would like to raise a question. I have here a letter from the Canadian exporters' association addressed to this committee. I will read it:

CANADIAN EXPORTERS' ASSOCIATION
276 St. James St. West
Montreal 1, Que.
Canada

MAY 23, 1960.

Honourable Allan McNaughton, Q.C., M.P.
Chairman
Standing Committee on Public Accounts
House of Commons
OTTAWA

Dear Mr. McNaughton,

We have heard that the Standing Committee on Public Accounts plans to discuss the operation of a number of Crown Corporations, including the Export Credits Insurance Corporation. As we hold particular views on the latter, we enclose a copy of a brief submitted to Hon. Gordon Churchill, Minister of Trade and Commerce. In our discussions with the Minister in Ottawa on April 26th, he promised to give our submission every attention.

Best regards.

Sincerely yours,

J. C. McDerby,
General Manager.

J.C.McDerby/pb
Enclosure

The following documents are attached to the letter:

CANADIAN EXPORTERS' ASSOCIATION
276 St. James St. West
Montreal 1, Que
Canada

ARIL 21, 1960.

The Honourable Gordon Churchill
Minister of Trade and Commerce
Ottawa

Dear Mr. Churchill,

TERM FINANCING FACILITIES FOR EXPORTERS

We were pleased to learn through deputy minister Jas. A. Roberts that despite your heavy schedule you will receive a delegation from our association at 4.30 p.m. on Tuesday, April 26th, so that we may present certain views which we hold on the subject of term financing facilities for exporters. We are looking forward to this occasion with a great deal of pleasure.

Recently, we asked our members for an assessment of the term financing facilities available through the crown-operated export credits insurance corporation. This included long-term, medium-term and short-term facilities. Our survey reveals the following main points:

1. *Long-Term Financing* (Five Years and Over)

You will recall that the association's chief complaint under this heading two years ago was to the effect that for extended term business, running to substantial amounts, the banks were reluctant to provide the necessary financing. The banks apparently did not want to handle long-term paper themselves without the protection of export credits insurance, which was not forthcoming in most instances.

Under the amendments to the ECIC Act, passed by parliament last July, the corporation, by order-in-council, was authorized to provide direct guarantees to lenders on approved export transactions. The amendments also authorized the corporation to buy, sell and make loans on guaranteed export paper.

Our members in the capital goods field state that insufficient time has elapsed to enable them fully to test and assess the effectiveness of the new provisions. On the other hand, much disappointment has been registered with us regarding the method the government used to implement our request for better facilities. It is felt that the method fell far short of the program that CEA had in mind—the setting up of an agency to provide facilities equal to those of the Export-Import Bank of Washington.

At the last meeting we had with you on this subject, (January 1959) we all agreed that any move to increase the facilities was a step in the right direction. It was explained that the government "may not go as far as CEA wishes," and they would expect CEA to bring in a new case if dissatisfied.

Therefore, on the basis that Canadian exporters must overcome handicaps they encounter in foreign markets because of lack of aids comparable to those enjoyed by competitors in other industrial nations, particularly in the field of credit, the association recommends that the government should once again examine the brief we submitted to The Right Honourable the Prime Minister in June 1958, calling for the setting up of an agency to provide term financing facilities equal to those of the Export-Import Bank of Washington.

2. *Medium-Term Financing* (2-3-4-years)

Our members feel that there is not sufficient "flexibility" in the ECIC regulations and, more particularly, in the interpretation thereof to enable the exporter to meet current international competition in export financing arrangements on what are known in the trade as medium-term transactions. The practices of the ECIC are declared by our members to be unduly conservative, and even restrictive, when considered in the light of what other countries are doing regardless of the Berne union of export credit insuring countries and their agreements about length of terms and other matters.

Our members are unanimous in their praise of the capable administration of the ECIC once a contract has been accepted. But it would appear that there is not enough flexibility permitted under the act and that there should be some relaxation in its restrictive features.

Our survey revealed the following points which we consider to be of interest:

(*a*) *The Concept*

There is a widely held opinion that ECIC is more concerned with running a profit-making insurance company than it is with helping exporters. When CEA fought to get export credits insurance, it was definitely on the basis that the government was willing to take some risk to protect and help Canadian industry. It has not worked out this way. It seems that the corporation protects only what they are sure of and collects a handsome premium in the process. (It is to be noted from the corporation's annual report for 1959, for example, that accumulated profits amounted to $8,125,000.)

(*b*) *Transactions Under $250,000*

One specific point of ECIC practice which we consider to be unduly restrictive is that of not covering transactions under $250,000 on a medium-term basis. As many foreign sales of our members are in this category as their competitors in other countries are not so restricted, this is a matter of great importance.

The Export-Import Bank of Washington calls public attention to the fact that the size of the transaction in no way affects the availability of financing. Accordingly, this bank is of much assistance to small business in the United States. In fact, we notice that the majority of the bank's transactions are in amounts under $100,000 and run as low as $700.

We should also like to mention here that to require an order-in-council for approval of each application for credit insurance for a 2-year term or over, is time-consuming.

(c) *Definition of Capital Goods*

Some of our members feel that their products should be classed as capital goods. For example, it is felt that the following should qualify: copper bus bar for a power plant installation; copper plumbing and service tube for large structures such as hospitals, office buildings, hotels, etc.; copper alloy condenser tube for condensers and heat exchangers in ships, steam generating stations, etc.

We believe that there exists an overly-narrow definition of capital goods eligible for export credit guarantees under the act and, therefore, that consideration should be given to broadening the present definition.

(d) *Canadian Content*

One of our members writes: "We are obliged to offer plants comprising items of equipment not manufactured in Canada. The foreign content of these contracts sometimes runs to 40 per cent or 50 per cent. ECIC will not insure such a transaction and, because of competition, we are unable to obtain satisfactory letter of credit terms. Therefore, we cannot compete. Admittedly, the Canadian government should not be put at risk in order to insure the exports of a foreign country. However, the practical effects will be that the Canadian portion of the order will be lost. Either we shall have to refrain from bidding or the equipment will have to be manufactured by our United States subsidiary company so that the sale may be financed by the Export-Import Bank of Washington."

While the foregoing is the single instance of this nature reported in our survey, we suggest that a lower Canadian content requirement by ECIC than the 75-80 per cent usually called for would be worth considering as a further stimulus for some of our exports. The present requirement would appear to be unduly restrictive.

(e) *Geographical Limitations and Length of Terms*

Our survey reveals a number of instances where there is a wide difference of opinion between the exporter and the corporation on the question of coverage for sales to markets such as Indonesia, Turkey, Spain, Iran and, generally, Eastern and/or less-developed countries. The question appears to centre mainly on the term for which coverage will be granted. Where the call is for 4-year terms, the corporation will grant 3, and the corporation will not consider 5 years at all, although competitors are doing so. In other markets of the world, the corporation is more liberal.

As members of the Berne union of export credit insurers, the corporation is prone to refer to agreements reached by the member countries, in that terms of payment for insured export transactions do not differ from those usual in the trade concerned, and also that certain "geographical limitations" are observed.

The problem here is that some of the supplying nations competing with Canada are not members of the Berne union, or, if they are, they do not always conform. On top of this, Canada is competing with uninsured exporters but who probably have the backing of their respective governments. Because of

ECIC's conformity with and adherence to the agreements under the Berne union, we are led to believe from examples submitted to us that Canada is jeopardizing her competitive trade position. It appears to us that the corporation should consider taking more risks in less-developed countries where other supplying nations are doing so.

3. *Short-Term Financing* (Consumer goods—180 days to a year)

Our survey reveals no dissatisfaction under the heading of short-term insurance.

4. *United States Competition*

In connection with term financing facilities in general, we draw to your attention the following announcement which was included in a recent statement made by President Eisenhower to the Congress of the United States, dealing with steps to be taken to develop a program to promote the growth of United States export trade:

> To assist our exporters to meet current international competition in export financing arrangements, the Export-Import Bank will inaugurate a new program of guarantees of non-commercial risks for short-term export credits. The bank will also expand and improve its existing credit facilities for medium-term export transactions. These steps, which can be taken under existing statutory authority, should improve the ability of your exporters to compete in world markets. These arrangements will be designed and administered to encourage full participation of commercial banks and other private sources of credit and guarantees.

5. *Conclusion*

Our survey reveals a need for further amendments to the ECIC Act so as to make Canadian exporters competitive with suppliers in other countries. Perhaps our most important discovery is a general feeling amongst our members that the underlying philosophy of export credits insurance needs an overhauling. The act needs to be brought up to date to meet the new conditions.

Attached to this letter is a memorandum setting forth instances of business lost because of inability to meet the credit terms offered by competing nations, along with excerpts of some of the comments which reached us.

Once again, we shall look forward to the pleasure of meeting you on April 26th.

Sincerely yours,

I. C. Campbell, Chairman,
Government Liaison Committee,
Canadian Exporters Association.

ICC/pb
Enclosure

Copy to: Mr. James A. Robert,
Deputy Minister of Trade and Commerce,
Ottawa.

TERM FINANCING FACILITIES FOR EXPORTERS

Memorandum Attached to Brief to the Hon. Gordon Churchill, Minister of Trade and Commerce

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Extracts from some of the replies to the Association's survey of its Members

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1. We have recently quoted to Uruguay on a $125,000 deal, 15 per cent to be paid on receipt of the goods, 15 per cent on delivery and the balance to be paid over three years semi-annually. These terms were to match those quoted by our Swiss, German, Italian and United States competitors.

ECIC refused to issue the necessary guarantee because they say the amount is too small and that the chartered banks of Canada should be willing to finance the transaction. This they will not do without the ECIC guarantee, or alternatively, making other arrangements for security of the loan, which would involve mortgaging our plan. It is manifestly absurd to expect Canadian exporters to finance their sales abroad by such means.

* * *

2. ECIC has indicated that the ECIC board would not wish to insure transactions of the order of $60,000 over two to three years, feeling that transactions of such a size should be on a cash basis. Unfortunately, our Italian and Swiss competitors are prepared to insure. On a $60,000 offer of equipment, they are reported to be extending three to five year terms, which we are unable to match.

* * *

3. An investment of, say $75,000 is, for many of our foreign buyers, a substantial one. Most of our market lies in the less developed countries and the prevailing high level of interest rates in these countries is well known. Accordingly, an offer of three year terms at, say, 7 per cent interest will be very attractive to a company in a country where the local rates may be between 15 per cent and 20 per cent. Further, operation of the equipment in an area where it has not previously been available is frequently so profitable that three years may be a sufficient time to recapture the cost of the plant. In other words, the buyer will have obtained his equipment abroad at a capital outlay amounting to little more than the down payment at time of delivery! Under these circumstances, an offer of terms can be more important than an offer of lower price or greater efficiency.

* * *

4. Length of terms on which ECIC will grant cover is a matter of prime importance, and is something which we should all keep under constant surveillance.

* * *

5. It is my personal conviction that adhering to the principles of the Berne union, and following the recommendations and experiences of other countries, could, if we are not careful, lead us in the very direction that some of the supplying countries would like to see us headed... where we will find no market for our manufactured goods.

The decline in our company's exports has now reached serious proportions. Unless we can look for substantial easing of ECIC policies, permitting us to extend longer terms to some of our markets, then we will be unable to compete in both prices and terms. For our products, selling on a cash basis is out of the question these days, in face of the lower prices the European competition can offer.

* * *

6. We used to be one of ECIC's largest accounts but during the past 3 years our business has slipped to where it is just a fraction of what we were obtaining. We can't lay all the claim for loss of overseas business to length of terms that ECIC will cover, but it is a large factor. We have insurmountable barriers to climb that are not of our choosing when we look at the premium on our dollar, the 20 to 30 per cent lower prices of European competition, and the shorter terms for which we can get cover.

* * *

7. Up to the present we have been about the only exporter of civil aircraft and we have been faced with intense competition from the U.S., U.K., France and Germany where credit terms have been extended on a much freer and lower cost basis over a longer period of time than we have been able to quote from Canada.

In the U.S. particularly, the government corporation actually lends the capital whereas in Canada the best we can do is to obtain insurance for 85 per cent of the liability and then draw on our own working capital or extend our bank credit on the basis of the insurance. If the account is guaranteed or if the notes are discounted, extra costs are involved and we find in some cases the cost of financing over a three year term runs to about 15 per cent of the total ordinary selling price. This along with the premium on Canadian money has certainly placed us at a very serious disadvantage.

Personally, I still feel that the facilities of ECIC should be expanded to provide loans to purchasers in other countries, especially governments, at reasonable rates of interest over periods up to ten years where necessary, as I believe it is better to loan money to underdeveloped countries on favourable terms than to give them supplies and equipment as a gift.

* * *

8. With foreign government purchasing bodies, the maximum terms acceptable to ECIC are 3 years. Recently, terms for the following were rejected:

Mexico

Banco Nacional de Credit Ejidal, S.A. are in the market for some machinery on which they were requesting between four and five years, with a guarantee of Nacional Financiaria S.A. All we can get from ECIC is 3 years.

Brazil

They are asking for 5 year terms for large purchases of equipment, spread over 5 years with no cash down payment of 12 months, payments to be divided equally over the last four years. The best that ECIC will consider is 20 per cent cash down payment, before shipment, with 3 years in which to pay the balance.

Indonesia

This deal is still alive if we can grant 5 years. Three years is the maximum which ECIC will grant. Czechoslovakia were able to put machinery into Indonesia on a 7-year term basis. Indonesia likes our equipment, and would buy from us if we could give them 5 years. We could get the Central Bank of Indonesia's guarantee of payment and transfer.

Paraguay

A deal could be worked up with the Central Bank on a 5-year basis but the best we can do is to offer them three.

The CHAIRMAN: I also have a newspaper report from the Montreal *Gazette* of May 4, 1960, which pretends to be more or less of a summary of the critical part of the brief presented by the Canadian Exporters Association. I have already asked Mr. Aitken if he would be prepared to answer these questions. He said he not only would be prepared to answer them but he would be delighted to, because he feels his side of the story should be brought out.

Would that be the pleasure of the meeting?

Agreed.

The CHAIRMAN: This is a report by a reporter. It is not a Canadian Press report. It is unsigned. I know that the business world is very interested in these points and Mr. Aitken's explanation would help to clear this up.

The report of the *Montreal Gazette* of May 4, 1960, is headed "ECIC Said Too Rigid"—that is your corporation—

> Exporters press Ottawa for early action. Canadian export business is being lost through the absence of adequate export credit guarantees, the Canadian exporters' association charges in a submission to the Department of Trade and Commerce.
>
> The submission contains documented instances of sales lost to foreign competitors because of the limited scope of the facilities provided by the crown-owned export credits insurance corporation.

Mr. AITKEN: Attached to the brief was a memorandum quoting some submissions from members of the C.E.A. Our examination of the memorandum makes it quite evident to us that the allegations are from only three exporters; so that the submission seems to be based on letters from only three members of the C.E.A.

The CHAIRMAN: I would like to go on. The report continues:

> Hope for their improvement is also provided by the statement in Mexico of Prime Minister Diefenbaker that the government was willing to provide export credit guarantees of up to seven years.

This is only a newspaper report and we are getting awfully close to policy. If it is embarrassing, do not answer.

> Mr. Diefenbaker was believed to be referring to the efforts by two Canadian steel companies—Algoma and Dosco—to secure a Mexican order for steel rails.

Mr. AITKEN: There is no limitation in the act as to the term, and the government could instruct us to do anything it wanted under section 21 with regard to rate, term, amount or country. We would not enter into terms extending beyond five years, so far as we are concerned.

The CHAIRMAN:

> The Canadian suppliers were earlier reported to be able to compete with other foreign bids in price but not in terms of credit.

Mr. AITKEN: It is a fact that rails are sold internationally on credit terms extending from two to three years. I know of only one case where rails were sold from a foreign country to another country backed by export credit insurance in which the terms were four years. The complaint here really refers to the export-import bank financing to the Mexican National Railways where the bank lends to the Mexican National Railways money on ten or fifteen year repayment terms and the American supplier gets paid cash; but the American supplier is not offering any credit. We are insurers of suppliers' credit; we do not finance; we insure. There is a confusion in the minds of many—the public generally and exporters. Since the problem of financing is very closely allied to that of credit and since we are the only organization—the Export Credits Insurance Corporation—which directly assists an exporter in connection with financing, they tend to associate the requirements for financing with us, and any requests for additional assistance to exporters stems from demands for long term financing.

The CHAIRMAN:

> Specific complaints against existing credit guarantee facilities presented by the C.E.A. included the general charge that there is not sufficient flexibility in ECIC regulations and interpretation of them.

Mr. AITKEN: That was practically the way the brief read. There are no specific comments except one. The complaint was that the corporation would not insure unless a substantial portion of the order was manufactured and produced in Canada. We were set up to insure exporters and thus increase exports from Canada. I do not think it is too interesting to us in Canada to insure a sale in which perhaps only 30 per cent is made in Canada and 70 per cent made in the United States. We want the shoe on the other foot. We want to insure 70 per cent from Canada.

The CHAIRMAN: It goes on to say:

> The practices of the ECIC are found by our members to be unduly conservative and even restrictive when considered in the light of what other countries are doing, the C.E.A. brief says.

Mr. AITKEN: The allegation in the brief is we were too conservative and restrictive with regard to insuring credits granted to underdeveloped countries. An analysis of the annual report indicates that about a third of the business we insure is going to underdeveloped countries.

The CHAIRMAN: The next is:

> The brief notes that there is a widely-held opinion that ECIC is more concerned with running a profit-making insurance company than it is with helping exporters.

Mr. AITKEN: If I may go on to the next paragraph, it says:

> It is to be noted from the ECIC annual report for 1959 that accumulated profit amounted to $8,125,000.

If you look at the centre page of our annual report, page 7, the second column, you will see the figure of $8,125,324. That includes our accounts payable on policy holders' premium deposits, deferred premium income, and an item of reserve of $4,900,000.

Mr. CHOWN: I think it would be a help to the official reporter if you went over that again.

Mr. AITKEN: Included in the $8,125,000, as you can see from the statement of assets and liabilities, are a number of actual liabilities—such as accounts payable, policy holders' premiums, deposits, and so on—and the underwriting reserve at December 31, 1959, was $4.9 million.

And if you will look at the previous page of the annual report, page 5, at the top of that page you will see that the premiums to December 31, 1959, totalled $4,944,043; operating expenses and net claims totalled $4.2 million; so that the actual surplus on operations before interest on investment was $733,730.

How much closer can you be? We have a surplus on operations before interest on investments of one-tenth of one per cent, after 15 years of operation.

The CHAIRMAN: Other complaints include refusal of ECIC to insure transactions of less than $250,000, too narrow definition of what constitutes insurable goods, too rigid requirement of Canadian content in insurable goods, and pronounced differences of opinion between ECIC and exporters over what is an acceptable period of coverage and what areas are acceptable risks.

Mr. AITKEN: Well, with regard to the complaint that we refused to insure transactions of less than $250,000, I think there is a complete misunderstanding or error in the report here, because if you look at page 3 of our annual report you will see that of the total policies in force we have 45 policies where the annual export volume, the total volume for the year, is less than $25,000. They are made up of a multiplicity of exports which may range from $100 up to several thousand dollars.

Then they refer to too rigid requirement of Canadian content in insurable goods. I would like to mention that we have had cases where the exporter came to us and said: "I can get an order for, let us say, $100,000 of which $50,000 will be Canadian made, and $50,000 I shall have to import from the United States."

We said: "We think that is too low a proportion of Canadian content for us to give an 85 per cent cover for the whole $100,000". So we said: "What you should do is try to find an alternative source of supply." And, by gum, they have gone back and been able to find another $40,000 here in Canada, on a supply and price basis quite comparable with what they could have obtained in the United States. So I think we have been able to increase the Canadian content of capital goods by such a requirement.

Yet they say that we are too rigid, and in the brief they refer to 75 per cent minimum of Canadian content which they say we would like to have. As a matter of fact we have insured in many cases where the Canadian content was less than 75 per cent, considerably less, and where we were satisfied that there was no alternative source of Canadian supply.

Then they complain that we adhere too closely to the agreements ratified through the Berne union.

The CHAIRMAN: That was to be the next question, but you may continue if you wish. The ECIC, the CEA brief notes, is adhering too closely to the agreements ratified through the Berne union of export credit insurers, while the agencies of competing countries do not.

Are you speaking as Mr. Aitken, or as president of the Berne union now?

Mr. AITKEN: No, as president of the Export Credits Insurance Corporation, but as a member of the organization, the Berne union. I am quite satisfied that these statements are not correct. Our experience is that when a customer in one country loses an order, and it may be for any one of a number of reasons, his agent will say: "Well, that was because that other country offered longer terms."

Your buyer in trying to get better terms will say: I can get so many years from such and such a country, and if you will just meet them, maybe I can give you the business."

There is continual competition in world trade for credit: and it is only by following a code of conduct, so to speak, in our view—the members of the Berne union—that we can have orderly competition in international trade.

Mr. SMITH (*Simcoe North*): Do you think it would be possible to have the terms of the Berne agreement or the bylaws of the Berne agreement filed as an appendix to our minutes, or are they too long?

Mr. AITKEN: No, there is not any legally phrased document which sets them forth.

Mr. SMITH (*Simcoe North*): I understand we are not bound, therefore?

Mr. AITKEN: I could send you a copy of our last year's press release which sets forth very clearly the precise conditions to which we all adhere.

Mr. SMITH (*Simcoe North*): That is fine; I think that would be of considerable help. And I have one other question: is there any possibility that some of the countries which are adhering ostensibly to the group, to the terms of the Berne union, are by other government devices defeating or circumventing generally the terms and conditions?

Mr. AITKEN: That allegation is occasionally made, but I am satisfied that it is much more than by and large not the case. I believe that it is not inconceivable that there could be an odd example of a country departing from the general understanding.

For instance, each year at the Berne union I have it thrown up in my face —and it is a little embarrassing this year—that Canada insures the sale of wheat with a three year credit term, when wheat is a cash commodity.

The CHAIRMAN: The last question is:

> Our survey (of members) reveals a need for further amendments to the ECIC Act so as to make the Canadian exporters competitive with the suppliers of other countries, the CEA submission concludes.
>
> Perhaps our most important discovery is a general feeling among our members that the underlying philosophy of export credits insurance needs an overhauling. The act needs to be brought up to date to meet new conditions.

I understand that as recently as July 9 of last year the government did completely overhaul the act, making the terms and conditions much easier. Perhaps you might explain what those revisions were?

Mr. AITKEN: Last spring the Export Credits Insurance Act was amended to permit the governor in council to authorize the corporation to give guarantees in cases where, as the Minister of Trade and Commerce explained in the house, those guarantees would be applied to capital goods sales of not less than $250,000, and where not less than two-year credit was involved.

The reason these limitations were imposed or recommended was that financing for a similar amount on shorter terms is readily available from the chartered banks; but there is a field for financing all the way from a quarter of a million, to very substantial sums, and between two years credit and five years credit, where the corporation will insure, and where the exporter sometimes has difficulty in getting financing. For instance, perhaps in a period of so-called tight money, even the more well to do organizations backed by an export credits insurance policy, might find it difficult to get the necessary financing from the bankers. After all, the insurance policy is issued subject to certain terms and conditions. It is not an irrevocable undertaking. On the other hand the banks like to have it. It was felt that by giving such an undertaking, and establishing an unconditional guarantee, it would induce alternative sources to provide those funds more readily than might have been the case with only an export credit insurance policy.

Mr. SMITH (*Simcoe North*): You are actually authorized under that section to make loans yourself?

Mr. AITKEN: It goes on to say that we may purchase such a guaranteed security.

Mr. SMITH (*Simcoe North*): And in effect make loans?

Mr. AITKEN: In effect, yes.

The CHAIRMAN: Have you had any request for assistance under the 1959 amendments?

Mr. AITKEN: We have had a number of requests, which arose in the normal course of our discussion with exporters, concerning capital goods business; and we have indicated to exporters that in our view guarantees would be available, were the sale to materialize.

We have had only two cases where we gave an actual commitment based on the amendment. A memorandum was submitted to the cabinet, and the cabinet specifically said that they would authorize us to give a guarantee, were the sale to materialize. But the contracts are still under discussion, and no such guarantees have been given since the act was amended.

Mr. CHOWN: Is it indicated anywhere in the report as to the number of applications for all types of insurance that you processed during the year, and the number that you have filled under the various sections of the act, or could you present that information to us at the next meeting of our committee?

Mr. AITKEN: I would be very pleased to do so.

The CHAIRMAN: The president wants to leave next Wednesday for a meeting in Spain.

Mr. CHOWN: But the vice-president could give it, or are we going to complete our examination this morning?

The CHAIRMAN: It looks that way, unless there are a lot of questions.

Mr. AITKEN: Perhaps I could answer your questions in 30 seconds, Mr. Chown. Where short term business is concerned, that is, an exporter who sells consumer goods on 30, 60, or 90 days, we do not turn down any application for insurance. We are most anxious to insure. But we will not insure on a term going beyond what is normal for the particular commodity.

With regard to capital goods policies, we problably get 100 inquiries where there are perhaps 50 possibilities of making a sale, which result in ten serious negotiations, with one ultimate sale.

Mr. SMITH (*Simcoe North*): Well then, is it not a fact that the amendment to section 21 A-2 puts you into a secondary insurance cooperative position, along with other commercial institutions? Under the order in council you have the power to sell and guarantee, and the power to make direct loans?

Mr. AITKEN: That is really in connection with a loan made by some financial institution, not by an insurance company. They would be borrowing from some other financial institution. It is quite conceivable however that it could be an insurance company.

Mr. SMITH (*Simcoe North*): My other question is this: how often does your advisory council meet?

Mr. AITKEN: Once a year, every year.

Mr. SMITH (*Simcoe North*): You meet only once a year?

Mr. AITKEN: That is right; but we consult the members of the council periodically throughout the year on the various fields in which they are particularly expert.

Mr. SMITH (*Simcoe North*): Is that annual meeting an extended one?

Mr. AITKEN: It lasts for one or two days. What happens is this: we meet in the morning and we review all the statistical detail. I am afraid that some of our advisory council members think that it is too exhaustive. We review the statistics and our experience, and our present position. Then we discuss the general export picture, and requests by exporters for extension of our

facilities; and as I mentioned previously, every time the act has been amended —and it has been amended five times—it has been done on the basis of a recommendation from the advisory council.

Mr. SMITH (*Simcoe North*): At each meeting of the advisory council is there a discussion of possible improvements to the corporation and to the act itself?

Mr. AITKEN: Every time.

Mr. SMITH (*Simcoe North*): I have one more question: on page 2 of your summary the total losses are given. And included in those losses, is there a payment in connection with—I think it was the Ming ships?

Mr. AITKEN: No, we had nothing to do with that, thank goodness.

Mr. SMITH (*Simcoe North*): That is not part of your losses?

Mr. AITKEN: No sir.

Mr. BELL (*Carleton*): For which you are thankful.

Mr. ROBICHAUD: I understood you to say that exports to the United States were covered by private insurance companies.

Mr. AITKEN: Yes.

Mr. ROBICHAUD: On page 11 of your report you give an analysis by countries of actual risks underwritten during 1959, and you have the amount of $1,330,358 in respect to the United States. What is your comment on that?

Mr. AITKEN: There are a few exporters who, because of their widespread export business, sell perhaps to 50, 60, or 70 countries, one of which is the United States. So, rather than have two policies—one just to cover 69 countries, and another to cover just one country, the United States—they all want it in the one policy. Accordingly we will cover the United States in such a case.

Mr. KEAYS: Mr. Aitken, did not the United States just recently extend their facilities to their exporters?

Mr. AITKEN: Yes. The Export-Import Bank starting May 23, just two days ago, has extended its facilities to their exporters, to insure them against political risks, but only for terms up to 180 days.

We have for 15 years been insuring Canadian exporters against political risks and credit risks, so our coverage is more extensive than that presently offered by the United States.

Mr. KEAYS: So we may conclude that Canada goes further than the United States in the help that we give to our exporters?

Mr. AITKEN: In the consumer goods field, yes.

Mr. SMITH (*Simcoe North*): But not in the loan field?

Mr. AITKEN: For insurance, yes, that is correct.

Mr. DRYSDALE: Mr. Aitken, I notice you state in your brief entitled "Export credits insurance corporation, what it is and how it operates", at page 5, as follows:

> The corporation does not cover trade disputes nor repudiation by the foreign buyer.

Have you had any claims, or any interpretation about that? Because in reading through the act and the terms of the policy, I see nothing which would exclude trade disputes.

Mr. AITKEN: I think a very careful examination of the risks insured would indicate, for instance, under No. (i) in the policy, that we pay where the buyer is insolvent. If the buyer gets goods and then goes bust, we would pay. But we do not cover trade disputes as such.

Suppose a customer ships an order of gloves, and the buyer says "I wanted green gloves, and you have shipped me pink ones." We would say that he would have to settle his dispute before we would have to pay.

Mr. DRYSDALE: In No. 7 you say:

> (VII) any other cause not being within the control of the Exporter or of the buyer, which arises from events occurring outside Canada and the continental United States of America; ...

Mr. AITKEN: Not being within the control of the exporter or of the buyer—there must be an admitted debt; and if you will look at risk No. (ii), you will see that it says:

> (ii) the failure of the buyer to pay to the Exporter within 12 months after the due date of payment the gross invoice value of goods of which delivery has been duly accepted by the buyer, ...

If the buyer refuses delivery, we would not pay.

Mr. DRYSDALE: I mean where after acceptance of the goods there is a trade dispute.

Mr. AITKEN: If there is acceptance and delivery, we could pay under No. (ii).

Mr. SMITH (*Simcoe North*): You do refuse to insure the sale of pure bred Holsteins to the Argentine republic?

Mr. AITKEN: We did so on 90 days credit about 11 years ago.

Mr. SMITH (*Simcoe North*): Only on 90 days credit?

Mr. AITKEN: Yes sir.

Mr. SMITH (*Simcoe North*): Have you ever had an application for a longer term?

Mr. AITKEN: Yes, we have been asked to insure for a longer term, up to five years, but in our opinion cattle are not sold internationally on that basis.

The CHAIRMAN: Thank you, Mr. Aitken, for attending and helping us today.

The next meeting will be on June 1, when we will have the Crown Assets Disposal Corporation in attendance.

APPENDIX "A-5"

The following press release was produced by the officials of Export Credits Insurance Corporation for the information of the Committee

PRESS NOTICE

The Berne Union of Export Credits Insurers held its 16th Annual General Meeting in Amsterdam, which this year coincides with the 25th Anniversary of its foundation. Delegates attended from Austria, Belgium, Canada, Denmark, France, Germany, Israel, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, U.S.A. Members from Australia, India and South Africa were unable to attend. The International Bank for Reconstruction and Development and the Italian National Institute sent observers.

The Meeting held its sessions under the Presidency of Mr. Jacques Levy, President-General Manager of the Compagnie Francaise d'Assurance pour le Commerce Exterieur at the premises of the Nederlandsche Credietverzekering Maatschappij N.V., from the 9th to 12th June.

As is customary, the experience of each Company during the past year, the common problems of export credit insurance and guarantee technique, were discussed, and the economic outlook in various countries reviewed.

The Conference again gave careful consideration to the terms of payment for the various classes of goods eligible for export credit insurance.

In conformity with the principle that the terms of payment for insured export transactions should not differ from those usual in the trades concerned, the Conference was of the view that it was one of the main purposes of the Berne Union to keep all member organizations currently informed of normal commercial practice by maintaining a system of continuous consultation and exchange of experience. The object of this procedure is to avoid a situation in which individual credit insurers could place their exporters in a more favourable competitive position than those in other countries by agreeing to cover abnormal terms of payment. The Conference understood normal commercial standards to involve, for example, a credit period not exceeding six months for consumer goods a somewhat longer credit for durable consumer goods and light equipment and a credit period not exceeding five years after shipment or delivery for heavy capital equipment.

The Conference also was of the opinion that reasonable commercial practice called for adequate down-payments before shipment in all cases where Medium Term credits were covered.

The Conference expressed the hope that the normal pattern of trading conditions could be maintained without the stresses and distortions which would result from a credit race. The Berne Union through its Members is in a position to put its experience and assistance at the disposal of the Governments concerned should any question arise about terms of payment which appear to deviate from normal practice.

Mr. H. T. Aitken (1) was elected President of the Union for the coming year and Mr. C. P. H. Groenendaal (2) Vice-President. The next meeting of the Berne Union will take place in Spain.

(1) President and General Manager of Export Credits Insurance Corp., Canada,

(2) General-Manager Netherlands Credit Insurance Comp. Ltd., Netherlands.

Amsterdam, June 12th 1959.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

Respecting

CROWN ASSETS DISPOSAL CORPORATION

WEDNESDAY, JUNE 1, 1960

RECEIVED
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Library of Parliament

WITNESSES:

Mr. L. Richard, President and General Manager, *Crown Assets Disposal Corporation;* and Mr. A. Maxwell Henderson, *Auditor General for Canada.*

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23197-7—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, June 1, 1960.

Ordered,—That the Standing Committee on Public Accounts be authorized to sit while the House is sitting.

Attest.

L.-J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, June 1, 1960.

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

SECOND REPORT

Your Committee recommends that it be authorized to sit while the House is sitting.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

23197-7—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, June 1, 1960.
(10)

The Standing Committee on Public Accounts met at 9.30 a.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Bissonnette, Broome, Bruchési, Chown, Danforth, Drysdale, Fisher, Keays, Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, Morton, Payne, Pigeon, Regier, Smith (*Winnipeg North*), Stefanson, Stewart, Tucker and Wratten—(23).

In attendance: Representing Crown Assets Disposal Corporation: Mr. L. Richard, President and General Manager; Mr. T. P. O'Donoghue, Manager, Lands and Buildings Division; and Mr. L. M. Mondor, Assistant Comptroller.

From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Mr. A. B. Stokes, Supervisor of Audit of Crown Assets Disposal Corporation.

And also: Miss Paulette Cyr, simultaneous translator; and Dr. P. M. Ollivier, Parliamentary Counsel.

The Committee proceeded to its study of the operations of the Crown Assets Disposal Corporation.

Mr. Henderson, the Auditor General, read a prepared statement, expanding on the Auditor General's Report to Parliament, respecting the operations of the Corporation.

Mr. Richard was introduced and he outlined the set-up and functions of the Corporation.

A letter from the Canadian Association of Equipment Distributors was read into the record.

Agreed,—That the documents appended to the abovementioned letter be printed in the Committee's record; (*See Appendix "A-6" to today's proceedings*).

A letter from the Canadian Construction Association was read into the record.

Agreed,—That the following documents be printed as appendices to the Committee's proceedings as follows:

(a) Exchange of correspondence between the governments of Canada and the United States of America respecting provisions for the disposal of excess United States government property in Canada through the Crown Assets Disposal Corporation; (*See Appendix "B-6" to this day's evidence*).

(b) Analysis of sales by Crown Assets Disposal Corporation for the account of the United States Government from March 31, 1952, to March 31, 1960; (*See Appendix "C-6" of this day's evidence*).

Members of the Committee requested that the witness produce supplementary information at the next meeting.

Moved by Mr. Drysdale, seconded by Mr. Broome:

That a report on the operations of the Corporation by Price Waterhouse and Company be produced before this Committee, subject to approval by the Minister of Defence Production.

The motion was allowed to stand and the subject matter was referred to the Steering Subcommittee.

Mr. Bell moved, seconded by Mr. Macdonnell,

That the Committee seek permission to sit while the House is sitting. *Carried unanimously.*

At 11.00 o'clock a.m. the Committee adjourned until 9.30 a.m. Wednesday, June 8, 1960.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, June 1, 1960.

The CHAIRMAN: Gentlemen, we now have a quorum: will the meeting come to order, please. We are very pleased this morning to see that we are honoured by the attendance of the Speaker of the House of Commons.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Would you care to join our breakfast table up here?

Hon. Mr. MICHENER: Thank you. I am not a member; I think I had better take an observer's role.

The CHAIRMAN: This morning the business before the committee is Crown Assets Disposal Corporation. Just by way of introduction, I would like to present to you the President and General Manager, Louis Richard, M.B.E., who is sitting to my right. He has brought with him the assistant general manager, Mr. I. M. Mackinnon, M.B.E.

We also have, of course, our good friend the Auditor General, Max. Henderson, C.A.; the assistant Auditor General, Ian Stevenson, C.A.; and Mr. A. B. Stokes, C.A., supervisor of the audit of Crown Corporations, Auditor General's office, who I am sure you know.

I think it would be advisable if we started with the report of the Auditor General concerning this crown corporation. Then I will introduce Mr. Richard and we can get down to the activities of the corporation.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman, gentlemen: I have a brief statement here regarding crown assets disposal corporation which I should like to give you, in order to summarize the results of our examination of its accounts last year.

Section 13(4) of the Surplus Crown Assets Act provides for the accounts of the crown assets disposal corporation to be audited by the Auditor General of Canada and the audited statements of such accounts to be included in the corporation's annual report.

Pursuant to this direction, and in accordance with the requirement of section 87 of the Financial Administration Act, the audit report on the accounts for the year ended March 31, 1959, was included in the annual report of the corporation, which was laid before parliament by the Minister of Defence Production on June 30, 1959, as required under section 85 of the act.

These are the audit report and the financial statements included in the public accounts referred to this committee during its present session. The audit report on the accounts of the corporation for the year ended March 31, 1960, was made on May 13, 1960. We therefore have more up-to-date figures available and for this reason it is proposed to refer to both sets of figures at this meeting of the committee.

The report to the Minister of Defence Production on the audit of the corporation's accounts for the year ended March 31, 1959, was given in the form prescribed by section 87 of the Financial Administration Act and contained no qualification. The report on the audit for the year ended March 31, 1960, which as stated was given on May 13, 1960, was given likewise in the form prescribed by section 87 and likewise contained no qualification. It did, however, include the following explanatory comments which I would like to quote for the information of the members of the committee:

For the year commencing April 1, 1959, the governor in council (P.C. 1959-1/555 of May 7, 1959) authorized the corporation to retain 4 per cent of the net proceeds from sales of lands and buildings and 10 per cent of the net proceeds of all other sales and other income earned by the corporation to meet administrative costs and other expenses of the corporation. Formerly, the corporation was authorized to retain 10 per cent of the net proceeds of all sales made and of other income earned.

The governor in council (P.C. 1959-641 of May 28, 1959) on the recommendation of the Minister of Finance and the Minister of Defence Production, pursuant to subsection 3 of section 81 of the Financial Administration Act, approved of a direction being given to the corporation requiring it to pay to the receiver general, at intervals of not longer than six months, all of its surplus in excess of $100,000. The accounts of the corporation accordingly reflect the implementation of this direction.

"The provision for workmen's compensation of $40,706"—which is shown on the balance sheet of the corporation—is maintained to meet recurring payments, which amounted to $2,225 in the current year, with respect to awards to former employees or their dependents made under the provisions of the Government Employees Compensation Act.

The corporation was authorized in 1950 by the Minister of Trade and Commerce, under whose direction and control it then operated, to exercise and perform any or all of the functions, powers and duties which the minister was authorized to exercise and perform under section 5 of the Surplus Crown Assets Act. Authority for this delegation of functions, powers and duties by the minister was given by section 8 of the act, which also granted other powers to the corporation on the instructions of the minister.

The corporation, in its capacity as an agent of Her Majesty in right of Canada as provided by section 6 of the act and in the performance of the duties authorized by the minister, principally deals in the disposition of crown assets declared surplus by government departments.

In the year ended March 31, 1959, the net proceeds from sales on behalf of the government of Canada and others, together with interest earned, as recorded through the corporation's agency account, amounted to $9,859,892 of which $985,989 was retained by the corporation, under the authority of section 11 of the act, to meet administrative costs and other expenses. For the year ended March 31, 1960, the net proceeds from such sources totalled $8,548,490 of which $737,648 was retained by the corporation. The foregoing resulted in remittances to the receiver general in the amounts of $7,155,091 through March 31, 1959, and $7,500,019 through March 31, 1960. At this date the equity of the government in the agency account was $5,656,549.

Expenses of the corporation for the year ended March 31, 1959, totalled $538,970 and for the year ended March 31, 1960, totalled $605,787. Administrative and office salaries and employees' welfare benefits accounted for roughly three-quarters of the total expense under this heading. The excess of income over expenses amounting to $456,472 for the year ended March 31, 1959, and $132,647 for the year ended March 31, 1960, were credited by the corporation to its surplus account which, excepting for the $100,000 surplus balance retained pursuant to order in council P.C. 1959-641 to which I have already referred, has since been returned to the government by payment to the receiver general of Canada.

The corporation's books of account are maintained at its offices in Ottawa where our audit was carried out. Our examination was made in accordance with generally accepted auditing standards and included a general review of the accounting procedures and of the system of internal control, together with such tests of accounting records and other supporting evidence as were con-

sidered appropriate in the circumstances. The examination included a test-check of surplus declarations with a view to establishing that proper precautions continue to be taken in the disposition of materials declared surplus, either by sale to the highest bidder, by destruction, or otherwise, with due authorization in each case.

Toward the close of 1959 a survey of the corporation's management organization and its operating and administrative practices was carried out. A report on the results of this survey was recently made to the president of the corporation. It is my intention to discuss this report's findings and recommendations with the President and his associates at an early date.

That completes my report.

The CHAIRMAN: Thank you, Mr. Henderson.

Gentlemen, it is my pleasure to introduce to you Mr. Louis Richard, President and General Manager of the Crown Assets Disposal Corporation. Mr. Richard was born in Montreal some years ago, is a member of the chartered accountants profession, was in private practice for several years in Montreal, and then became in charge of the Montreal district for the auditor general's office. He joined the War Assets Corporation in 1947 and became president of the Crown Assets Disposal Corporation in 1954.

Mr. Richard, have you prepared a report for the committee?

Mr. L. RICHARD, M.B.E. (*President and General Manager, Crown Assets Disposal Corporation*): I have a statement here. It may contain some repetition of what Mr. Henderson has given you, but it was prepared independently.

Crown Assets Disposal Corporation is a crown corporation, without share capital, created under an act of parliament known as the Surplus Crown Assets Act enacted in 1944 and amended in 1949, now appearing as Chapter 260 of the revised statutes of 1952, and is responsible to and subject to the direction and control of the Minister of Defence Production.

It is a disposal agency for assets surplus to the requirements of all government departments, boards, commissions and corporations except in regard to certain agencies or certain assets specifically exempted under section 2C and 3(2) of the Act.

The minister is authorized, under the Act, to delegate to the corporation powers given him thereunder. He has, in fact, delegated these in accordance with section 8 of the act.

Crown Assets Disposal Corporation is organized very much as a commercial corporation and is governed by a board of six directors appointed by the minister with the approval of the governor in council. Due to vacancies having occurred recently, the board at present is composed of four members, namely Messrs. G. W. Hunter, C.A., assistant deputy minister of the Department of Defence Production, R. G. Johnson, president of Defence Construction (1951) Limited, J. H. MacQueen, C.B.E., C.D., president of Canadian Arsenals Limited, and Louis Richard, M.B.E.., C.A., president and general manager of the corporation.

The affairs of the corporation are directed by a president and general manager, an assistant general manager, a secretary and a comptroller.

When Crown property becomes surplus to the requirements of a government department or agency, it is made the subject of a report of surplus which is turned over to the corporation for disposal action. Under section 4 of the Act, the custody and control of the surplus property remains in the custody of the declaring department or agency and the latter is responsible for surrendering the property to a buyer on instructions of the corporation.

Reporting departments are required to give some indication of the physical condition of the assets declared surplus by a coding method. The goods or property are sold on an "as is, where is" basis without any warranty whatsoever except as to title.

Land, buildings, power lines, ships and aircraft may be sold direct to the general public and these are generally made the subject of newspaper advertisements or through other media calling for offers. Any parties known to be potential purchasers are circulated and invited to bid.

In a number of cases where important real estate properties are involved, valuations may be obtained beforehand from one or more real estate firms in the localities concerned as a guide to the value of the assets.

It is the established selling policy of the corporation to dispose of all other commodities, goods and equipment to recognized dealers in the various trades and every endeavour is made to dispose of the surplus in that part of the country where it originates. Prospective purchasers are requested to inspect the surpluses and satisfy themselves as to their condition.

The procedure adopted is to circularize dealers on our offerings and invite bids from them with a closing date set for the receipt of offers. Care is taken to obtain maximum coverage in this connection by constant revision of lists and adding new names as enquiries develop. The response is usually substantial enough to provide a good gauge of the market for commodities or goods and constant repetition of the process provides the corporation with a barometer of trade prices and enables it to secure the best return possible which is the paramount objective of the corporation. It is the practice to accept the highest bid received provided the price is a fair one.

No deposit is required with offers for commodities but the successful bidder is requested to remit the full amount of the purchase price prior to acceptance of his offer. In the case of lands and buildings, a deposit of 10 per cent of the offer is required with bids and payment of the balance is required from the successful bidder before completion of the formal agreements. As an exception to this, credit terms are allowed federal, provincial or municipal governments and may also be extended to purchasers of real estate, much in accordance with commercial practice in the latter respect.

The present policy of the corporation in regard to the transfer of assets between government departments is that (1) lands and buildings surplus to the requirements of one government department may be transferred to another without charge where it is considered in the public interest to do so but that (2) government departments must make payment for materials and equipment or other movable assets which they wish to acquire, the latter policy originating with a direction from treasury board in 1944.

Priorities are granted to departments of the federal government, provincial governments, municipal governments, school boards and other public bodies in that order. Where their interest has been known before calling for public offers, sales are negotiated on the basis of valuations obtained and, where such interest has only been made manifest after circularization, they are allowed to meet the highest satisfactory bid received from other purchasers.

Under section 11 of the Act, the corporation is required to remit to the Receiver General of Canada all moneys accruing from the net proceeds of sales less a withholding allowance designed to meet administrative costs and other expenses of the corporation. The percentage of this withholding allowance is fixed each year by the governor in council and a rate of 10 per cent, which had been in force for a number of years, was changed for the fiscal year 1959-1960 to 4 per cent on lands and buildings and 10 per cent on commodities and agency accounts. Over the years the corporation has been operating within this withholding allowance and any surplus accumulated has been returned to the federal treasury with the exception of $100,000, with the result that the net cost of the operations of the corporation to the taxpayers of Canada has been a good deal less than the withholding allowance referred to.

A recapitulation of the results of the ten year period closing March 31, 1960 shows that on gross sales of $80,500,000, the overall cost of operations was about 6 cents on the dollar of recovery.

The volume of reports of surplus received by the corporation for disposal has been on the increase in recent years but, within the last six months, has shown a tendency to level off. 16,276 reports were received in the fiscal year 1958-1959 from all sources and 17,134 in the fiscal year 1959-1960. These may vary greatly as to quantities and volume, ranging all the way from a single line item to voluminous reports dealing with long lists containing thousands of items but, on the average, the number of reports received is a good gauge of the activities of the corporation.

The financial result of operations for the fiscal year 1958-1959 is shown by the statements under review by your committee and I may add that, in respect to the fiscal year closed on March 31, 1960, for which a report is under preparation, sales amounted to $8,638,053. The total revenue of the corporation proper was $738,434 with administrative expenses totalling $605,-787.

In addition to its normal function under the Surplus Crown Assets Act, the corporation, by virtue of an international agreement of 1951, acts as agent for the United States government in the disposal of its surplus assets in Canada on a 10 per cent allowance basis. Net sales under this heading, after duties and taxes have been remitted to the Department of National Revenue, were $1,270,583 in 1958-1959 and $920,984 in 1959-1960.

The corporation also acts as agent on a 10 per cent basis for certain boards and commissions of the crown who are entitled to dispose of their own surpluses under section 3 of the Surplus Crown Assets Act, or under other acts, but have found it advantageous to utilize our services for this purpose.

It also acts as agent of the Department of Defence Production in the verification of prime and subcontractor inventories which become the basis of claims on termination, partial termination or completion of contracts and in the supervision of disposals of scrap by contractors under department contracts.

The present staff of the corporation numbers 115 persons, many of whom are experienced officials who dealt with the large volume of surpluses immediately after World War II and who have been instrumental in enabling the corporation to readily find avenues of disposal for the surpluses of the Canadian government. The corporation maintains local representatives at Halifax, Ottawa, Toronto, Calgary and Vancouver.

During 1959-1960 the corporation employed the management consultants division of Messrs. Price Waterhouse & Co. to make a survey of its operations and procedures. Their report states in part and I quote: "Our review of marketing practices indicates that the present procedures are satisfactory and we make no recommendation on them" and it further states that "no reference was made to the many features of the present organization and practices which are well designed and operating effectively."

It did discuss and make a number of recommendations to co-ordinate the work of the various branches of our organization and prevent duplication. The principal one was for the introduction of a mechanical photographic process for the preparation of forms and documentation with a consequent revision of these to permit extensive use of machinery in streamlining the various steps between the receipt of reports of surplus and the final sales invoicing, this change to mechanical process entailing also the creation of an all inclusive division to handle all phases of documentation. It also recommended the elimination of certain records and information which were considered unnecessary for the operations of the corporation.

A number of their recommendations have been adopted. Others are on trial or can only be put into effect over a period of time. We are experimenting

with the machinery suggested and are arranging to continue the employment of the consultants for the more effective designing of present forms utilized.

The CHAIRMAN: Thank you, Mr. Richard.

Gentlemen, we asked Miss Paulette Cyr who is a translator to come here this morning. If any members wish to ask questions in French we have translation facilities.

I would like to call your attention to two letters we have received. The first is from the Canadian Association of Equipment Distributors. It is addressed to the committee. Mr. Innes, would you read it to the committee.

The CLERK: This is from the Canadian Association of Equipment Distributors. It is addressed to Mr. Alan Macnaughton, M.P., Chairman, Standing Committee on Public Accounts, and is dated May 31, 1960.

Dear Mr. Macnaughton:

The Canadian Construction Association, and a group representing the manufacturers of heavy construction equipment, and the Canadian Association of Equipment Distributors, have joined in making representations to the various ministers, respectfully advocating that arrangements providing for disposal of United States' owned surplus used equipment in Canada, be discontinued and the forced sales be stopped, because of the injurious effect on the economy of Canada.

Information has been given us that the Public Accounts Committee, would be receptive to obtaining detailed information in regard to the existing arrangement, in view of the fact that the committee will be discussing the affairs of Crown Assets Disposal Corporation at an early meeting.

On the suggestion of Mr. Hugh Crombie of the Dominion Engineering Co. Ltd., who is chairman of the manufacturers groups of heavy construction equipment above referred to, we take the liberty of sending you herewith, the following:

(*a*) Copy of the brief presented by our immediate past-president last year, to the honourable Raymond O'Hurley, Minister of Defence Production, under whose supervision the Crown Assets Disposal Corporation operates. In presenting this brief, Mr. Bernard was accompanied by the president of the Canadian Construction Association, Mr. J. E. Harrington, and the former president of Canadian Association of Equipment Distributors, Mr. R. Boyd Somerville of Toronto.

(*b*) Copy of the circular dated May 6, 1960, which was sent to our members, giving them particulars of the situation as of this date.

Yours very truly,

A. MacNamara,
Managing Secretary.

The CHAIRMAN: Gentlemen, attached to this letter is considerable information. Both the deputy chairman and myself have read this. We do not think we are justified in taking up the time of the committee in reading this. May I suggest it be filed in the record of the committee.

Agreed.

(*See Appendix "A-6".*)

The CHAIRMAN: There is a second letter received this morning from the Canadian Construction Association which summarizes a lot of complaints, or an attitude of mind—which I think is a more correct way of putting it—of this association. I suggest that I read it to you. If it is agreeable I will go ahead.

Agreed.

The CHAIRMAN: The letter is addressed to the committee and is dated May 31, 1960:

CANADIAN CONSTRUCTION ASSOCIATION
CONSTRUCTION HOUSE
Ottawa, Canada

31 May, 1960.

Alan Macnaughton, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa, Canada.

Re: Auction Sales of U.S. Government
Surplus Construction Equipment.

Dear Mr. Macnaughton:

Thank you for your invitation today to express our Association's views on the above subject in connection with your Committee's study of the operations of Crown Assets Disposal Corporation. The C.C.A. has urged the Federal Government on several occasions since May 1958 to take steps to discontinue these auction sales carried out by C.A.D.C. and is accordingly pleased to reiterate its reasons for doing so.

It should first be stressed that the Association feels that Crown Assets Disposal Corporation, in conducting these auction sales, is but fulfilling its duties in accordance with an agreement reached between the Governments of Canada and the United States of America. However, your Committee may be interested in the fact that, in doing so, C.A.D.C. is required to act in opposition to the terms of other government policies. The question of federal revenues is also involved.

This above mentioned agreement with the U.S.A. was reached a number of years ago at a time when the construction equipment supply situation was one of shortage rather than surplus. Under present conditions the arrangements work to the disadvantage of the construction industry and, it is believed, to the Federal Government and to the general public. A copy of the industry's brief to the Minister of Defence Production advocating the cessation of the auction sales of surplus construction equipment from U.S. bases in Newfoundland has been forwarded to you under separate cover. This letter will attempt only to summarize some of the main factors.

1. The construction equipment being auctioned includes motor vehicles, tractors, power shovels, crushing plants, road rollers, graders and other items of heavy construction equipment manufactured in the U.S.A., virtually all of which is of a class or kind manufactured in Canada. Accordingly such items, if imported in the ordinary way, qualify for the higher tariff rate (usually 22½%) plus 11% sales tax. Production in Canada is encouraged. However, the auction sales surplus equipment at uneconomic prices tend to reduce Canadian production and employment or to reduce Federal Government revenues obtained from duties on imported equipment.

The U.S. Government prohibits surplus construction equipment from bases outside the U.S.A. from re-entering their domestic market because of the adverse effect it would have on production, sales and inventory valuations. In Canada, no similar protection is afforded; a Crown agency facilitates the marketing of the surplus equipment.

Second-hand or used motor vehicles are ordinarily prohibited from entering the Canadian market from other lands by Item 1215 of the Customs Tariff. Crown Assets Disposal Corporation, however, sells used American-made motor vehicles in the Canadian market on behalf of the U.S. Government.

Dumping duties have been provided for by the Government to protect Canadian interests from the unloading at uneconomic prices of goods manufactured in other countries and the Department of National Revenue has levied such duties on shipments of surplus construction equipment sent to Canada. Crown Assets Disposal Corporation, however, in effect is dumping equipment from U.S. bases within Canada onto the Canadian market at uneconomic prices and no dumping duty is applied.

In the past, the dollar value of imported construction equipment has been an important factor in Canada's balance of payments. In recent years the increase in construction equipment manufacturing facilities in Canada has been quite remarkable and has been in keeping with the country's expanded industrial production policies. The surplus U.S. Government equipment auctioned by C.A.D.C. constitutes an appreciable portion of the market in Canada and will have a corresponding effect on future equipment production in Canadian plants. The current surplus supply situation of construction equipment has already led to the decision of some plants to close down or reduce production. It is understood that production and employment levels in the Canadian motor vehicle plants have similarly fallen off. Thus it would seem that the auction sales are working at cross purposes with other policies designed to encourage production and increase employment in Canada.

The C.C.A.'s representations have been made not only on behalf of its manufacturer members but also on behalf of its equipment dealer and contractor members. The dealers naturally lose out from lost sales of new equipment and then may be called on to service and repair the equipment auctioned by C.A.D.C. Whereas contractors are not adverse to bargains, they consider that the disadvantages of the present arrangements considerably outweigh any benefits. It makes for inequitable bidding, for example, if a company which has paid the full price and taxes for its construction equipment, is in competition with a firm using equipment obtained at fire sale prices through C.A.D.C. auctions.

A current sale of equipment from nine U.S. bases in Newfoundland and Labrador closes on June 3 in St. John's and another auction administered by Crown Assets Disposal Corporation is scheduled to take place in the fall. Press reports of the closing down of some U.S. base operations in the area indicate that the amount of equipment which will be declared surplus may well be on an increased scale. At the same time, current tender calls by U.S. agencies for substantial projects in the area will mean the shipment of more construction equipment to the region on a duty free and sales tax free basis. This equipment will presumably become "surplus" in due course.

We do not have information on the amounts of money received by the U.S. and Canadian Treasuries as proceeds from these sales by C.A.D.C. of U.S. government surplus construction equipment in Canada but it would appear that they cannot be too great, bearing in mind the level of prices at which the equipment is sold and the administrative costs involved. We hope that the present arrangements will be altered

following a review in the light of present conditions by the various parties concerned of the points touched on above and dealt with in industry submissions.

Yours sincerely,
S. D. C. Chutter,
General Manager.

The CHAIRMAN: We will just file this in the records of the committee.

Mr. KEAYS: May I ask Mr. Richard this question: according to this international agreement of 1951, is there any specified length of time when it will be in existence, or what are the terms of cancellation of that agreement?

Mr. RICHARD: I think the terms of the agreement are that it may be cancelled at any time by either party.

Mr. KEAYS: Yes?

Mr. RICHARD: That is to say, by mutual agreement between the parties.

Mr. KEAYS: But at any specified time?

Mr. RICHARD: There is no specified time.

Mr. KEAYS: What was the purpose of this legislation?

Mr. RICHARD: It is an international agreement between the United States and the Canadian government which was entered into in 1951. I think I am correct in saying it was made at the request of the United States authorities, who were faced with the problem of disposing of their surplus in this country.

Mr. KEAYS: Do you believe that its purpose was to agree with the American legislation which prohibits the return to the United States of surplus equipment?

Mr. RICHARD: What is that again, please?

Mr. KEAYS: Do you agree that the agreement had in mind the American legislation which prohibits the return to the United States of surplus equipment?

Mr. RICHARD: I cannot say what the objective was.

Mr. KEAYS: It seems that there was a period of time when such an agreement was not detrimental to the Canadian economy; but within the last three or four years would you say that it has become detrimental to the Canadian economy?

Mr. RICHARD: I do not feel we are competent to express an opinion on that.

Mr. MACDONNELL: Who signed that agreement on behalf of Canada?

Mr. RICHARD: The Department of External Affairs, the Under Secretary of State.

Mr. MACDONNELL: Has the Crown Assets Disposal Corporation any control over it?

Mr. RICHARD: No. We are only the instrument to implement the provisions, or part of the provisions of this agreement.

Mr. MACDONNELL: Do we know what representations have been made, if any, to the Department of External Affairs complaining about this agreement?

The CHAIRMAN: No, Mr. Macdonnell.

Mr. MACDONNELL: Is that not the place where complaints should be made?

Mr. RICHARD: I would say that the associations who were mentioned here made representations to a number of ministers of the crown, and it is only fair to say that, since this association has chosen to present a brief to the committee, that there were also briefs presented to the ministers of the crown with the opposite end in view, in other words, approving and requesting that these sales continue.

Mr. BROOME: Who from?

Mr. RICHARD: They are from dealers all through the country, in Ontario and in Quebec.

Mr. BROOME: Can you name any of them?

Mr. RICHARD: There is an association of dealers who are interested.

Mr. BROOME: What is the name of that association?

Mr. RICHARD: It has a very nominal name; it is a group of Ontario parts and equipment dealers.

The CHAIRMAN: Is it an association?

Mr. RICHARD: It is a pro-tem association.

Mr. DRYSDALE: What do you mean by "pro-tem"?

Mr. RICHARD: It was formed for the purpose of submitting this brief.

Mr. DRYSDALE: Who made up the association?

Mr. BROOME: Would you say that such an association would have the standing of the Canadian Construction Association?

Mr. RICHARD: I would not venture an opinion on that.

Mr. BROOME: Would you take their proposal to have the same weight as a proposal made by the Canadian Construction Association?

Mr. RICHARD: I would like to reiterate that we are not forming an opinion.

Mr. BROOME: But you have given one.

Mr. RICHARD: No. I have merely advised the committee that there is another and contrary brief submitted.

Mr. BROOME: Mr. Chairman, may I ask if Mr. Richard could provide for the committee a list of the equipment which has been sold? There seems to have been a fair percentage of $1,250,000 odd, for the account of the United States government, and $9,696 for account of the Canadian Commercial Corporation as agents for the United States government; but the bigger item is the United States government $1,260,888.

The prices you got for the equipment must be represented as the net, under the sale value, and there is a very considerable sum of money. So I would like to ask that the corporation provide the committee with a complete list.

The CHAIRMAN: Have you a list with you, Mr. Richard?

Mr. BROOME: If we have it for Canadian sales, why can we not have it for American sales?

Mr. RICHARD: A list of equipment would be very bulky.

Mr. BROOME: I ask for the same thing in connection with American sales, so that we may go into this at another session in some detail, because I have quite a lot to say about it.

The CHAIRMAN: On the point raised by Mr. Broome, you have an analysis of sales. Do you propose to circulate an analysis of sales by Crown Assets Disposal Corporation for the account of the United States government?

Mr. RICHARD: I have here a statement which shows the amount realized in each year, for gross sales, duty, and sales tax to the Canadian government.

The CHAIRMAN: Would you like to distribute it?

Mr. RICHARD: And the proceeds accruing to the United States government. You are welcome to it.

The CHAIRMAN: Will you give it to us so that we may have it distributed? (*Note—See Appendix "C-6"*)

Mr. BROOME: No, Mr. Chairman, that is not my question. With all deference to you, I would like to have something along the same line as they gave

here for Canadian sales; I want the same information given for sales of American equipment, exactly as you have it in this report of yours.

Mr. RICHARD: We do not provide it in the report.

Mr. BROOME: I know. I am asking you now to provide it for the committee.

Mr. RICHARD: Because we would have to ask for the permission of the United States authorities to publish it.

Mr. BROOME: Do you mean to say that you have to ask for the permission of the United States authorities to give to this committee a list of the commodities which you sold, and to whom you sold them, and at what price? Are we under that domination?

Mr. RICHARD: No, but we feel it to be advisable not to include it in our report.

Mr. DRYSDALE: What is your authority for that? Why do you feel that way? Is it in the 1951 act?

Mr. RICHARD: No.

Mr. DRYSDALE: It has just been your departmental decision?

Mr. MCGEE: Is it specified in the original agreement that these things shall not be disclosed?

Mr. RICHARD: No.

The CHAIRMAN: You are able to provide that information, Mr. Richard?

Mr. RICHARD: The detailed information would be quite a voluminous thing to do.

The CHAIRMAN: It might take some time, but you could do it if you had to? Is that right?

Mr. RICHARD: I dare say we could.

The CHAIRMAN: You say you dare say. Can you or can you not? Just say yes or no.

Mr. RICHARD: We can.

The CHAIRMAN: Thank you.

Mr. KEAYS: Mr. Richard mentioned that the international agreement could be terminated by mutual agreement. Is there any specified length of time in so far as notice is concerned from either party? Is there any clause in the agreement which says that, for example, 30 days notice is sufficient for either party?

Mr. RICHARD: The agreement shall be terminated by either government upon 30 days written notice to the other, with the understanding that in the event of such termination, the CADC will continue with the sale or disposal of such property as may have already been reported to it.

Mr. KEAYS: How many sales are contemplated in 1960? How many auction sales?

Mr. RICHARD: Two, one in the spring and one in the fall.

Mr. KEAYS: Are you committed to this fall sale in 1960?

Mr. RICHARD: Unless a change is made.

Mr. KEAYS: You have accepted the equipment that is up for sale?

Mr. RICHARD: Not yet.

Mr. KEAYS: Does not item 1215 of the Customs Act prohibit the importation into Canada of any vehicle which is over one year old?

Mr. RICHARD: I could not answer that; but I do know that the Department of National Revenue was a party to this agreement, or at least they had representatives in attendance when it was entered into.

Mr. KEAYS: Recently there have been 30 to 40 vehicles sold by auction in Canada which were of a kind manufactured in Canada, and that has been more detrimental to our economy than when we started to sell American equipment in Canada of a kind made in Canada. So I think we should look into it very closely. There were trucks, Chrysler products, G.M. and International, and also much of this equipment—in one sale you had nine shovels sold in Canada of which five were Bucyrus Erie, and two were Harnisch Feger Corporation.

Both these corporations are incorporated in Canada and are building shovels in Canada; and that, along with many other items such as crushers, graders, pumps, generating sets, all of which items are manufactured in Canada.

We are still allowing American surplus equipment to be sold in Canada. So I would like to know how this kind of thing is affecting our Canadian economy.

Mr. BROOME: Can Mr. Richard give us any idea of the resale value he received in terms of new value of equipment, let us say, under reasonably new conditions, of one, two, or three years old? For instance, with these shovels, what would be your price per shovel, and what was the year of manufacture?

Mr. RICHARD: I would not attempt to state what the prices of these articles were, when new; but I would say that the great majority of them are in a badly used condition, and that they would probably be more than two years old.

The CHAIRMAN: Mr. Richard, might we approach it this way: what is the capital cost of a new shovel, speaking generally? Is it $5,000 or $100,000?

Mr. BROOME: Let us say for a two and one-half cubic yard shovel, in order to be definite about it.

The CHAIRMAN: What would the customs duty and sales tax be? About 33⅓ per cent?

Mr. KEAYS: Not on the American surplus.

The CHAIRMAN: No, I mean on a new machine coming in. What would be the resale value of one of those shovels of that type, generally?

Mr. RICHARD: Whatever we can get for it in Newfoundland.

Mr. KEAYS: What would be the amount received?

The CHAIRMAN: Would it be 15 per cent of $80,000?

Mr. KEAYS: I have only a few more questions to ask. I still want to impress upon the committee one thing: that the United States authorities recognized that the marketing of surplus property is injurious to their economy. Nevertheless we go along and accept and sell their property on the Canadian market.

These things, I believe, should be brought out; and if Mr. Richard cannot give an answer to them, at least he should bring them to the attention of the minister concerned. I think we should get out of that practice as quickly as possible.

I have one more question: since we have this authority in Canada to dispose of American surplus equipment, is there not a tendency on the part of our own government departments to be led to purchase more material than is required, because they know they have a means of disposing of such surplus?

Mr. RICHARD: You mean our own government departments would do what?

Mr. KEAYS: Are they not inclined to buy or purchase more material or equipment than they need, since they know they have a means of disposing of any surplus equipment that they have?

Mr. RICHARD: I do not see how that would be of any advantage to them.

Mr. KEAYS: Would it not mean possible carelessness in buying?

Mr. RICHARD: The amount realized from any surplus they may have will not assist them at all, if it is turned over to the Receiver General of Canada.

The CHAIRMAN: What advantage would there be?

Mr. RICHARD: To a government department?

Mr. KEAYS: I do not know, but I am thinking of one item where you have sold 15,000 pairs of shoes, and where a lot of those shoes are size E in width. I do not believe there are too many of our boys in the Canadian services who wear size E width of shoes. I might say there were 45,000 pairs, and I think that is evidence of a little carelessness in buying somewhere.

Mr. RICHARD: We are only concerned in disposing of what we have.

Mr. MCGEE: Perhaps some of the comments which are being made, or rather some of the questions might wait until we obtain some of the information we have requested, and which will be included in our minutes. I wanted to explore the Price Waterhouse report.

The CHAIRMAN: Wait just a minute, please.

Mr. MCGEE: I wanted to explore the area concerning the reference on page three of Mr. Richard's report and the mention made of the Price Waterhouse report by the Auditor General.

The Crown Assets Disposal Corporation appeared before the estimates committee in 1958, and the committee had some things to say about the organization side as it appeared to the committee at that time. So perhaps to complete the text of the question I might be permitted to read into the record what the committee had to say in 1958.

The CHAIRMAN: Is it agreed?

Agreed.

Mr. MCGEE: I shall read from page 594.

Mr. MCGRATH: May we not dispose of the subject that we are on before we go on to Mr. McGee's subject? There are still several questions relating to the sale of United States surplus in Canada.

The CHAIRMAN: Well, we have not exhausted that subject yet.

Mr. MCGRATH: Mr. McGee wishes to speak on a subject of a more general nature.

The CHAIRMAN: Mr. McGee is talking about a matter referred to in the initial report of Mr. Richard this morning, and it is quite an important point.

Mr. MCGEE: I am quite prepared to yield if the committee wishes to follow a particular line of questioning.

The CHAIRMAN: I suggest you go ahead and clear this up. It is a very basic point. I happen to know something about it too, and I would like to ask some questions on this particular point. It will not take long.

Mr. MCGRATH: I merely asked in the interests of procedure, because it would ensure that we would not be going on in a haphazard way, but rather in a line or plan of questioning.

Mr. BROOME: We cannot proceed with it because Mr. Richard apparently does not have answers to any of the questions we have asked him.

I think Mr. Richard will be quite busy looking over the evidence and preparing answers for our next meeting. So we shall have to hold that point in abeyance anyway.

Mr. MCGRATH: What makes you think you have covered it fully?

Mr. BROOME: We have not covered it in any way.

The CHAIRMAN: Let us go on with it.

Mr. DRYSDALE: Would it be possible, Mr. Chairman, about five minutes before we adjourn, for us to have an opportunity to request any documents we might wish from Mr. Richard to be distributed at the next meeting? Might we have that time?

The CHAIRMAN: Yes, surely.

Mr. REGIER: I wonder if Mr. Richard could obtain for us the information as to how much of this American equipment was bought by municipal governments in Canada?

Mr. BROOME: I asked for information on the sale of American equipment to be put in such a form as to give the purchasers. I think this would give an answer to Mr. Regier's question. I mean in the form as indicated on pages 15, 16, 17, 18, 19, 20, and 21 of the fifteenth annual report of Crown Assets Disposal Corporation, where there is listed the sales made in Canada, the amount received, a description of the product, as well as the name and the address of the purchaser. My request is that this information be provided in connection with the sales of American equipment.

The CHAIRMAN: Mr. Richard has said that he would, and I am sure that he will, as soon as he has read the testimony in order to get the exact wording.

Mr. BROOME: Also I would like to have a copy of the regulations in reference to this agreement made between the American government and the Canadian government authorizing Crown Assets Disposal Corporation to sell.

(*Note—See Appendix "B-6"*)

Mr. DRYSDALE: In connection with these Canadian matters I would also be interested, if possible, to have a statement by amounts, showing the acquisition price, or the price at which the goods were acquired by the particular company; and then, if possible, to find out the amount of depreciation; in other words, what the goods were worth before they came into the hands of Crown Assets Disposal Corporation; and if we could have it for the sale to whatever departments they were sold to, and in the case where sales are made to American companies, could you not indicate what the price was for the highest Canadian bidder, if any, involved in this matter?

The CHAIRMAN: All right, Mr. McGee.

Mr. MCGEE: I read from minutes of proceedings No. 21 of the standing committee on estimates, in 1958, at page 594, when the committee recorded their opinion:

> 4. Crown Corporations—Crown Assets Disposal Corporation.
>
> Your committee regrets that in their opinion Crown Assets Disposal Corporation does not have any clearly defined method or policy respecting the sale of land or properties to municaplities. The operations of the corporation seem to be poorly organized with too much authority being vested in the president. As a result of the accounting methods in that organization, your committee experienced difficulty in securing certain desired information.
>
> 5. General—
>
> While there was no evidence to suggest any marked degree of inefficiency in the department or crown corporations under review, the committee, nevertheless, observed what it considers to be certain weaknesses in accounting and procedural methods. It is the opinion of the committee, therefore, that the government should consider the advisability of employing an independent business consultant to examine one or more of the crown companies. On completion of this review, the government should then decide whether a further examination of the remaining crown companies is required.

Mr. Richard in his report indicated certain selected quotations from that report, and my first question is this: will Mr. Richard table or make available to the committee this report of Price Waterhouse and Company?

Mr. DRYSDALE: I move that it be made an appendix to the proceedings today.

The CHAIRMAN: That raises quite an issue. I would like to have some advice on it from Mr. Bell, if he is able to give it, or from any other member of the committee.

This is a private report made to Crown Assets Disposal Corporation about internal matters. I am not at all sure that even the minister in charge of the particular crown corporation has seen it yet. So I wonder whether it should be produced at this time.

Mr. MCGEE: If I may comment on my own point of order: it seems to me that in view of the report, and of the selected quotations from that report clearly favouring—it is quite understandable that it would be most unusual if Mr. Richard had selected something in the report which might have been unfavourable—but my point is that having selected something from the Price Waterhouse report such as is contained in his report to this committee, it leaves the committee in a rather peculiar position, in having only selected references made which clearly favour the position and reputation of the corporation.

The CHAIRMAN: I hope you will not misunderstand me. I am very interested in that report, but it is a matter of whether or not it should be produced. Have you seen the report, Mr. Henderson?

Mr. HENDERSON: I have seen the report. Mr. Richard made a copy of it available to me. And in reply to Mr. McGee's question I would like to say that while the report was rendered at the turn of the year, it has only now come to my attention.

Mr. BELL (*Carleton*): Do you mean that you have not seen it until very recently?

Mr. HENDERSON: No. I received a copy from the president yesterday, and I learned of its existence at the time that the accounts were being "finalized" for the year. Since receiving it I have looked the report over, and for the information of the members I might say that the report was broken down into two parts.

Part I of the report deals with management and organization, and it contains recommendations for revision of organizational structure to achieve closer coordination to simplify the flow of work, to eliminate overlapping of functions, and to obtain economies in operating costs.

There are altogether nine recommendations made under that heading.

Mr. MCGEE: It appears to me from what you said that there is some difficulty in squaring what you have said with the selected items which are in Mr. Richard's report.

Mr. HENDERSON: Mr. Richard has placed the facts as he sees them in his report. I just wanted to give you a rough outline of what the report has to say.

The second section, or part II of the report covers operating and administrative practices; it makes proposals for establishing or revising certain corporation policies relating to such matters as personnel, planning, and internal conduct.

Under this heading Price Waterhouse and Company made 48 recommendations. Now it is usual on the submission of a report like this, which is addressed to the president, that they undertake a thorough-going discussion, because of the great importance of this report.

In the performance of my work, and in view of the tremendous number of factors making up a system of internal control, or of internal checks, I have

already stated that I propose to sit down with Mr. Richard and his associates and go through the evidence to determine with him where the authority lies; and to render what assistance I can in the implementation of these, because I am concerned in seeing they are. in the main, implemented, particularly if they are going to achieve savings of the size suggested by the consultants.

The CHAIRMAN: Would it be possible for you, or your department, to supervise the putting into effect of these proposed changes, as suggested by the Price Waterhouse report?

Mr. HENDERSON: Yes.

Mr. MCGEE: There was, in one case, nine suggestions, and in another 48. If there were these types of suggestions and changes, then how can this fact be reconciled with what Mr. Richard selected from the report, which I will read.

> Our review of marketing practices indicates that the present procedures are satisfactory and we make no recommendation on them.

And later on:

> No reference was made to the many features of the present organization and practices which are well designed and operating effectively.

There is confusion in my mind. If this is a fact, how can there be 48 recommendations to change them?

Mr. HENDERSON: It would be helpful if Mr. Richard would make reference to his statements in the report.

Mr. DRYSDALE: Mr. Chairman, could we bring the matter to a head? I would move that this report be produced, subject to an objection by the Minister of Defence Production that the report was given on a confidential basis.

Mr. BROOME: I will second the motion.

Mr. MCGEE: If I may speak to the motion, there is a point—and a valid one—and it came up before in an estimates committee, when we had the Civil Service Commission before us, and the division of organization and methods, which deal exclusively in this type of examination. It is quite a nice question, so to speak, as to whether these reports can and should be produced. Should this matter be referred to the steering committee?

Mr. DRYSDALE: I think Mr. McGee already has highlighted my thoughts —that Mr. Richard, by divulging part of the report, has placed us in the dark as to the over-all picture, and if there was no obligation on him to release the report originally, I feel that as he has released part of the report, there is an obligation placed on him to disclose the rest of it, in order that the committee can make a study of it.

Mr. HENDERSON: If I could make this observation, I would suggest that it would be in the best interests of implementing these recommendations, carrying out the discussions, and so forth, if it were kept private to the president, his board of directors, and me, at this stage. Reports of this type are given a thorough going look-see, and I would respectfully suggest that to publish it at this stage might render it quite difficult to proceed with the approach I have in mind.

Mr. MACDONNELL: As we already have had so much of it, to keep it back now is almost meaningless. Perhaps the press would recede.

The CHAIRMAN: It is only a question of principle.

Mr. DRYSDALE: The motion I made contained the fact that if the minister objects on those specific grounds, the document will not be produced. I just wanted to bring it to a head.

Mr. RICHARD: If I may comment, the recommendations made by the management consultants are in the nature of suggestions for the consideration of management, and we require a study of it. Some of the suggestions can only be implemented over a period of time. A number of them—or most of them—appear reasonable in theory, but require to be tried out. Certain others are dependent on the outcome of these trials. It would be disturbing to our organization, as well as to our public relations, if certain plans, which depend on the results of these trials, were given premature disclosure. This might prove a direct monetary loss.

The CHAIRMAN: Could we refer the matter to the steering committee, taking into account the suggestions already made by the members? Personally, I am very anxious to see the report, but I am disturbed about whether the committee should force the production of a confidential report at this stage.

Mr. BROOME: You know, time after time in committees, we are confronted with this same thing. We want to look at a report, and we are told it is not in the best interests of the corporation to do so. We have part of the report in front of us. We are told it may affect revenue, and we are told all sorts of things. I, for one, take most of this with a grain of salt. This report was presented on the first of the year, and the Auditor General just saw it yesterday. The corporation has had it five months in order to look at it and to do something about some of the recommendations. They mentioned what they are doing in regard to photographic handling of forms, procedures and so on. I do not see that there is anything very confidential in this report, and as a seconder of this motion, I am willing to see it through.

Mr. MCGEE: There is a valid argument in regard to this type of a report. Certain general recommendations are made, and some of these, for very good and practical reasons, are not capable of being carried out. There is considerable doubt in my mind about the general principle of producing this type of organization and methods examination report. However, my particular objection to it today is that the president, having made available certain selected passages, which indicate a certain stage of being in the corporation and, more particularly, which conflict pretty seriously with the findings of a previous committee of this house—and this is where we come into what may be an insoluble problem: is it going to become a practice that we are not going to be able to give thorough examination not only to crown corporations but all government departments, in general, and that they will be permitted to take just certain selected passages from the report and bury the rest of them.

Mr. BROOME: That also disturbs me. This is the estimates committee.

Mr. DRYSDALE: Public accounts.

The CHAIRMAN: We are not giving money; we are trying to cut it out.

Mr. BROOME: All right; let us take a look at this, and see where savings can be effected.

Mr. FISHER: In speaking to the motion, Mr. Chairman, there is a question of principle here which bothers me. I have attended a number of meetings, and if I could give the committee the example of the Deleuw-Cather report. The C.N.R. used excerpts from the report in arguing with the ratepayers groups for the Toronto area. In other words, here was a crown corporation, and they were doing as Mr. Richard is doing—arguing from material taken out of context, and the complete context was not revealed.

There is a problem here for government members to consider, if they check back on what the Minister of Transport said, that a crown corporation was not in the same kind of responsibility as an aspect of his department and, therefore, he was not going to order that the C.N.R. be required to produce

the report if they felt it would harm the corporation. This being the case, we seem to have a precedent which has some parallel, which indicates that we have not the authority, or we are not going to get the approval of the minister to get what we want.

Now, despite this, I go along with Mr. Broome—and we have taken this position consistently—that we feel parliamentary committees have to extend their prerogatives; they have to demand the production of anything they want in order to get a picture of what they are examining. What point is scrutiny, if one of the things that is involved is not available to us? For that reason, I am going to vote for the motion.

Mr. BELL (*Carleton*): I think there is no question of doubt that there exists in the responsible Minister of the Crown a privilege in respect of this document. This committee has no power greater than that of the House. If a motion for the production of this report were put in the House, it would be within the power of the Minister to object to its being produced and that is, I think, recognized procedure. It seems to me the motion does recognize that fact, and if this ought not to be produced, then it is the responsibility of the Minister of the Crown, in this case, the Minister of Defence Production, to say that he has examined the report and, for certain reasons he does not believe it ought to be produced. If he said that, I think the committee would be bound to uphold him. Actually, I think the motion recognizes that privilege of the minister.

Mr. MACDONNELL: May we have the motion read again?

The CHAIRMAN: Do you remember the wording of the motion?

Mr. DRYSDALE: The motion was, basically, to produce—

The CHAIRMAN: The secretary has the wording, and you can check it.

The CLERK OF THE COMMITTEE: That the report on the operations of the corporation by Price Waterhouse and Company be produced before this committee, subject to the approval by the Minister of Defence Production.

Mr. DRYSDALE: If I may speak to my motion, on one point. It raises another technical procedural point. It was pointed out, in the House, if a minister referred to a confidential report, and to excerpts from it, he is required to produce it, if demanded to do so. This then raises the question of where the president of this corporation makes reference to a confidential report, whether the minister is associated with, or dissociated from the fact, he has made this particular statement, and whether the minister is bound then to produce the report, having, in a sense, indirectly authorized the statements being made—so, he will have to dissociate himself from this.

The CHAIRMAN: You have heard the motion, gentlemen, is there any further discussion?

Mr. BENIDICKSON: I am not too happy about the motion. We are only five minutes from the time of adjournment. It is well known that there are a number of members of this committee who would like this report. Why can we not defer the actual voting on this motion, and have the minister present at the next meeting?

Mr. BELL (*Carleton*): I think we should refer it to the steering committee, and then I do not think we would have any trouble settling this at the outset of the next meeting.

The CHAIRMAN: Would you like to table the motion, and refer it to the steering committee?

Agreed to.

Mr. MACDONNELL: I want to ask one question about the sale of United States supplies. In looking at these figures here, for the year ending March

31, I note that it is just over $1 million. It would not appear to be a matter of great magnitude. However, from opinions that have been expressed, it is regarded as a matter of very considerable magnitude, and I feel there must be something about it which I do not fully understand because, on the face of it, the figures do not look very impressive.

Mr. McGRATH: In speaking to Mr. Macdonnell's question, I would suggest —and I would like to get the opinion of the witnesses on this—that these figures will be substantially higher this year due to the closing down of a major United States installation, and an option that I think is currently in progress in Newfoundland. I saw the inventory of that option, and it is quite a substantial one. Again, I would submit that as a result of this current option, the figures for the current year will be substantially higher—perhaps 25 per cent of your total. Would you comment on that?

Mr. RICHARD: It is reasonable to expect it may be higher. It all depends what you mean by "substantially". You say 25 per cent.

Mr. McGRATH: I am taking a rough guess, having seen the inventory, and having seen your figures for the past year. I think it is your intention to present that inventory to the committee.

Mr. MACDONNELL: Even if it was 25 per cent higher, would it then be a serious amount?

Mr. RICHARD: I would not attempt to say what effect it has on the Canadian economy.

Mr. REGIER: The difficulty which Mr. Macdonnell is experiencing is due to the fact that we have not any notion at all how much this represents—whether the $1 million represents $100 million worth of machinery, or whether it only represents $2 million or $3 million worth. If it were possible for the president to make an estimate of how much machinery this actually represents, it would be helpful.

Mr. RICHARD: We have not the original cost of these supplies.

Mr. MORTON: Do they not give an estimate of the value of this machinery, when they give it to the company to dispose of?

Mr. RICHARD: No.

Mr. MORTON: Can we get it?

Mr. RICHARD: Where?

Mr. MORTON: From the United States government.

Mr. BROOME: From your client.

Mr. BENIDICKSON: This corporation has a staff of over 100 people.

Mr. MORTON: I think Mr. Richard should realize the importance of this to us.

Mr. RICHARD: I did not say it was not important. I would be at a loss to provide the original cost.

Mr. BENIDICKSON: Surely one could look at the inventory and, with the experts in this merchandising organization, it seems to me they could give the committee an adequate rough estimate.

The CHAIRMAN: I have a comment to make in regard to Mr. McGrath's question. Is it not a fact that the United States is closing down five bases in Newfoundland—Harman air force base, Argentia, Gander airport, Goose Bay airport, Fort Pepperrell, and that there should be a lot of surplus equipment?

Mr. RICHARD: Fort Pepperrell, yes. As to the others, I have no knowledge.

Mr. McGRATH: That is not accurate. They are being reduced. Fort Pepperrell is the first installation, and it will be closed on August 1.

Mr. KEAYS: Mr. Richard said a few minutes ago that the contemplated sale of the equipment has not yet been accepted by C.A.D.C. Could we ask that there be no action taken on this equipment, which is up for fall sale, until this committee has completed its work, or has met again? In the fall of the year, there is supposed to be a sale of surplus equipment, and as the terms of termination of the international agreement is thirty days, I suggest we delay or defer any action toward accepting that equipment until we meet again.

Mr. RICHARD: That is not an action we can take.

Mr. KEAYS: Who accepts the equipment?

Mr. RICHARD: We do, but we have to act as long as the agreement is in effect.

Mr. MCGRATH: Only the minister can change it.

Mr. BELL (*Carleton*): Mr. Chairman, it is 11 o'clock, and there is one further matter I want to raise.

I believe it is probably the consensus of the committee that, at this stage of the session, we might seek the right to sit while the House is sitting. I think if we had two or three rather lengthy meetings we would clean up this committee's work quite easily. I would be prepared to give an undertaking to my hon. friends from Kenora-Rainy River and Burnaby-Coquitlam that if this right were given, it would be exercised only after consultation. I believe, on that basis, both hon. gentlemen would be prepared to support the motion that I make—that we report to the House today to seek the right to sit while the house is sitting.

Is that agreed, gentlemen?

The CHAIRMAN: Is there a seconder to your motion?

Mr. MACDONNELL: I will second it.

The CHAIRMAN: I think I had better call for a show of hands on that. All those in favour? All those opposed? It is unanimous.

Motion agreed to.

The next meeting will be held on Wednesday, June 8, 1960.

APPENDIX "A-6"

CANADIAN ASSOCIATION OF EQUIPMENT DISTRIBUTORS

19th October, 1959.

The Honorable Raymond O'Hurley,
Minister of Defence Production,
Ottawa.

Honorable Minister:—

The Canadian Association of Equipment Distributors in cooperation with the Canadian Construction Association respectfully present the attached Submission pertaining to the Agreement with the United States Government by which Crown Assets Disposal Corporation sells on the Canadian market on behalf of the United States Treasury the American surpluses located in Canada.

In order to demonstrate that this Agreement is detrimental to the Canadian economy, we have analysed in our Submission the type of construction equipment and allied products offered for sale last June. It will be noted that practically all products are of "a class or kind made in Canada" and therefore compete against similar products of Canadian fabrication.

This Agreement is brought about by legislation passed by Congress which prohibits the return to the United States for disposal of excess property. Similar Agreements with the United States Government may be appreciated by underdeveloped countries but we believe that Canada is too industrialized to accept a condition that disrupts its economy and makes it the subject of a disguised Point 4.

The excess property sold in Canada saturates our market with obsolete and used equipment which depreciates the equipment owned by Contractors or Industries that was purchased through normal trade channels and was subject to duties and taxes. The surplus products having been purchased by the United States Government below the fair market value and being admitted to Canada without the payment of duties and taxes, their release on our market assimilates them to dumping.

There is a definite trend for British, European and American Manufacturers to establish manufacturing plants in Canada and the maintenance of the Agreement, by restricting the market, will hamper the present trend.

We are confident that the many reasons presented in our Submission for requesting that the Agreement be rescinded will receive your consideration.

Members of our Associations would appreciate that the attention of the Right Honorable the Prime Minister and of your Colleagues in the Cabinet, the Honorable Ministers of the Crown, be drawn to the serious consequences to the Canadian economy of the continuance of the present Agreement.

Respectfully submitted,
Canadian Association of Equipment Distributors

Geo. E. Bernard,
President.

Submission of the
CANADIAN ASSOCIATION OF EQUIPMENT DISTRIBUTORS
in cooperation with the
CANADIAN CONSTRUCTION ASSOCIATION
to the Honourable the Minister of Defence Production
with respect to
U.S. Government Surpluses Located at Bases in Canada
and Auctioned by Crown Assets Disposal Corporation.

An Agreement concluded between the Government of the United States and the Government of Canada, approved by Order-in-Council, imposes to Crown Assets Disposal Corporation the function of selling for the benefit of the United States Treasury the surplus equipment and stores located at American bases in Canada.

These goods, auctioned by the Corporation and therefore dumped with Governmental approval on by Canadian market, were, at time of importation, the property of the United States Government and by convention admitted free of Duty, Sales, Excise and Old Age Security taxes.

The members of the Canadian Construction Association and of the Canadian Association of Equipment Distributors, two organizations national in scope, indeed suffer hardship from the action of the Corporation and have often, by correspondance with Honourable Ministers of the Crown, requested that the Agreement be rescinded. The negative consideration given to their requests was caused possibly by the belief that their protests were only based on hardship to their members and it is therefore the intention of this submission to bring proof that the Agreement is detrimental to the national economy, and that the economical and commercial consequences must eventually command a revision.

It may be à-propos to mention here that the Canadian Manufacturers' Association has also, within the last year, made representations to the Honourable the Minister of National Revenue urging that this Agreement be revised.

Members of our Association recognize that the equipment and stores that are the subject of this submission were brought to Canada for use in connection with defence installations in this Country and may even have contributed to the completion, at reduced cost to the taxpayers, of Canadian projects. Notwithstanding the merit of this approach, it is the opinion of our members that the conditions brought about by the Agreement should be analysed in relation to the general economy of the Country and not be limited by the budgetary advantages that one Department of the Canadian Government may benefit.

Neither should consideration be given to the fact that the Agreement makes available equipment and stores that may be purchased at cheap prices. Every governmental decision confers benefits or inconveniences upon some segment of the economy but the benefit to the national economy must outweigh the detriment. To entertain therefore that this cheap equipment presents advantages to the economy would be a negation of the tariff structure and of the tax system, which both increase the price of products.

The United States Government has concluded the Agreement with Canada to comply with legislation passed by Congress which prohibits the return of excess property on the American market unless the Secretary of Commerce determines that the importation of such property "would relieve domestic shortages or otherwise be beneficial to the economy of the country". By its decision, Congress has recognized that marketing surplus property disrupts the American economy and disregarded by its legislation the benefits that some segment of the economy would have derived from access to these surpluses. Thus Congress acquiesced to the representations made by Manufacturers' and Contractors' Associations, Labor Unions and Chambers of Commerce.

The decision of Congress deprives the United States Treasury of the revenues which the sale of excess property would have brought because their legislation also prohibits the sale to the public of those surpluses located in territorial United States. The monetary advantages to the Treasury which the Agreement may bring through the sale by Crown Assets Disposal Corporation of the surpluses located in Canada would be rather insignificant when compared to the American budget.

Therefore our members cannot conceive that objections would be raised by the United States Government to the cancellation of the Agreement because of the revenues it implies.

In order to add greater comprehension to our claim that the sale of these surpluses affect the Canadian economy by either competing against products of Canadian fabrication or, when "of a class or kind not made in Canada", by competing against those that are imported subject to duties and taxes, we submit hereafter the analysis of the commodities located in Newfoundland that were offered for sale by Crown Assets Disposal Corporation in June 1959 and with which our members are more directly concerned.

These included:

A—CONSTRUCTION EQUIPMENT—Enclosure No. 1—Offer Forms of Crown Assets describing the items.

10 Cranes (Truck and Crawler Mounted)
4 Road Graders
2 Crushing & Screening Plants
4 Pumps
9 Compressors
8 Sweepers
10 Conveyors
1 Scraper
1 Tractor
23 Generator Sets.

Of the ten cranes offered for sale, six were manufactured by Bucyrus-Erie and one was manufactured by Harnischfeger Corporation. These two Manufacturers are now incorporated in Canada; Bucyrus-Erie manufactures in Guelph whereas Harnischfeger has a working agreement with Maritime Steel Foundries of Glasgow. Ten years ago there was but one crane manufacturer in Canada, Dominion Engineering Co. of Montreal, whereas today to the three already mentioned, we may add Link-Belt Speeder (Canada) Limited of Woodstock, Koehring-Waterous Ltd. of Brantford, Fiorentini Canada Ltd. of Toronto. Three companies manufacture in Canada the carriers for the truck-cranes; they are Sicard Limited of Montreal, Crane Carrier Canada Limited of Toronto and F.W.D. Corporation of Kitchener. All other items of construction equipment listed above are "of a class or kind made in Canada" and without listing all Manufacturers of such equipment, the mention of a few names and localities may be useful.

Dominion Road Machinery of Goderich makes Road Graders ranging from 60 to 134 H.P.

Forano of Plessisville manufactures Crushing & Screening Plants since 1934.

Pumps are manufactured by more than twelve Canadian Companies located in Vancouver, Winnipeg, Brantford, London, Toronto, Waterloo or Montreal.

Ingersoll-Rand, Gardner-Denver, Jaeger manufacture compressors. Conveying equipment like the one offered for sale would include amongst others Barber-Greene and Link-Belt Limited of Toronto, Forano of Plessisville, Stephens-Adamson of Belleville, Jeffrey of Montreal, Vessot of Joliette.

The Sweepers and the Scraper were of a type or size not manufactured in Canada but already Canadian manufacturers produce some type of sweeper or scraper and it becomes only a question of extending their lines when the market will require it.

It could be that the quantities enumerated may not look impressive but to those who are familiar with merchandising or using construction equipment, they represent for most items about the equivalent of what is being sold in a normal year in any of the Maritime Provinces.

B—TRUCKS—(Enclosure No. 2—Offer Forms describing the vehicles offered for sale).

This item included trucks of ¼ ton with utility bodies; ½ and 1 ton panels; ¾, 1, ½, 3 and 5 ton trucks with stake or dump bodies; 5 ton truck-tractors—The years of manufacture ranged from 1942 to 1953. There were approximately:

30 Fords—manufactured by Ford Motor Co., Dearborn, Mich.

7 G.M.C.—manufactured by General Motors Corporation, Detroit, Mich.

67 Dodge—manufactured by Dodge Division, Chrysler Corporation, Detroit, Mich.

29 Chevrolet—manufactured by Chevrolet Division, General Motors Corporation, Detroit, Mich.

22 International—manufactured by I.H.C., Chicago.

58 Willys—manufactured by Willys-Overland Motors, Toledo, Ohio.

Other makes included Reo, White, Federal, Diamond T., Autocar, Studebaker.

C—AUTOMOBILES AND STATION WAGONS—(Enclosure No. 3—Offer Forms describing Vehicles).

These included approximately:

11 Chevrolet—manufactured by Chevrolet Division of G.M.C., Detroit, Mich.

1 Ford—manufactured by Ford Motor Co., Dearborn, Mich.

1 Plymouth—manufactured by Plymouth Division of Chrysler Corporation, Detroit Mich.

D—BUSSES—(Enclosure No. 4—Offer Forms describing the Vehicles).

There were six buses manufactured in 1951 and 1952 by International Harvester of Chicago or G.M.C. of Detroit.

The vehicles manufactured by Ford, G.M.C., Chrysler or International compete against vehicles built or sold by the Canadian organizations of these Manufacturers. Willys has recently opened a Canadian plant. (Enclosure No. 5 showing Willys Canadian Plant). The stake, dump bodies or tanks installed on these trucks represent that many products that Canadian companies such as Brantford Coach & Body, Eastern Steel, Phil Wood Industries and others will not be producing.

Moreover, the sale of the vehicles mentioned in paragraphs B, C, and D goes directly against the intent of Item 1215—Schedule C of the Tariff Act which prohibits the importation into Canada of used vehicles. It reads: "Used or second-hand automobiles and motor vehicles of all kinds, manufactured prior to the calendar year in which importation into Canada is sought to be made".

Although used vehicles may be imported when (f) "Exempted from the provisions of this Item by a regulation of the Governor-in-Council in any particular case or class of cases", this exemption has been granted mostly for vehicles of a special type, unavailable in Canada or to relieve emergency conditions as existed during the war or the years afterwards.

E—ROTARY SNOW PLOWS—(Enclosure No. 6 describing the items)

There were six truck-mounted rotary snow-plows offered for sale. It is interesting to note that a Canadian company that builds rotary snow-plows, Sicard Inc., has incorporated an American subsidiary 12 years ago, and is favored with important orders from the United States Armed Services against American manufacturers. Yet, its home market is affected by competitive American surpluses sold at junk prices through a Corporation of the Canadian Government.

F—SNOWMOBILES—(Enclosure No. 7)

Two Bombardier Snowmobiles were offered for sale. This is a typical Canadian product manufactured in Valcourt, Que., and purchased in Canada because of the unavailability of similar products in the United States. In this case, it is likely that the American contents used in the fabrication were subject to drawbacks of duty and taxes and the finished product would not be subject to sales or excise taxes, when sold to the U.S. Armed Services. Thus, a Canadian product on which the Cnadian Government collected no taxes is returned as U.S. surplus on the Canadian market against products of the same Canadian Manufacturer that are subject to all Canadian taxes.

This analysis of the merchandise sold last June could be continued and more of the items mentioned would be competitive to Canadian products. The items shown in Enclosure No. 8 include tires for trucks, busses and road graders; trailer-mounted steel tanks; trailers of various sizes; wrought iron and steel pipe; galvanized wire.

Many of the 30 forklift trucks and warehouse tractors (Enclosure No. 9—Offer Forms describing commodities) are also to be listed as "of a class or kind made in Canada".

To the American surpluses offered by Crown Assets in June must be added those surpluses which are the property of the Canadian Government and which were offered on the same occasion. Enclosure No. 10 includes the Offer Forms of Crown Assets for fifteen Vehicles and Track Motor Cars which were originally the property of the Department of Defence Production and the Department of National Defence.

Although greater importance in this submission has been given to equipment that is considered of a class or kind made in Canada, it remains nevertheless that the commodities offered for sale which are not of a class or kind manufactured in Canada compete against products that are imported through regular channels and which are subject to Canadian duties and regulations. Canada being a party to international trade agreements has accepted that goods be exchanged under determined tariff schedules.

The Canadian Tariff Act also makes provision for those products that are subsidized by the Governments of the country of origin and sets severe regulations for their appraisal.

The value of these American surpluses has no relation whatsoever with the reality of Canadian conditions. The products were purchased from Manufacturers at prices considerably lower than the fair market value, since the contracts for the supplies to the Armed Forces are subject to renegociation. The goods have been admitted free of duty, sales, excise and old age security taxes. These conditions would assimilate these American surpluses to subsidize products and make their sale on the Canadian market equivalent to dumping.

The American surplus equipment disposed of on the Canadian market at scrap or junk prices by Crown Assets adds to the large volume of used equipment already available from domestic sources and creates chaos in the valuation or appraisal of used equipment. Not only do Canadian Contractors

see the value of their inventories of equipment depreciated to a point where it may affect their financial statements but industries, mines, quarries who also use equipment are affected similarly.

To illustrate our statement and for a better comprehension of the problems which the disposal on the Canadian market of American surplus equipment may cause, we are submitting as exhibits Requests for Offers on used equipment or Invitations to Tender involving trade-ins issued by Canadian organizations and Governmental Commissions or Departments.

Enclosure No. 11—The Hydro-Electric Power Commission of Ontario—38 pages of used equipment listed alphabetically from Air Receiver to Woodworker.

Enclosure No. 12—Canadian National Railways—A descriptive list of used Crawler Crane and Crawler Tractors located in Toronto and Montreal and being offered for sale.

Enclosure No. 13—Canadair—A request for bids on a used Barber-Greene Snow Loader.

Enclosure No. 14—Department of Public Works—Ottawa—An invitation to Tender on a self-propelled crane and offering a used crane as trade-in.

Enclosure No. 15—Post Office Department—Ottawa—An Invitation to Tender for the supply of 8 gasoline powered Towing Tractors and listing the makes and serial numbers of seven tractors located in five different cities offered as trade-ins.

We could have added dozens similar enclosures from Municipalities, industries, mining and logging companies, contractors. The lists of used equipment offered for sale by the Contractors on the St. Lawrence Seaway, by the Aluminum Co. from its Kitimat project, by Iron Ore Company from its Seven Islands Development would be as voluminous as the list of American surpluses in Canada. The saturation of the Canadian market with U.S. surpluses prevents the normal absorption at fair prices of this Canadian owned equipment once important projects are completed and adds unnecessarily to their cost.

The cheap equipment made available by Crown Assets also incites individuals without experience, resources or financial ability to enter the contracting field and lower prices, without regard for the risks and the responsibilities involved. In many sectors in Canada, "Prequalification" is compulsory to bid on public work projects so that it can be ascertained that the contractors bidding have the technical knowledge and the financial backing to complete the projects. No standards exist as yet to protect the uninformed public and provide the assurance that the work will be efficiently executed. To set conditions that favor an undue increase in the number of new contractors and create instability for those in existence cannot be in the public interest. Such conditions are actually enhanced by the Agreement which assigns to Crown Assets Disposal Corporation the functions of disposing of the American surpluses on the Canadian market.

The Equipment Distributors who must appraise User Equipment offered to them as trade-in are maintained in a precarious position by these surplus sales. It is no longer a question of determining the physical conditions of the machines and establishing resale values; of foreseeing market conditions when large projects are completed at a predetermined date and the equipment becomes available. Experience suffices in these cases. But the disposal of U.S. surpluses on which there is no warning may catch them with yardfuls of used equipment and leave them with the alternative of either holding to it until conditions improve or sell it against this unfair competition at considerable losses.

The continuance of this policy of disposing of American surpluses on the Canadian market will of necessity force the Distributors to cautiousness in the valuation of regular Used Equipment. This action will be to the detriment of present owners of regularly acquired equipment and machinery and amongst those we have shown that even Departments of the Canadian Government offer used equipment as trade-in when purchasing new equipment.

The Equipment Distributors cannot, to any extent, acquire the equipment which is offered for sale by Crown Assets Disposal Corporation. Their responsibility prevents them from merchandising obsolete equipment for which parts and service are not available. It is also necessary that they maintain their credit facilities to handle the used equipment which is offered to them as trade-in.

The nature of the organization of Equipment Distributors assimilates them to the sales and service branches of manufacturers and their functions therefore are not only to promote the sale of new equipment and maintain an inventory of several types and models, but also to provide adequate stocks of spare parts to prevent delays in the execution of contracts, to keep factory-trained mechanics at the disposal of the users to either teach the efficient operation and maintenance of the equipment or to repair it with competence when needed. Their status does not allow them to speculate on American surplus equipment and were they willing to do so, they would soon realize their inability to compete against individuals who specialize in these surpluses, who have no establishments nor interest in equipment and act solely as commission agents. (Enclosure No. 16 represents an offer from such agents).

It is also a fact of common knowledge that paragraph 2 of the General Conditions of Sales as set by Crown Assets is not enforced. It reads: "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 sale". The American surplus equipment on the Montreal docks or on other sites in the area and available to purchasers confirms our opinion in this respect.

American equipment and stores for defence projects continue to be admitted in Canada free of duty and taxes. To accept the maintenance of the Agreement for the eventual disposal of this equipment could bring about, should the emergency increase and more installations become necesary, a situation whereby the quantity of American surpluses in Canada available for disposal would be out or proportion to the amount of similar products manufactured or sold in Canada.

We have endeavoured in this Submission to demonstrate that the Agreement by which Crown Assets disposes of American surpluses on the Canadian market is detrimental to the Canadian economy. These detriments could be summarized as follows:

(*a*) The goods sold and which were admitted free of Duty, Sales, Excise and Old Age Security taxes compete against similar products manufactured in Canada or, if imported, that are subject to all duties and taxes.

(*b*) These surpluses relieve no domestic shortages, but on the contrary saturate the market and reduce the value of the equipment presently owned by Contractors and industries.

(*c*) The surpluses are mostly obsolete models sold at scrap or junk prices to commission agents without commercial status.

(*d*) The resale of this equipment by incompetent individuals or organizations abuses of the confidence of the end-buyers who find themselves with unreadily serviceable obsolete equipment.

(*e*) The equipment disposed of on the Canadian market will require the continued importation of American spare parts.

(*f*) These surpluses hamper the existing trend by which Manufacturers of construction equipment open Canadian Plants to manufacture those models and sizes that are in greater demand on the Canadian market.

(*g*) The Canadian Government suffers losses of revenue from Duty and/or Sales, Excise, Old Age Security taxes which would be applicable to new equipment or to civilian used equipment.

(*h*) The sale of Canadian Government owned surpluses in conjunction with the sale of American surpluses causes a loss of revenue to the Canadian Government, by the increased quantities of goods being offered.

(*i*) These sales involve expenses to Crown Assets Disposal Corporation for warehousing, advertising, disposing and according of this merchandise located at the extremities of the Country.

(*j*) This Agreement creates resentment amongst Canadian Citizens because it renders our Country subservient to the United States. It assimilates and identifies Canada to underdeveloped and non-industrialized countries where similar Agreements may be appreciated. No Canadian can take pride in seeing this Country at the receiving end of a give-away policy of the United States Government.

The Agreement which assigns to Crown Assets Disposal Corporation the function of disposing on the Canadian market of American owned surpluses being detrimental to the Canadian economy, the Canadian Construction Association and the Canadian Association of Equipment Distributors on behalf of their members respectfully request that the Canadian Government enter forthwith into negociations with the United States Government for the purpose of cancelling the Agreement; that prohibition be imposed on the sale in Canada of equipment and stores exempted from duty and taxes at importation; that the United States Government be invited to return to the United States the equipment used on its projects; that Crown Assets Disposal Corporation be immediately instructed to withhold all further sales.

Respectfully submitted,

Canadian Construction Association
Canadian Association of Equipment Distributors.

Ottawa, October 1959.

CANADIAN ASSOCIATION OF EQUIPMENT DISTRIBUTORS

MAY 6, 1960.
Circular No. 163

To Members, Officers and Directors

At the Annual Meeting, the subject of Used Equipment being discarded by Authorities in charge of United States Projects in Canada was discussed very thoroughly. For the benefit of all Members, including those who were not at the Annual Meeting, the following will bring your information up to date.

Past President R.B. Somerville, the Chairman of the Used Equipment Committee, reported to the Meeting as follows:

The Canadian Association of Equipment Distributors, in its 15 years of existence, has never attempted to build up a monopoly in the distribution of heavy construction equipment.

Any such plan would be contrary to Federal law, and furthermore, competition is so keen today that it is self-evident no such monopoly could exist.

In the matter of forced sales of United States' owned equipment discarded from projects in Canada, our members are simply being manouvered out of competition by a set of circumstances, which is obviously unfair and unjust.

Some may think too much stress is being given the problem and that its importance is not very great. Such an opinion could not be held if the facts were examined. Certainly any member who has seen his hopes of an order fade because the prospective customer obtained his equipment through a dealer or by buying direct at an auction sale held by the Crown Assets Disposal Corporation.

One of our members lost two orders which had been promised him by a contractor, just as soon his bid on a large job was accepted. You can imagine the feelings of the member, when the contractor came along a few days after receiving the contract, and asked our distributor-member if he would put two pieces of equipment in shape for use which he obtained 'at a bargain' at a 'Crown Assets Auction Sale' he happened to hear about.

The facts are that during the War and since, the U.S. government has constructed 'Defence Projects' in Canada, and as was proper under the circumstances, brought equipment to Canada without paying Customs Duty or Sales Tax.

By an arrangement resulting from an exchange of letters between the two governments, it was agreed that when the U.S. wished to dispose of the equipment brought to Canada, the equipment could be handed over to the Canadian Government Crown Assets Disposal Corporation.

The Canadian corporation would sell the equipment and deduct from the proceeds, an amount which would represent Duty and Sales Tax, which money would be Canadian revenue. A charge of 10% would be made to cover over-head and the balance would be paid to the U.S. Government. Our information is that the percentage to be deducted, as representing Duty and Sales Tax, is 15%.

The arrangement was confirmed by Order in Council. Nothing was provided for in the terms to guarantee against the equipment flooding Canadian markets.

We have no accurate figures as to the number of pieces of equipment there are in Canada, but we have been told by Officials of the Customs Department, and also by no less a person than the Minister of Defence Production, Mr. O'Hurley, that the quantity is truly staggering.

We should remember too, that the U.S. Government itself, protects home economy by refusing to allow war surplus to be brought into the U.S. to be sold.

In the last two years, a considerable number of machines have been thrown on the market through auction sales and many of our members have been deprived of orders they would otherwise have received.

A few weeks ago, our President, George Bernard, was in Newfoundland and was given figures which were fantastic. One purchase made of three machines was at such a low figure that the purchaser was able to sell one of them at a price which allowed him to pay for

the three machines and make a profit, so that he has two machines on hand which cost him nothing, besides a profit on the transaction.

I believe you have all been well informed on the actions taken by your committee.

We were able to obtain the co-operation and support of the Canadian Construction Association, and a delegation composed of the President and Manager of that Association, and ourselves, had two interviews with the Minister of Defence Production, Mr. O'Hurley.

Our President devoted a great deal of time and study to the problem and prepared a really marvelous brief which was presented to Mr. O'Hurley. You have had copies of this brief.

Those who composed the delegation came away from Mr. O'Hurley's office with the understanding that he would recommend to the Dominion Cabinet, that the agreement with the U.S. Government would be cancelled, or at least, he would refer the matter to the Cabinet and recommend cancellation.

When we were at the Semi-Annual Meeting in Chicago in January, we made a very optimistic report.

There has been an about-face by the Minister of Defence Production and the last word we had from him was a letter to Mr. Bernard, which I will read to you.

Minister of Defence Production
Canada

OTTAWA, March 18, 1960
Ref: 7-1-3

Dear Mr. Bernard:

I acknowledge your telegram directed to me from St. John's, Newfoundland, at the close of the meeting of the Newfoundland Branch of your Association, in which communication you referred to the probable sale of United States Government surplus property in Newfoundland.

I would like to assure you, once again, that your representations have received the closest attention possible and that the interests of your members are appreciated but I would like to point out that we have received an equal number of representations from parties desiring that the sale of United States surplus property in this country be continued, giving strong arguments in its favour and denying that these sales have any adverse effect on the national economy.

Under the circumstances, I can only say that the problem is continuing to receive the closest study.

Yours sincerely,
(Signed) Raymond O'Hurley

Mr. George E. Bernard,
President,
Canadian Association of Equipment Distributors,
5300 Ferrier Street,
Montreal 9, P.Q.

You will see that we have to start our fight all over again.

It seems clear that those who have advised Mr. O'Hurley, (probably his own officials) have obtained some evidence from dealers who have been buying this equipment, which evidence has induced Mr. O'Hurley to believe there are influential people who want the ar-

rangement continued. We can be sure that the "influential people" are the second-hand dealers who are making money out of the situation and have no continuing interest in the heavy construction distribution industry. Whether or not Mr. O'Hurley took the matter to Cabinet we cannot say, but if he did, the direction he got was evidently "to do nothing".

You will agree with me, I am sure, that we must convince the Government that the situation is wrong and must be changed. Our President has already taken steps in this direction, which I ask that he explain to you.

As I said at the outset, the members of this Association are not expecting a monopoly. We do conduct a most important business; we do pay to the Government of Canada at least $75,000,000 per year in Customs Duty, Sales Tax and other taxes. We are entitled to competition and this ridiculous situation must be corrected. It is my conviction we will have to carry on the fight until it is corrected.

In this connection, I would like to thank the Daily Commercial News and other papers for the support they have given to our case, and I would like to especially mention the editorial contained in the April issue of the magazine—Roads & Engineering Construction; which editorial sets the facts out very concisely and fairly.

As a result of the Report the following telegram was sent to Honourable Raymond O'Hurley, Minister of Defence Production:

Western Union Cable Service
CANADIAN NATIONAL TELEGRAPHS
J. R. White, General Manager
Toronto

Queen Elizabeth Hotel,
May 3, 1960

Honourable Raymond O'Hurley,
Minister of Defence Production,
Ottawa, Canada

At this gathering of 453 registered delegates representing manufacturers and distributors of Heavy Construction Equipment your letter of March 18, 1960 was read and was received with serious concern and great disappointment.

Your letter was to Mr. George Bernard, the President of the Canadian Association of Equipment Distributors and gives notice that it is not the intention of the Government to discontinue the forced sales of defence project heavy construction equipment discarded by United States Authorities from their works in Canada.

The facts have been presented to you and the Government by the Canadian Construction Association on behalf of the Contractors of Canada and by our own Association which prove that:—

(a) The Canadian Government is losing millions of dollars in revenue which would be derived from Sales Tax and Customs Duty by the existing practice which loss expressed in dollars would make the twelve million dollar surplus look insignificant.
(b) Contractors who purchased their equipment in the normal way are experiencing unfair competition from others who can secure their equipment to a large extent free of taxes at these forced sales
(c) Manufacturers are not able to employ as many men as would otherwise be the case

(*d*) Distributors who have paid the Government Custom Duty and Sales Tax are being manoeuvered out of competition by the Crown Assets Disposal Corporation Sales

The delegates assembled here in Montreal representing Distributors from all provinces of Canada and representing manufacturers of both Canada and the United States of Heavy Construction Equipment again appeal to you to take action to discontinue the Sales forthwith and have the existing agreement cancelled.

Signed on Behalf of the Gathering Here in Montreal
GEORGE E. BERNARD
PRESIDENT

In the Montreal *Gazette* of May 3rd, the following article appeared:

NO DECISION ON SALE OF US EQUIPMENT HERE

Ottawa, May 3—(CP)—Defence Production Minister O'Hurley said today the Government has not yet decided whether to continue the sale in Canada of surplus United States construction equipment used on American projects in this country.

He was replying in the Commons to Lionel Chevrier (L. Montreal Laurier) who sought comment on published reports that this equipment is being "dumped" in Canada with the sanction of the Federal Government.

Mr. O'Hurley said that under a Canada-U.S. agreement, signed several years ago by the former Liberal Government, the American equipment is being sold in Canada by Crown Assets Disposal Corporation, acting as agent for the U.S. Government.

This arrangement has benefited small Canadian contractors and municipalities, Mr. O'Hurley indicated. The Government now was awaiting a memorandum from these contractors and municipalities before reaching a decision on whether to continue the arrangement.

Mr. Chevrier referred to reports of a statement made in Montreal yesterday by R. Boyd Somerville of Toronto immediate past president of the Canadian Association of Heavy Equipment Distributors, that "forced sales" of the American equipment are pushing Canadian firms out of business.

"In the last two years a considerable number of machines have been thrown onto the market through auction sales and many of our members have been deprived of orders they otherwise would have received," Mr. Somerville said.

The Directors request that you give support and co-operation by doing the following without delay:

(1) Contact your Federal Member of Parliament by special delivery letter, (and if you believe it would be effective, follow up by telephone) and request him to use his influence with the Ministers and request that the practice be discontinued of throwing on, an already well supplied market, the discarded Heavy Construction Equipment from United States Projects in Canada

(2) In view of the Minister's statement, in the House of Commons, that he was waiting to hear from municipalities, it might be advisable to contact representatives of the municipalities and

(*a*) ascertain, what, if any, enquiries have been made by, or for, the Federal Government, and

(*b*) explain to the municipalities the facts of the problem.

The Directors would be glad to have your comments.

Yours very truly,
A. MacNamara,
Managing Secretary.

APPENDIX "B-6"

Ottawa, April 11, 1951

No. 100

Excellency,

I. I have the honour to refer to the exchange of Notes between Canada and the United States of America of November 22nd and December 20th, 1944, which constituted an agreement concerning the post-war disposition of United States defence projects in Canada, and to recent discussions concerning the disposal of United States excess property in Canada.

II. Under instructions from my Government, I have the honour to make the following proposals for the disposal of such United States property in Canada as has been or may be determined to be excess by United States Government agencies, and has been or may be so reported, as provided hereinafter.

1. The Government of the United States shall remove from Canada all of its property which it desires to retain.
2. The Government of Canada may arrange through its appropriate governmental agencies for the purchase from the Government of the United States of any remaining property which it the Government of Canada may wish to obtain for its own use and disposition, such purchases being made directly by the Canadian Government agencies concerned, and not through Crown Assets Disposal Corporation.
3. All other excess property shall be sold or disposed of by Crown Assets Disposal Corporation (CADC), an agency of the Canadian Government, in accordance with the following procedure:
   (*a*) The United States reporting agencies shall provide reports of excess property on CADC designated forms. These reports of excess shall contain details of condition and age of equipment, information in accordance with CADC equipment and Material Codes, and such other information as may be mutually agreed.
   (*b*) The United States reporting agencies will on the report of excess transfer all right, title and interest in the property to CADC, which will accept the transfer of such property subject to physical inspection.

   Property which upon physical inspection is judged to be of a type or in a condition which would make economic disposal by CADC impracticable may be rejected and returned to the United States reporting agencies which may dispose of such property by abandonment, donation or sale under conditions to be agreed upon between CADC and the U.S. reporting agencies or may make other disposition not conflicting with Canadian public interest.
   (*c*) After the property has been taken into custody by CADC, reports of excess shall not be modified, cancelled or withdrawn except by mutual consent of the United States reporting agency and CADC.
   (*d*) If called upon by CADC the United States reporting agency shall at its expense assemble excess property at locations to be decided by mutual agreement.

His Excellency,
The Honourable Stanley Woodward,
Ambassador of the United States of America,
100 Wellington Street,
Ottawa.

(*e*) The United States reporting agencies shall advise CADC of the names of the signing officers entitled to issue reports of excess.

(*f*) CADC shall arrange and be responsible for the custody of excess property and shall take steps to accept custody within a reasonable time after the receipt of the report of excess, and shall endeavour to do so within three weeks.

(*g*) Sales prices shall be determined by CADC after calling for bids, and shall be deemed to include duty and taxes payable by the purchaser to the Canadian Government. The acceptability of sales prices and the modification of the Equipment and Material Codes under which excess property has been declared by the United States, shall be the discretion of CADC.

(*h*) The manner of accounting for the receipts from sales shall be as follows: CADC shall retain and be accountable to the Canadian Government for that amount of the receipts collected on behalf of the Canadian Government as duties and taxes and the amount equal to the remainder of the receipts, less

(i) appropriate deductions for operational costs, including the cost of custodianship, shipping and restoration of premises as required, and

(ii) ten per cent of the remainder after the above deductions, to cover costs of administration,

shall be paid to the appropriate United States reporting agency as proceeds to the United States from sales of property hereunder.

(*i*) Settlement between the CADC and each reporting agency of the United States shall be made at such times as may be mutually agreed upon, but at least once every three months after the effective date of this agreement. Settlement shall be calculated in Canadian funds, which shall be converted into United States funds at the rate of exchange prevailing at the time of settlement.

(*j*) If at any time CADC determine that excess property has no commercial value or that the estimated costs of care and handling of such property would exceed the estimated proceeds from its sale, such property may be destroyed or abandoned by CADC at its discretion. The account with respect to such property shall be closed and the United States reporting agency notified accordingly. In the event that operational costs incident to the disposal of excess property exceed the proceeds of sales, such excess costs are to be borne by Crown Assets Disposal Corporation.

III. In the case of excess property arising in remote locations, or involving special difficulties in disposal by CADC, modifications in the arrangements set out above may be made by mutual agreement between the agencies concerned.

IV. The terms of the arrangements contained in this Note extend to all United States Government-owned property now or hereafter located in Canada except alcoholic beverages and tobacco products, excess property resulting from the joint exercises of Canadian and United States forces taking place on Canadian territory, property utilized in connection with the Atomic Energy Programme, land or any interest in land, or property of the Government of the United States used in connection with diplomatic or consular functions.

V. If the foregoing proposals are acceptable to the United States Government, I have the honour to suggest that this Note and your confirmatory reply thereto shall constitute an Agreement between our two Governments on this matter, which will take effect upon receipt by the Government of Canada of your reply. The Agreement shall be terminable by either Government on thirty days' written notice to the other, with the understanding that in the event of such termination, CADC will continue with the sale or disposal of such propery as may have already been reported to it.

Accept, Excellency, the renewed assurances of my highest consideration.

"L. B. Pearson"
Secretary of State
for External Affairs.

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

OTTAWA, April 18, 1951.

No. 317
Excellency:

I have the honor to acknowledge receipt of Your Excellency's Note No. 100 dated April 11, 1951, outlining provisions for the disposal of excess United States Government property in Canada through the agency of the Crown Assets Disposal Corporation.

The terms of the arrangements are acceptable to my Government and it is agreed that your note under reference and this reply shall be regarded as placing on record the understanding arrived at between our two Governments on this matter.

Accept, Excellency, the renewed assurances of my most distinguished consideration.

(sgd) Stanley Woodward

His Excellency
The Honourable
The Secretary of State
for External Affairs,
Ottawa, Canada.

The Ambassador of the United States of America presents his compliments to His Excellency the Secretary of State for External Affairs and has the honour to refer to His Excellency's Note No. 100 dated April 11, 1951, and to the Ambassador's Note No. 317 dated April 18, 1951, the two documents constituting an agreement for the disposal of excess United States Government property in Canada.

The United States Department of Commerce originally requested that the agreement take into account the provisions of Section 402, Public Law 152, 81st Congress, relating to the prohibition on importation of foreign excess property into the United States in order to avoid, insofar as possible, placing an additional administrative burden on Customs or Commerce Department officials such as might result if, from lack of knowledge of the importation prohibition, purchasers of foreign excess property in Canada attempt to ship such property to the United States.

As this matter was not directly germane to the agreement, it was considered more appropriate to deal with it by a separate communication. Specifically the Embassy has been instructed to suggest to the appropriate Canadian authorities the inclusion on bills of sale of former United States foreign excess

property a notice to the purchaser somewhat along the following lines: "Under United States law excess United States Government property sold abroad may not be imported into the United States except upon determination of the Secretary of Agriculture, in the case of agricultural commodities, foods or cotton or woolen goods, or the Secretary of Commerce, in the case of other property, that such importation would relieve domestic shortages or otherwise be beneficial to the economy of the United States." It is felt that the use of such a notice would not only have the effect of preventing unwarranted additional administrative work being placed upon United States officials but might likewise forestall possible criticism by purchasers of foreign excess property unfamiliar with this legislation.

United States Embassy,

Ottawa, April 18, 1951

No. E-24

The Secretary of State for External Affairs presents his compliments to His Excellency the Ambassador of the United States of America and has the honour to refer to His Excellency's Note No. 318 of April 18, 1951, relating to the prohibition of the importation into the United States of United States Government property sold abroad, and to the suggestion that a notice bringing his prohibition to the attention of purchasers be included on the bills of sale of former United States foreign excess property sold in Canada.

This suggestion is agreeable to the Canadian authorities and Crown Assets Disposal Corporation has undertaken to insert on the Offer Forms whereby former United States excess property will be offered to prospective purchasers a notice similar to that proposed in His Excellency's Note. This notice would read as follows:

> Under United States law excess United States Government property sold abroad may not be imported into the United States except upon determination of the Secretary of Agriculture, in the case of agriculture commodities, foods or cotton or woolen goods, or the Secretary of Commerce, in the case of other property, that such importation would relieve domestic shortages or otherwise be beneficial to the economy of the United States.

H. O. MORAN

Ottawa, May 1, 1951.

APPENDIX "C-6"

ANALYSIS OF SALES BY CROWN ASSETS DISPOSAL CORPORATION
FOR THE ACCOUNT OF THE UNITED STATES GOVERNMENT
(Including Sales through Canadian Commercial Corporation)

—	Gross Sales	Duty and Sales Tax to Canadian Government	Net	Cost of Sales	Net Proceeds	10% Retained by C.A.D.C.	Accruing to U.S. Government
	$	$	$	$	$	$	$
Year ended March 31, 1952	26,695.85	3,278.51	23,417.34	—	23,417.34	2,341.73	21,075.61
Year ended March 31, 1953	171,115.14	21,014.58	150,100.56	2,736.78	147,363.78	14,736.37	132,627.41
Year ended March 31, 1954	182,430.21	15,180.49	167,249.72	11,348.84	155,900.88	15,590.08	140,310.80
Year ended March 31, 1955	991,228.15	32,575.02	958,653.13	12,784.40	945,868.73	94,586.87	851,281.86
Year ended March 31, 1956	750,328.78	85,818.28	664,510.50	1,263.94	663,246.56	66,324.64	596,921.92
Year ended March 31, 1957	647,258.86	94,541.28	552,717.58	3,056.90	549,660.68	54,966.07	494,694.61
Year ended March 31, 1958	986,929.71	142,523.76	844,405.95	352.50	844,053.45	84,405.33	759,648.12
Year ended March 31, 1959	1,485,534.11	214,950.73	1,270,583.38	1,704.99	1,268,878.39	126,887.86	1,141,990.53
Year ended March 31, 1960	1,079,010.01	158,025.65	920,984.36	3,075.09	917,909.27	91,790.94	826,118.34
	6,320,530.82	767,908.30	5,552,622.52	36,323.44	5,516,299.08	551,629.89	4,964,669.20

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

Respecting

CROWN ASSETS DISPOSAL CORPORATION

WEDNESDAY, JUNE 8, 1960

RECEIVED
JUN 20 1960
Library of Parliament

WITNESSES:

Mr. L. Richard, President and General Manager, *Crown Assets Disposal Corporation;* Mr. A. Maxwell Henderson, *Auditor General for Canada;* and Mr. George E. Bernard, and Mr. R. B. Somerville, *representing Canadian Association of Equipment Distributors.*

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23280-1—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

Beech,
Bell (*Carleton*),
Benidickson,
Bissonnette,
Bourget,
Brasard (*Chicoutimi*),
Broome,
Bruchési,
Campeau,
Chown,
Coates,
Danforth,
Denis,
Deschatelets,
Dorion,
Drysdale,
Dupuis,
Fisher,
Fraser,
Grenier,
Hales,
Hanbidge,
Keays,
Lahaye,
Macdonald (*Kings*),
Macdonnell,
McGee,
McGrath,
McGregor,
McIlraith,
Morissette,
Morton,
Nugent,
Payne,
Pickersgill,
Pigeon,
Pratt,
Regier,
Robichaud,
Rouleau,
Smith (*Simcoe North*),
Spencer,
Stefanson,
Stewart,
Tucker,
Valade,
Villeneuve,
Wratten—50.

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

ORDERS OF REFERENCE

FRIDAY, June 3, 1960.

Ordered,—That the name of Mr. Richard (*Ottawa East*) be substituted for that of Mr. Hellyer on the Standing Committee on Public Accounts.

WEDNESDAY, June 8, 1960.

Ordered,—That the name of Mr. McIlraith be substituted for that of Mr. Richard (*Ottawa East*) on the Standing Committee on Public Accounts.

Attest.

L.-J. RAYMOND,
Clerk of the House.

23280-1—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, June 8, 1960.
(11)

The Standing Committee on Public Accounts met at 2.00 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Benidickson, Bissonnette, Broome, Chown, Danforth, Drysdale, Fisher, Hales, Keays, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, McGregor, McIlraith, Morton, Pickersgill, Pratt, Robichaud, Smith (*Winnipeg North*), Spencer, Stefanson, Tucker, Villeneuve and Wratten—27.

In attendance: Mr. G. W. Hunter, Assistant Deputy Minister, Department of Defence Production. *From the Auditor General's office:* Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Mr. A. B. Stokes, Supervisor of Audit of Crown Assets Disposal Corporation. *From Crown Assets Disposal Corporation:* Mr. L. Richard, President and General Manager; Mr. E. M. MacKinnon, Assistant General Manager; Mr. T. P. O'Donoghue, Manager, Lands and Buildings Division; and Mr. L. M. Mondor, Assistant Comptroller. *Representing Canadian Association of Equipment Distributors:* Mr. George E. Bernard, Vice-President and General Manager, Laurion Equipment Limited, Montreal; Mr. R. B. Somerville, President, Ontario Equipment and Supply Limited, Toronto, Ontario; Mr. G. R. Duncan, Vice-President, Mussens of Canada Limited, Montreal; and Mr. A. MacNamara, Managing Secretary, Ottawa.

The Committee continued its consideration of the operations of Crown Assets Disposal Corporation.

Mr. Richard tabled three copies of a report by Price Waterhouse and Company, respecting the operations of Crown Assets Disposal Corporation.

Agreed,—That the above-mentioned Report, identified as Exhibit No. 1, be reproduced in the Committee's record. (*See Appendix "A-7" to this day's proceedings.*)

The Chairman indicated that a letter had been received from Canadian Association of Equipment Distributors, requesting an opportunity to present certain points to the Committee.

A telegram from the Machinery and Equipment Manufacturers Association was tabled.

Mr. Richard tabled the following documents for inclusion in the Committee's record: (*See Appendix "B-7":*)

1. Summary of Sales of United States Government Excess Property in Canada, $5,000 and over, under the provisions of International Agreement—Department of External Affairs 100 and E.24 and United States Department of State Notes 317 and 318 of 1951 for the fiscal year 1958-59.
2. Summary of Sales of United States Government Excess Property in Canada, $5,000 and over, under the provisions of International

Agreement—Department of External Affairs 100 and E.24 and United States Department of State Notes 317 and 318 of 1951 for the fiscal year 1959-60.

Mr. Broome moved, seconded by Mr. McGrath,

That the representatives of the Canadian Association of Equipment Distributors be heard. The motion was adopted on the following division: Yeas: 14; Nays: 4.

Mr. Bernard, representing the association, was called and he made a brief statement. He was questioned thereon.

Agreed,—That the Committee permit Mr. Bernard and Mr. Somerville to retire, subject to recall; and that Mr. Richard's examination be continued.

Certain photographs of used equipment were circulated by Mr. Richard and they were identified as Exhibits Nos. 2(a), (b) and (c).

Mr. Richard read a prepared statement. While reading that statement he referred to certain documents and tables. (*These documents and tables have been included in the printed evidence at the point where reference is first made thereto*).

Questioning of the witnesses continued.

Agreed,—That the Committee meet again on Thursday and Monday next at 2.00 p.m. to consider the Auditor General's Report, with the intention that further questioning of Mr. Richard will be resumed at 2.00 p.m. on Tuesday, June 14.

At 4.30 p.m. the Committee adjourned to meet again at 2.00 p.m. on Thursday, June 9, 1960.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, June 8, 1960.

The CHAIRMAN: Gentlemen, we have a quorum which, considering the hour, is very good.

First of all, I would like to bring to your attention the fact we have not as yet gone through the Auditor General's report. This was referred to us at the beginning of our meetings. We have been concentrating on Crown corporations, Canada Council, and doing other useful work. However, the time is coming when we will have to face up to our job, and very soon.

There are 31 pages of detailed comment in the Auditor General's report, and in order to assist the committee, I asked the Auditor General if he could make a resumé and call the attention of members of the committee to the outstanding points, in his opinion, referred to in his report. He has prepared that. It is a six-page summary which, of course, should be read in conjunction with his main report. The report is the important thing. The comments are just to assist us so that when we do take the report up, we should be well informed.

I am going to suggest that the secretary distribute these. Please keep them in your file, and when we get around to the Auditor General's report, please bring them with you. I am sure you will find it of great assistance.

At this time I would like to thank the Auditor General for putting so much hard work into this summary. It will relieve us of a lot of tedious work.

Of course, the second thing to bring to your attention is that we continue this afternoon with Crown Assets Disposal Corporation.

Before proceeding, I should tell you that Miss Paulette Cyr is here in her capacity as a simultaneous translator, and Mr. André Naubert is here to assist us with the reporting of questioning in the French language. So, if any members wish to ask questions in French, please proceed to do so.

Mr. Richard, did you have anything you wanted to bring to the attention of the committee at this stage?

Mr. L. RICHARD (*President and General Manager, Crown Assets Disposal Corporation*): I might say, at this stage, that the management of Crown Assets Disposal Corporation,—and I refer to the board of directors as well as the president—desirous of ascertaining where and how improvements in the organization could be effected, took the initiative in this respect, and the board empowered the president and general manager to engage the services of management consultants to make a survey of its organization, and comment on its methods and procedures.

This survey was carried out by Price Waterhouse and Company, as mentioned before, and their report thereon, which is for the guidance of the management, is addressed to the president and general manager.

In view of these circumstances, we consider it is a matter internal to the management but, on my behalf and that of the board of directors, I am filing this report with the committee. I only regret not having sufficient copies to go around.

The CHAIRMAN: How many copies have you?

Mr. RICHARD: I only have three.

The CHAIRMAN: Would you produce those.

These are for the use of all the members of the committee?

Mr. RICHARD: Right.

The CHAIRMAN: Just in passing, gentlemen, I saw this copy a few minutes before we started the meeting. To summarize it very quickly, if you refer to appendix C, you will see a summary of the recommendations of Price Waterhouse and Company.

Mr. DRYSDALE: Where is it to be found?

The CHAIRMAN: In the Price Waterhouse report.

Appendix D is a summary of the estimated savings, which is between $60,000 and $67,100.

The terms of employment of Price Waterhouse and Company are set forth in appendix E 1 and 2, and their fee amounted to roughly $7,500, with expenses of $600, making a total of $8,100. I felt that information might be helpful for the committee to have.

Gentlemen, with your permission, I would like to refer to some correspondence which has been received. First of all, we have a telegram, which was received too late to report at our last meeting. It is from the Machinery and Equipment Manufacturers Association of Canada.

Mr. MCILRAITH: Mr. Chairman, before we proceed with that, what are we going to do about the copies of the report just tabled? Will copies be made available so we can see it?

The CHAIRMAN: These copies are available immediately. They will be printed in the record.

Mr. DRYSDALE: I so move.

Mr. BENIDICKSON: Are we going to examine on it today?

The CHAIRMAN: I am sorry, gentlemen. It is my mistake. What is the pleasure of the committee?

Mr. MACDONNELL: As has been asked, where do we go from here? You will recall that certain questions arose. We are informed that a great many recommendations were made by Price Waterhouse. Are we going to be informed, or are we going to know to what extent the Price Waterhouse recommendations have been made, and to what extent, now; and whether there is anything outstanding. Does that not arise out of what took place last week?

The CHAIRMAN: Yes. There have been one or two incidents which I have to bring to your attention. "Incidents" is the wrong word; it should be facts.

We have at the meeting today three representatives of the Canadian Association of Equipment Distributors, who requested permission to appear and, if the members so desire, they would be prepared to answer any questions. I thought as a means of procedure—and it certainly is not sacrosanct—but to get on with the thing, that I would read a letter, which should form part of the records of the committee. It is from the Canadian Association of Equipment Distributors.

We have three witnesses here. I think if we could complete their evidence, then Mr. Richard himself has a five-page statement, after which we could deal with him. As these three witnesses are from out of town, we either deal with them now, or they will have to come back.

Mr. MCGEE: I am sympathetic to the position of these volunteer witnesses. However, the point is that we were discussing what I consider to be a vitally important point at issue. It concerns the matter of this report and, if I might make a comment on Mr. Richard's remarks of a few moments ago, wherein he indicated that the crown corporation took the initiative in requesting this report, I would remind the committee that the initiative seemed

to me to have stemmed from a recommendation of the estimates committee, to which I referred last week, in 1958. I do not know how strongly they recommended to the government that such a report be made; but be that as it may, for the time being, I would like to go back to the point I raised before our last meeting, which referred to the matter of the selected quotations of the report which we will be able to examine, in some detail, as to whether it fairly represents a summary of the report which has been tabled today. I turned, as you suggested, to the index indicating the estimated saving, and find that the estimated savings in personnel are 17. What approximate percentage does that represent of the total employees in the corporation? How many employees are there in the corporation?

Mr. RICHARD: 115.

Mr. MCGEE: And an annual estimated saving of $60,000.

Mr. MCILRAITH: Mr. Chairman, you are permitting examination on a document that is not in the hands of members of this committee. Surely if there is to be an examination, all members of the committee are entitled to have copies of the document, when these questions are being put, and answers given. That is the point I raised.

The CHAIRMAN: That is right but, physically speaking, we only had three copies, and could only produce three for 2 o'clock today.

Mr. PICKERSGILL: Then surely the only fair thing to do is postpone the examination of this document until all members of the committee are treated equally, instead of having one or two privileged persons who have access, when the rest of us have not.

Mr. DRYSDALE: You can have my copy, if you want.

Mr. MCGRATH: These were to be passed on.

Mr. SMITH (*Simcoe North*): I think Mr. McGee's first point is one that Mr. Richard mentioned, that the corporation took the initiative in this. Is it not a fact that a recommendation from the estimates committee in 1958 recommended to the government that a survey or report, such as this, be made?

Mr. RICHARD: Yes, it is a fact.

Mr. SMITH (*Simcoe North*): And did the minister direct you to conduct this survey?

Mr. RICHARD: No. The board and myself took the initiative.

Mr. SMITH (*Simcoe North*): Was there no suggestion from the minister in respect of it?

Mr. RICHARD: No.

Mr. MCGEE: Was no attention or recognition given to the recommendation of the estimates committee, in determining whether this report should be made or not.

Mr. RICHARD: We did not wait for it.

Mr. SMITH (*Simcoe North*): Was it discussed with the minister?

Mr. RICHARD: We did not wait for any suggestion from the minister, but took the initiative ourselves.

Mr. MCGEE: As a result of the recommendation of the committee?

Mr. RICHARD: If you like.

Mr. MCGEE: I find it difficult to draw any other conclusion.

Mr. DRYSDALE: Mr. Chairman, could we figure out where we are going?

I would move that this Report be filed as an appendix to today's proceedings, so that it would be available to all the committee. Secondly, I would suggest that we hear Mr. Richard's report and, thirdly, I would suggest if these

gentlemen from the Equipment Dealers Association still want to give evidence, that we call them at the next meeting, when we have had the necessary background. I say this because I know there were quite a few questions asked at the previous meeting, and I assume Mr. Richard has some other information he wishes to file with the committee. I requested some statistical information and I presume it would be probably available at this time.

The CHAIRMAN: I must say, gentlemen, that I drafted this agenda with the hope that during the time we were listening to our witnesses, if they wished to say anything, we perhaps might have a chance to see the three copies which are available. However, it makes no difference to me, if you prefer to start with Mr. Richard.

Mr. PICKERSGILL: On the point raised, there are some of us who will not find it possible to be at the next meeting, because the next meeting is going to be held when the house is sitting. These members came here particularly today, because they wanted to hear the witnesses who were called for this meeting. I think you should allow them to be heard at this time.

Mr. MORTON: Mr. Chairman, I have one question. In respect to the witnesses coming before us, what sort of representations are they making, and if they make representations, are we going to then be obliged, as a committee, to hear representations from any other groups? Are we, in effect, getting into a matter of policy which is not within the determination of the crown corporation with which we are dealing?

The CHAIRMAN: I think the sale of United States surplus equipment is a matter of government policy. It was decided some time ago, and it has not been changed since. In all fairness, I must say that Mr. Richard, as President and General Manager of Crown Assets Disposal Corporation, is obliged to act as agent, and carry out the instructions of government policy.

I do not know what these witnesses are going to say. I just received the letter today, by hand. I received it about one o'clock.

May I read the letter? Perhaps that will answer the question.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: This letter is addressed to the committee, and reads as follows:

> Appreciation is submitted on behalf of the members of Canadian Association of Equipment Distributors, for your action in having information regarding our problem in connection with used equipment published in the minutes of proceedings and evidence of June 1, 1960, of your committee.
>
> Officers of three of our member companies are in Ottawa and will be glad of the opportunity of appearing before the committee to answer any questions, or give any further explanations desired, either at your meeting today, or at a further meeting of your committee.
>
> They are: Mr. Geo. E. Bernard, executive vice president, Laurion Equipment Ltd., of Montreal and Mr. R. Boyd Somerville, president of Ontario Equipment and Supply Limited, Toronto, (both of whom are past presidents of our association), also Mr. G. R. Duncan, vice president, Finance, of Mussens of Canada of Montreal, (Plant at Lachine, Que.).
>
> These men will be on hand at your meeting this afternoon.
>
> Again thanking you on behalf of our members,

This letter is signed by A. MacNamara, managing secretary. Mr. MacNamara is also in this room.

Mr. DRYSDALE: Could we have clarification of Mr. Pickersgill's statement that he had called these witnesses.

Mr. PICKERSGILL: No. I said that since the witnesses are here some of the members of the committee would like to hear what they have to say. Speaking for myself, as one of those members, I had the understanding that meetings would not be called when the house was sitting except at the convenience of the members. I agreed to a meeting being held when the house was sitting because I felt it was unfair not to agree to it in this case. I am particularly anxious to hear these witnesses, but I cannot be here at the next meeting as the house will be sitting to consider the estimates of the Department of Citizenship and Immigration.

Mr. FISHER: I would like to follow up the suggestion that we have the witnesses. Since the other is contentious we should deal with it when we have time to study it.

Mr. MACDONNELL (*Greenwood*): I would like to know the point on which these witnesses wish to be heard.

The CHAIRMAN: I do not know. I presume they are against the further sale of surplus United States equipment in Canada.

Mr. MACDONNELL (*Greenwood*): We have nothing to do with that. It is a matter of government policy. The Crown Assets Disposal Corporation is only acting on behalf of the government.

Mr. MCGRATH: But I think we should hear them.

Mr. FISHER: This question of not hearing persons because of government policy is something which as yet has not been thrashed out. I know some other committees have heard witnesses who were offering criticism of government policy. I think we have the precedent in other committees to go ahead in this regard.

The CHAIRMAN: I must say it is the function of the government to determine policy, but surely it is permissible for a committee to hear critical comments on policy.

Mr. MORTON: That is not the point I was raising. I am raising the point that if we hear one point of view, having heard it to what extent are we obligated to hear other points of view. I am not saying yes or no; I am trying to raise the question as to what it might imply and what further work we might get ourselves involved in.

Mr. FISHER: Let them all come.

The CHAIRMAN: I may say that in order to balance this out I had asked the Assistant Deputy Minister of D.D.P. to come here. I thought he could tell us something about war assets later on if necessary. The story is not all one sided by any means.

Mr. BROOME: Let us proceed with the witnesses.

Mr. SPENCER: At the moment I do not think we know what these witnesses' evidence is directed to. I go along with what Mr. Macdonnell has said. The second point is that the only reference which has been given to this committee has been the affairs of this corporation. If they are going to go into the question of whether or not certain equipment should be turned over to this company to sell, surely that is a matter within the function of this committee. More than that, it may lead to the necessity of calling many other witnesses. I do not think we should go into a matter like this and be confronted by witnesses whom we have not called ourselves, when we do not know the point to which their evidence is directed.

Mr. MCILRAITH: Mr. Chairman, addressing myself to the remarks of Mr. Spencer, if we are not going to hear that evidence how is the committee

going to determine its recommendation to the house that, for example, this crown corporation should be doubled in size, cut in half, or be a quarter of its present size?

Mr. McGRATH: Or cut out altogether.

Mr. BROOME: I move that the witnesses be heard.

Mr. McGRATH: I second the motion.

The CHAIRMAN: It has been moved and seconded that the witnesses be heard.

All those in favour?

Those opposed?

Motion agreed to.

Mr. MACDONNELL (*Greenwood*): May I make a comment. I did not vote against the motion, but my understanding is we are hearing these gentlemen because they are here and we recognize it is a matter which we want to follow up and presumably we will have to have further evidence in order to have the whole matter thrashed out.

The CHAIRMAN: Absolutely.

Mr. PICKERSGILL: It is agreed.

Mr. DRYSDALE: Before we get side-tracked with the witnesses, what is the situation in respect of Mr. Richard? Is the information we asked for at the previous session available?

The CHAIRMAN: I understand he has a five or six page statement giving the answers to all or most of the questions and that he is prepared to answer any others. I thought perhaps we should hear these witnesses first.

Mr. BROOME: Has Mr. Richard compiled a list of the equipment sold for the United States government in the same manner as the list of sales for the Canadian government? This was asked for at the last meeting.

Mr. RICHARD: Yes. I have it here.

Mr. BROOME: Is it mimeographed so that it can be distributed to the members of the committee?

Mr. RICHARD: Yes.

Mr. BROOME: Why has it not been handed out?

Mr. DRYSDALE: I think we should have all the information we can get.

The CHAIRMAN: We will get to Mr. Richard step by step, but we can only do one thing at a time.

Mr. McGRATH: Hear, hear.

Mr. BROOME: It may be necessary to refer to this list during the evidence of the witnesses.

The CHAIRMAN: Would you care to produce this list?

Mr. RICHARD: Yes. This is a list of the sales made in our fiscal year 1958-59 in the amount of $5,000 or over in the same manner as we show them for Canadian sales in our report. There is another one for the fiscal year 1959-60 in the same manner.

The CHAIRMAN: Gentlemen, is it agreed that the Price Waterhouse report will be produced as an appendix to our proceedings of today.

Agreed.

(*See Appendix "A-7"*)

Mr. DRYSDALE: I am sorry to interrupt. Is that all you have to file, Mr. Richard?

The CHAIRMAN: He has a statement.

Mr. MCGRATH: Is it relative to the evidence we have to hear?

Mr. DRYSDALE: Is that all that is relevant to these particular witnesses?

The CHAIRMAN: I cannot answer that.

Mr. DRYSDALE: Let us find out.

The CHAIRMAN: There are two ways in which to proceed. We can proceed with our witnesses or have the statement of Mr. Richard.

Mr. PICKERSGILL: On a point of order, a motion has been passed by the committee that we have the witnesses.

The CHAIRMAN: Gentlemen, we have with us Mr. George E. Bernard, executive vice-president of Laurion Equipment Limited, Mr. R. B. Somerville, president of the Ontario Equipment and Supply Limited, and Mr. G. R. Duncan, vice-president, Mussens of Canada Limited. I understand Mr. Bernard is prepared to make a statement on behalf of the three gentlemen who are here.

Mr. GEORGE E. BERNARD (*Executive Vice-President, Laurion Equipment Limited*): Mr. Chairman, we presented last September the submission which was published in your proceedings of last week. I would like to draw your attention, Mr. Chairman, and members of the committee, to the fact that although our association is called the Canadian Association of Equipment Distributors, the brief was presented jointly wth the Canadan Constructon Astributors, the brief was presented jointly with the Canadian Construction Assocation, was endorsed by MEMAC, which means Machinery and Equipment Manufacturers Association of Canada, and was also endorsed by the Canadian Automobile Chamber of Commerce and by the Office Equipment Association of Canada. Therefore, this submission was presented by the Machinery and Equipment Manufacturers Association, by the Distributors Association and by the end users, that is the association of equipment distributors which covers the whole field of people who would be interested in the equipment.

Also I would like to state that according to the figures of this year the estimate of construction in Canada will be $7,300 million whereas the gross national revenue is estimated at $36 billion. Therefore the associations who have supported this submission represent 20 per cent of the gross national revenue of Canada. It is for that reason that I believe the submission should not be considered as being only a protest of a group of dealers but should also be considered as the protest of the construction asssociation, and representing, as I said, 20 per cent of the gross national revenue.

Furthermore, Mr. Chairman, I would like to say that the nature of the agreement of 1951 which you have been speaking about was made two years after Newfoundland joined confederation when there was an accumulation of equipment in Newfoundland and also when there was a shortage of equipment due to the Korean war.

If you remember the order in council which approved or made official the agreement, you will note there is no reference to crown assets in respect of considering the nature of the Canadian market, the employment, or the labour situation in Canada, and that the only limitation you have in the order in council is that if the equipment is not of a nature which in their opinion will make it saleable it should be returned to the United States agency. Nowhere in this order in council do you see that the crown assets should consider the industry, the market, or any other point but the physical condition of the equipment. As this committee is interested mostly in the revenues of the government, the gross sales for the period of nine years were $6,320,000. In your committee last week you were asking what was the actual value of that equipment. In the paper that you have just received for the sales of 1958-59,

the second item from the bottom of the page is a shovel, revolving crawler crane, Bucyrus Erie Company, 1951, sold for $5,100.

That machine today is worth $39,000. The Bucyrus Erie Company is established in Guelph, Ontario, and they are producing an exactly similar machine to the one which was sold for $5,100. All across Canada you have distributors who have similar machines in their yards that they are trying to sell to the market, because we had to take in the trade-ins from the contractors.

Mr. McILRAITH: You used the term "is worth $31,000".

Mr. BERNARD: $39,000.

Mr. McILRAITH: Do I understand you to mean that was the selling—

Mr. BERNARD: The market value.

Mr. McILRAITH: No; the market price of the article, new?

Mr. BERNARD: New today.

Mr. McILRAITH: That is what I want to clarify.

Mr. BERNARD: That is correct.

Mr. McGREGOR: What would you consider the market price of that shovel today? That shovel is what—about nine years old?

Mr. BERNARD: 1951. But there have been machines seven years old sold, with 200 or 300 hours use on them, that were practically new. A year, therefore, does not mean too much.

Mr. SMITH (*Simcoe North*): You said Bucyrus Erie had a factory in Guelph. What would the Canadian manufactured content of that shovel be—the percentage of Canadian content in the shovel?

Mr. BERNARD: You do have, in the tariff structure, a diminishing percentage, by which a manufacturer starts at 40 per cent on the imported parts, and it goes down to 15 per cent duty on the imported parts, depending on the Canadian content of the product. Therefore, every manufacturer who starts to produce in Canada may not produce 100 per cent on his equipment.

Mr. SMITH (*Simcoe North*): I realize there is something in the tariff structure; but you indicated that this shovel was manufactured at Guelph. I would like to know the Canadian manufactured content of that shovel—not the various tariff rates applicable to the parts. How much was manufactured, and how much was just an assembly job, at Guelph?

Mr. BERNARD: As far as the Bucyrus Erie Company is concerned, I could not give you that information.

Mr. SMITH (*Simcoe North*): You must have some knowledge of the trade, though.

Mr. BERNARD: Yes. I could tell you that Dominion in Montreal, for instance—if you took out the power unit, they are manufacturing 100 per cent of that equipment. Also Kohring, a plant I have visited—if you take off the power unit, because we do not manufacture any power units of that size here—if you take off the engine, practically 80 per cent of it will be manufactured here.

Mr. SMITH (*Simcoe North*): Do you know what the Bucyrus Erie Company does?

Mr. BERNARD: I have never visited their plant.

Mr. SMITH (*Simcoe North*): Are they an assembly plant?

Mr. BERNARD: No; they have a $5 million plant.

Mr. McGEE: It could still be an assembly plant.

Mr. McGREGOR: The witness says that if you take off the power plant, it would be 80 per cent Canadian. What percentage is the cost of the power plant?

Mr. McGEE: On this item?

Mr. BERNARD: On this item, about $5,000—on a $39,000 item.

Mr. McGREGOR: You know different to that, that you cannot buy a power plant for that shovel for $5,000. You know that.

Mr. BERNARD: This is about $6,000.

Mr. McGREGOR: It is not $6,000. I would say it is closer to $10,000—much closer to $10,000—and you know it.

Mr. BERNARD: This is my opinion, sir. Of course, it does not say whether it is gasoline or diesel.

Mr. McGREGOR: You are comparing here a shovel that sold for $5,100, and you say it cost $39,000; and the argument, you say, is that it might only have a few hours on it. What would you say that shovel, worked normal time, would be worth after nine years operation?

Mr. BERNARD: That was in good condition. It could be sold today for $12,000 to $15,000.

Mr. McGREGOR: $12,000 to $15,000—that may be, if it was in good condition. But if it had been worked normally, you would not have got more than $5,000, if you got that for it.

Mr. McGEE: Does the witness agree with that statement?

The CHAIRMAN: Do you want to reply to that?

Mr. BERNARD: Another way of replying to it would be, that just on federal sales tax, the Canadian government, on this item, would have received $3,000.

Mr. McGEE: That matter is beside the point. The question was—and that was also in my mind—if the power shovel in 1951 was used through until 1958 in the normal sense, is $5,100 an unrealistic price to obtain for such an item?

Mr. BERNARD: No.

Mr. HALES: In this connection, Mr. Chairman, regarding the Bucyrus Erie Company, I would like to say a word or two here, because Bucyrus Erie is in my riding, in the city of Guelph. I would think the Canadian content would be about 60 per cent in the shovel that is mentioned here. That is only an estimate.

I also know that for every used machine that is sold, it is one less machine that Bucyrus Erie will make in my riding, and, therefore, will put people out of work. I am most interested in this particular item that has been brought to our attention at this time.

The CHAIRMAN: Does anybody else wish to ask a question? Had you finished your statement, Mr. Bernard? Did you want to say something else?

Mr. BERNARD: No, Mr. Chairman, unless there are more questions.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. McILRAITH: I have some questions, Mr. Chairman. I was trying to follow your submission quite closely, and I was not quite clear as to your reference to the order in council.

Am I correct in understanding the situation to be this, that there was a period of time when there was a shortage of this equipment in Canada, and it was not readily available?

Mr. BERNARD: That is correct.

Mr. McILRAITH: Because we did not have the capacity for producing it?

Mr. BERNARD: No.

Mr. McILRAITH: But that now we have come into an era where we have manufacturers with the equipment available, able to supply the market, and also no difficulty in getting the material from Canadian sources?

Did I then follow the inference of your remarks to be that the selling of this U.S. equipment was that, while it may have been necessary, or all right at one time, we are now in a period, because of these other two factors, where it was interfering with Canadian content; is that right?

Mr. BERNARD: That is correct. As a matter of fact, in our submission we said that ten years ago there was one manufacturer of shovels in Canada, whereas today you have six. With regard to air compressors, you have six or seven manufacturers in Canada today. Much of the equipment today, if you consider what is now of a class or kind made in Canada, according to National Revenue there are very few items that are left that are coming in not of a class or kind made in Canada.

Mr. McILRAITH: And there would be another factor ten years ago. The construction industry would not be as well equipped as it is now, because there had been a history of war demands on manufacturing, and the equipment was not available anyway. So I take it that this is a new problem, really: that is what you are trying to point out?

Mr. BERNARD: That is correct. What we wanted to point out particularly was that the agreement was of a temporary nature, made in 1951 to meet the 1951 conditions.

Mr. McILRAITH: That is right. The Korean war—

Mr. BERNARD: And in 1960, with the plants we have today, and the equipment that is available of Canadian origin, the agreement should be rescinded.

Mr. McILRAITH: Thank you very much.

Mr. KEAYS: Mr. Chairman, may I ask Mr. Bernard if he could give us the total sales of new, heavy equipment, or construction equipment being sold annually in Canada?

Mr. BERNARD: I do not have those precise figures, sir. There are only estimates.

Mr. KEAYS: Could you give me a rough estimate?

Mr. BERNARD: Yes. They are between $800 million or $900 million. But there is one factor, if you will allow me to mention it, Mr. Chairman; that most of the equipment that is coming out of Newfoundland stays in the east, and therefore it should not be compared with the sales of construction equipment for all of Canada.

Your freight rates out west are such that even today the distributors out of western Canada—Alberta and British Columbia—still find it cheaper to get equipment out of the American factories than out of Canadian factories located in Ontario, in many lines, because of the high freight rates between Ontario and British Columbia; whereas they could get it from Iowa and Wisconsin in the United States. So when you compare these figures, I believe they should be compared with what is being sold in Ontario, Quebec, and the maritime provinces only, and not with the whole of Canada.

Mr. KEAYS: Then may I ask that question: what is the total value of the new equipment that is being sold in eastern Canada?

Mr. BERNARD: It would be only an opinion, sir, based on statistics I have seen; but I would say, approximately $600 million—$500 million to $600 million.

Mr. McGRATH: What do you mean by "eastern Canada"?

Mr. BERNARD: Ontario, Quebec and the maritimes.

Mr. McGRATH: Would you say most of this equipment eventually ends up in Montreal?

Mr. BERNARD: Montreal and Toronto.

Mr. McGRATH: Would you also say that most of the people listed as buyers on this list are merely used equipment brokers?

Mr. BERNARD: I have not analyzed it as yet; I just had it a minute ago.

Mr. BROOME: Mr. Chairman, I was quite interested in certain remarks that have been made, that the sale of U.S. equipment represents bargains for municipalities.

This may not be a proper question at this time, because it is more or less for Mr. Richard, rather than for the witness; but the witness might be able to answer it.

I have not seen in this list any sale to any municipality, to any school board, or, as far as I can make out, to any small logging or general contractor, or provincial government. Would the witness say, from his knowledge of the industry, that the actual buyers of this equipment represent rather a closed group of used machinery houses and that, in effect, the sale is a restricted sale, because as far as the actual purchasing is concerned, it is a very narrow group which made all these purchases?

Mr. BERNARD: A perusal of the list will show that most of the sales made in Toronto and Montreal are to people who are interested in re-selling this equipment.

Mr. BROOME: They are essentially used-machinery firms, are they?

Mr. BERNARD: That is correct—those in Toronto and Montreal.

Mr. McGRATH: Following your perusal of the list, would you say that applies to the list which we have now?

Mr. BERNARD: Yes. In other words, in the maritimes you have contractors who are purchasing it and using it on their contracts; whereas in Toronto, the names that are mentioned in Toronto are people who are interested in used equipment—Levy in Toronto, Robervale Sales in Montreal; that is used equipment.

Mr. McGRATH: You notice in this inventory that we have that the firms listed here for Montreal are very few and far between, in comparison with the number of firms in the maritimes. This is the inventory for 1958-59 which Mr. Richard tabled with the committee.

Mr. BERNARD: Automotive Hardware, Marvan Equipment of Kemptville, Ontario, Marvin Equipment again, Marvin, Marvin; these people are interested in used equipment.

Mr. SMITH (*Simcoe North*): What would be the freight on the Bucyrus Erie shovel from Fort Harmon in Newfoundland to Montreal, to deal with the item to which you referred specifically.

Mr. McGRATH: The location is Stephenville.

Mr. SMITH (*Simcoe North*): Well, from Stephenville, Newfoundland, to Montreal, what would be the approximate freight on it?

Mr. BERNARD: About $500.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. BROOME: I would like to ask another question, Mr. Chairman. Would the witness have any idea as to what the value, the new value, would have been of materials sold in the last year as American army surplus? I am referring to heavy equipment only, not lands or buildings.

Mr. BERNARD: The estimates that we have seen of a survey made in the States was approximately 4 per cent of the resale value of the equipment. With these figures here, we will be very pleased to make a comparison with the actual prices on this seven-page list and state what they are worth today.

Mr. BROOME: Then you say that, as a person engaged in this field, the resale value is 4 per cent of the new value, which means that if gross sales were $6 million, as given to this committee, it represents $150 million, approximately?

Mr. BERNARD: Approximately.

Mr. BROOME: Of new value?

Mr. BERNARD: That is correct.

Mr. MCGRATH: I have one further question, Mr. Chairman. In your opinion, do you feel that the list under Declared Value—there are approximately 25 here that have "N/A" which I presume is "not available"—do you feel, in your opinion, that an assessment of the declared value could be made, in these instances?

Mr. BERNARD: The new value, the reproduction value, you are talking about?

Mr. MCGRATH: It says here, "declared value". Some have a declared value, and others do not. Of a total of 60 groups of times of which 25 have no declared value. In your opinion do you feel that a proper assessment could be made of the declared value of these items? Maybe you would have to have some time to study the list before you answer my question.

Mr. BROOME: Perhaps I might help in this way: if you were importing a piece of equipment from the United States, regardless of the price you paid for that equipment, the Department of National Revenue would assess the fair market value of that equipment in Canadian terms, would it not?

Mr. BERNARD: That is correct; they do not consider it unless they appraise it.

Mr. BROOME: Then you would pay the taxes on that appraised value?

Mr. BERNARD: That is correct.

Mr. BROOME: But suppose you bought a piece of equipment for $1,000 and they appraised it at $9,000. Would you then have to pay the dumping duty on an article of a different class or kind made in Canada?

Mr. BERNARD: No, you would have to pay 25½ per cent on $9,000, not on $1,000; and you would have to pay 11 per cent sales tax on the total of your $9,000, plus the duty.

Mr. BROOME: Is it not possible for the same procedure to be used with this equipment?

Mr. BERNARD: Yes, it could be appraised and the duty and tax made applicable to that, but similar equipment to this coming in from outside Newfoundland would be subject to a dumping duty by the Department of National Revenue.

Mr. BROOME: I do not know if you have received No. 9, of this Committees proceedings, but on page 275, Appendix C-6 it shows the duty, and the sales tax to the Canadian government, on a gross sale of $6,320,000, of $767,000, or roughly around 12½ per cent. If this were used equipment brought in from the United States, what would that duty and sales tax figure at, on that amount of sale, $6 million odd, if you want to keep to a round figure? Would it not be something in the neighbourhood of $2 million including the dumping duty?

Mr. BERNARD: I think that would be a conservative figure of $2 million.

Mr. McGREGOR: Did I understand you to say that this equipment was sold for 4 per cent of its original value?

Mr. BERNARD: I said that is an estimate or survey made in the United States of equipment that they sell there.

Mr. McGREGOR: Can you find on that sheet anything which was sold at 4 per cent?—any one item on that sheet that was sold at 4 per cent?

Mr. DRYSDALE: While the witness is looking it up—

Mr. McGREGOR: Let us get an answer to my question first.

Mr. DRYSDALE: I would like to find out what the declared value is in Mr. Richard's statement.

Mr. RICHARD: It is the value which is listed on the declaration made to us by the United States.

It might include the list price, or it might include transportation charges back to the United States, or it might include installation charges and anything at all. It is the only figure we have.

Mr. DRYSDALE: It could have nothing to do with the actual market value of the goods?

Mr. RICHARD: Oh no, it has no relation.

Mr. BERNARD: If the declared value is the value that would be the price which the American government would have paid for it, that is, the bid price to the procurement office; whereas, when I was talking about a comparison, I was talking of the normal civilian market price, what the machine is worth in Montreal.

Mr. McGREGOR: There is nothing on this sheet which bears out your statement; there is not one point which bears out your statement on this sheet.

Mr. BERNARD: The declared value would be approximately 15 to 20 per cent lower than the normal market price. The American government buys on bids, and that would be the wholesale price less the established discount that the manufacturer is selling at. Therefore the sales price—if you are comparing sales prices—and the purchase price of the American government, which is a bidded price, not a civilian market price—

Mr. McGREGOR: But you still cannot bring it down to 4 per cent.

Mr. FISHER: On page 3 of the 1958-1959 list, there is a sales price, and a declared value of $1,498.

Mr. SPENCER: I have a question. I gathered from one of your previous answers that there was some suggestion that this equipment was in short supply in 1951. Do you maintain that position?

Mr. BERNARD: This was during the Korean war, in 1951-52, and at that time you had to import it by permit; you needed a permit in order to obtain American funds to be able to import.

Mr. SPENCER: Assuming this, and supposing that that was the situation in 1951, had there been similar arrangements prior to 1951? Would there not be a similar arrangement with the United States government prior to 1951?

Mr. BERNARD: There could have been, sir, but I am not aware of it.

The CHAIRMAN: Are there any other questions?

Mr. FISHER: About a year ago there were representations made by the organization which you represent in connection with American equipment which was coming from Japan, and which came in. Were effective steps taken by the government to stop it coming on to the Canadian market?

Mr. BERNARD: They have applied dumping duty on all this American equipment coming in.

Mr. FISHER: In other words, on the sales which Mr. Broome was talking about?

Mr. BERNARD: Yes.

Mr. FISHER: Have you made any recommendation to the government by way of a solution, or have they approached you by way of a solution in this field?

Mr. BERNARD: No sir.

Mr. FISHER: What have you recommended as a solution?

M. BERNARD: That the order in council be rescinded.

Mr. FISHER: In other words, the Americans who have brought this equipment up here, would have to take it back home?

Mr. BERNARD: We consider that would be an American problem.

Mr. SMITH (*Simcoe North*): Is not some of that equipment sold at a price and at a location in Canada where it is not likely that you would get sales?

Mr. BERNARD: The reason for some of these organizations joining us in our submission is this: if you take a general contractor who has purchased $100,000 of equipment, and he goes to his bank and shows a statement to his banker, and it is assumed that this equipment has an appreciable value of two years, yet it has a sales value of $50,000 on his books, and his banker sees a list like this, where similar equipment may be bought for $20,000, what do you think that the director's statement is worth in the hands of his banker? It is replacement value of that equipment which will determine it.

Then in our case ourselves, when we appraise it as used, and a contractor offers it in trade for a new piece of equipment, then if you can buy a piece of equipment here for $5,000, do you think we are in a position to give him $10,000 for that piece of equipment?

Mr. SMITH (*Simcoe North*): How many pieces of equipment are likely to go on the market, or have been sold in relation to the total number? To go back to your example again, we have this one shovel, and a revolving trailer; how many pieces of equipment have been offered by war assets, or are likely to be offered by them in relation to the total number of these shovels used in Canada? There was one sold here, but how many are there in Canada? Are there 50 or a hundred, or what?

Mr. BERNARD: You should not compare it to Canada; you should compare it to eastern Canada.

Mr. SMITH (*Simcoe North*): It seems with all our questions that we are diverted by that statement: how many are there in eastern Canada, then? Are there 50, or 10, or what? Is one unit going to make the whole market, as you suggest it, in eastern Canada?

Mr. BERNARD: I will give you an answer if you allow me to look over the list. There were in 1958-59 approximately 25 shovels sold in the Maritimes, and you have six here that are shown as having been sold in the Maritimes; so that would be about 20 per cent of the requirements of the Maritimes.

Mr. SMITH (*Simcoe North*): What are R.A. Douglas? Do you know the company? They are at New Glasgow. Do you know what they are?

Mr. BERNARD: No sir.

Mr. SMITH (*Simcoe North*): And what are J. Goodyear & Sons Limited, of Grand Falls, Newfoundland? That is at the bottom of the first page.

Mr. BERNARD: No sir, I would not know if they are distributors of construction equipment.

The CHAIRMAN: Are there any other questions?

Mr. FISHER: It seems to me that Mr. Smith's questions go to the root of what we would like here; it is a question of the scale of this kind of distribution into the market, and its effect upon the industry as a whole. Do you feel, or is there any added sense of urgency as you have presented it in the shape of your brief?

Mr. BERNARD: In February, when I was in Newfoundland speaking to our distributors, they said that if Pepperell was closed down, there would be enough equipment to take care of the requirements of the Maritimes for a few years to come. That is what I was told. In other words, if it was all sold there would be enough equipment there to take care of all their requirements for a few years. Those are the distributors at St. John's, Newfoundland, that we were worried about this situation.

Mr. MCGREGOR: This equipment is all from eight to nine years old. How many more years do you suppose that this equipment is good for?

Mr. BERNARD: In Montreal there is equipment seven years ago with only 300 hours on it.

Mr. MCGREGOR: That is not a good argument, because there is nobody keeps equipment for seven years with only 300 hours on it, and you know. Why tell this committee any bunk like that, because you know different?

Mr. BERNARD: I have seen it—

Mr. BROOME: On a point of order, Mr. Chairman, I dislike the attitude taken by Mr. McGregor with the people we have invited here, and I do not think Mr. McGregor's remarks are in keeping with the dignity of this committee.

Mr. MCGREGOR: On the point of order, Mr. Chairman, this gentleman here has made statements that are not true, and I think this committee should know the truth. When they ask questions they should know the truth, and one statement he made was that this equipment was sold at 4 per cent; but he cannot produce any statement on that.

The CHAIRMAN: The witness is not under oath and gave that answer as his opinion. We have to accept it: he may be wrong; or he may be right.

Mr. SMITH (*Simcoe North*): I presume that you or your association know pretty well in Canada where the bulk of American equipment is that is likely to become surplus during the next few years, do you?

Mr. BERNARD: We know it has been mostly in Newfoundland, but there might be some in Churchill and other areas we are not aware of.

Mr. SMITH (*Simcoe North*): Beyond this one base which I think is closed now, is there any prospect of a large amount of American equipment being turned over, that you know of?

Mr. BERNARD: There might be in Frobisher, when that is over.

Mr. SMITH (*Simcoe North*): But that will be quite a transportation problem, getting it out of Frobisher?

Mr. BERNARD: By boat.

Mr. MCGRATH: Have you seen the inventory for the Pepperrell sales?

Mr. BERNARD: No, I have not.

Mr. MCGRATH: It has been available for some time now?

Mr. BERNARD: Correct.

Mr. MCGRATH: Have your people in St. John's seen the inventory?

Mr. BERNARD: Yes, and I have had correspondence with the distributors from St. John's to that effect.

Mr. McGRATH: It is not conjecture, and you know exactly how much equipment there is there?

Mr. BERNARD: I know in this one six shovels would be up for sale.

Mr. McGRATH: Your statement is a fair one, that this would flood the market in the maritimes?

Mr. BERNARD: That is right.

Mr. KEAYS: I believe, in all fairness to the witness—I am not sure this question has been answered, but in 1958-59 there were eight crane shovels sold, according to the list submitted, and in 1959-60 there were 13. Secondly, I believe it has been proven already to the committee that there have been some sales made which did not produce 4 per cent. There was a statement made a few minutes ago that the witness was not able to produce them. I believe on page 3 of the 1958-59 records you will note that one lot of equipment, comprising tractors, pavers, generating plant, compressors, and crushers, was sold for $9,865, when the declared value was $238,441. Then you go down lower in the list, where you have a sale to Automotive Hardware Limited, Toronto, sale price $6,759 and a declared value of $158,994. I believe that should be made clear because the witness did make a declaration, and those two statements should be correct.

Mr. McGREGOR: I would like to ask, Mr. Chairman, with regard to these figures that have just been quoted now—the sale at $9,865 and a value of $238,441—was that the new price?

The CHAIRMAN: Well, Mr. McGregor, this is not the best witness to answer that. It is Mr. Richard who produced the list. I understand Mr. Bernard is just trying to help the committee.

Mr. McGREGOR: I would think that is probably the new price. I do not know.

Mr. McILRAITH: That is what he said a moment ago.

Mr. McGREGOR: That was the new price?

Mr. RICHARD: That is the value placed upon it by the American authorities in their declaration. As I mentioned a while ago, it may include installation charges, transportation charges—

Mr. McGREGOR: That was the new price?

Mr. RICHARD: Yes, presumably.

Mr. McGREGOR: That was the new price?

Mr. RICHARD: Yes.

Mr. BROOME: He did not say that, but said it is the value they placed on it.

Mr. McGREGOR: Where was the price?

Mr. VILLENEUVE: Is that the value of the equipment when purchased, new, or the value placed upon it when this inventory was made, prior to the sale?

Mr. RICHARD: It is not intended to represent the value of the present time, but the cost originally, plus any charges which may have accumulated since then—in other words, their inventory price.

Mr. BROOME: That cost would not include any taxes whatsoever, because they paid no taxes on them?

Mr. RICHARD: No.

Mr. McILRAITH: It might or might not.

Mr. McGRATH: In assessing a price does the crown assets disposal corporation make any effort to determine the market value of that particular item, in order to obtain the best possible price?

Mr. RICHARD: Yes, but we are entirely governed by the best bids we get for it.

Mr. MCGRATH: You do not list the market price, but the price declared by the American authorities?

Mr. VILLENEUVE: What it cost them when they purchased it new?

Mr. RICHARD: Yes.

Mr. BROOME: Have you asked the Department of National Revenue, or anyone else, to have even a spot check on the equipment, to try to find out what the proper value of the equipment is?

Mr. RICHARD: No.

Mr. BROOME: You have not?

Mr. RICHARD: No, but I have here some photographs of the item listed as a declared value of $158,900 and which was sold for $6,759.

Mr. DRYSDALE: What page, what year?

Mr. RICHARD: Page 3, 1958-59. You can see what sort of condition that is in.

Mr. DRYSDALE: Mr. Chairman, have we finished with Mr. Bernard? As usual, in these committees we seem to work backwards. We have been questioning Mr. Bernard on statements that have been produced by Mr. Richard. I think, in fairness to the witness, Mr. Chairman, we should go back to the original way of doing it—examine what Mr. Richard has got to say, and then, if Mr. Bernard and the people from the construction equipment association have some comments to make on the evidence that was presented to us, I think they should be allowed to appear. But I feel we are wasting our time, trying to examine Mr. Bernard on figures produced now by Mr. Richard.

The CHAIRMAN: The committee decided we should proceeded in this fashion, but we may finish with Mr. Bernard now.

Mr. DRYSDALE: I think we started logically, and I think an opportunity should be given to Mr. Bernard, if he wants to come back again. I think we should be entitled to have them back, to have their comments.

Mr. MORTON: In line with the evidence the witness has given, I do not remember hearing it here, but could he help us as to the volume of normal sales during the year on the equipment which is in competition here, so we might have some way of assessing the effect on the industry? In other words, they are talking about certain shovels. What would be the normal sale of those shovels in the area under discussion, the area under competition? Has he made any survey to that effect, which might help us?

Mr. BERNARD: I do not have the exact figures of that in the maritimes. I know there were 20 machines sold in 1959, and that on this paper here it showed there were six that had been sold to buyers in the maritimes. It was for that purpose that I mentioned that and presented that high percentage.

Mr. MCGRATH: May I raise a point supplementary to what Mr. Drysdale and Mr. Morton raised, Mr. Chairman?

Have you any communication from your affiliates in St. John's Newfoundland, you could perhaps read to the committee, that could throw some light on this?

Mr. BERNARD: I do not have it with me, here.

Mr. MCGRATH: But you have communications from them?

Mr. BERNARD: Yes, from our group of distributors in Newfoundland.

Mr. MORTON: Have you any figures of what the other sales in the area are, other than what is sold by your assets corporation?

Mr. BERNARD: I would not have those figures.

Mr. MORTON: Could you get them?

Mr. BERNARD: Yes, I could.

Mr. SMITH (*Simcoe North*): You have said there were 26 shovels in the maritimes, of which six were from war assets. How many of the same type of shovel would have been sold in Ontario and Quebec, in the same sort of area?

Mr. BERNARD: About 350 to 400.

Mr. SMITH (*Simcoe North*): So that really in one sense we have six shovels against a possible total of, to be on the generous side, 300. Assuming that for marketing purposes you take Ontario, Quebec, and the four maritime provinces—

Mr. MCGRATH: The four Atlantic provinces.

Mr. BERNARD: These are only sales above $5,000, and there might have been others sold below $5,000 price.

Mr. SMITH (*Simcoe North*): But roughly about 300 of the same type of shovel in the six provinces?

Mr. BERNARD: Yes.

Mr. HALES: Going back to the Bucyrus Erie shovel, under the declared price there is not any price in there. Why is there not for the one sold for $5,100?

The CHAIRMAN: I think that question should be directed to Mr. Richard.

Mr. HALES: Mr. Richard, then?

The CHAIRMAN: Which page is that?

Mr. HALES: This is the first page of the fiscal year 1958-59, the second-last item.

Mr. RICHARD: Simply because we have not got it, sir. The Americans have not produced it. These things lose their identity in inventory records, and I imagine the Americans themselves do not have it.

Mr. DRYSDALE: I wonder if it would be possible, on these two particular ones—we have the information on the first one, a sales price of $16,112, under the description of one crane shovel, Thew, 1953. Would it be possible for Mr. Richard to go through each of these items—I do not mean now—or to have somebody in his department indicate roughly what was the condition of the article at the time of the sale? Perhaps he could indicate what the market value or price would be for a 1953 Thew crane shovel, and what the estimated value would be if it was sold on the market at the particular time it was sold. Otherwise, the information we have is of absolutely no value at all. All we have is a sale price, and in odd cases we have some figures made up of many things. We have no way of estimating whether these things are storage price, or what they are, or any way at all of ascertaining what goes into those particular figures.

I think the only thing that could be of assistance to the committee, or of assistance to somebody like myself who knows nothing about this business at all, is to find out the price of the particular article that was brought in, the average market price. I am sure there would be a list price in 1953 for the Thew crane shovel. I would like to know what the condition of the shovel was when it was sold, and what the estimated market value would be.

I understand that on your staff of 115 you have a lot of people who would be experienced and could give you an indication of its valuation. We are hitting in the dark when we are asking Mr. Bernard about the Bucyrus Erie shovel which was sold for $5,100. He has no idea of the condition of the particular shovel, as to whether it was good, bad or indifferent. It seems to me rather pointless carrying on this line of questioning in those circumstances.

I would ask if this information I have asked for could be produced, and then perhaps we could proceed on a logical basis at the next meeting.

The CHAIRMAN: Mr. Bernard said that he has no further comment to make at this time.

Mr. KEAYS: I was going to make a motion, if it is agreeable to the committee, that we should dispense with the witnesses at the present and go on with Mr. Richard's statement.

Mr. DRYSDALE: That is what we should have done in the first place.

Mr. KEAYS: If we need them later we can call them back, or if there are arguments to the contrary, they can be heard.

Mr. MCILRAITH: I would like to ask one question before this motion is put, and this question is for clarification.

Mr. Bernard, in an earlier part of your answers to questions you used the term "declared value". As I understood it, you used the term with reference to the declared value as used by the national revenue department for customs purposes, and with that technical meaning attached to these words, and you did not have reference to the words as used by the crown assets allocation committee who apparently used them as indicating a figure they received from a declaring authority, declaring the articles surplus?

Mr. MACDONNELL: And valued at that time, is that correct?

Mr. MCILRAITH: No, not valued.

The CHAIRMAN: Are there any other questions?

Mr. BERNARD: I mentioned, sir, that the value here was an American value.

Mr. SMITH (*Simcoe North*): It was not the value for duty purposes?

Mr. BERNARD: It was not the value for duty purposes because the American government purchases below the public market price in the states.

Mr. MCILRAITH: As I understand it, you started to explain, when we were asking questions on the dumping duty and in answer to those questions you used the term "declared value" with obvious reference to the declared value as defined in the customs regulations. I thought your answers were clear on that. I wanted to point out that you are not assuming to deal with the "declared value" as used by the crown assets allocation committee, which is apparently made up of figures given to this crown corporation by a declaring authority who are declaring articles surplus. This includes presumably many other article costs such as service charges, and in some places physical construction charges and all types of irregular charges attributable to the item, over which they have no control at all.

We discussed this subject in another committee some time ago and it was decided they had misused the the word altogether. This is a figure used by authorities declaring articles surplus to this crown corporation, apparently indicating the cost that they have attributed to the article for any purpose or from any source.

Mr. DRYSDALE: I would like to ask Mr. McIlraith if that is an accumulative cost based on the original price. Is that what I understood him to say? In other words they have taken the original price and added any other conceivable cost up to this date?

Mr. MCILRAITH: Yes, that is correct, and it is quite inaccurate to rely on it because it sometimes indicates the value of an article, and in other cases, where machinery is placed into construction they have included all the costs of the construction in cluding such things as the base upon which the machine is placed, and all kinds of unrelated items. It is sometimes completely misleading and inaccurate.

Mr. MACDONNELL: Mr. Chairman, I must confess that this is still very confusing to me. I do not know what "declared value" means. It seems to me that we have been talking about it in two different ways. Mr. McIlraith suggested one explanation. If this is the right explanation, for heaven's sake let us settle on it now. He suggested it might be a figure which is taken by the Department of National Revenue at the time these things were imported.

Mr. MCILRAITH: No, that was not my suggestion.

Mr. MACDONNELL: I want to know what it is. At the present time "declared value" is quite meaningless to me. When was the value put on? Some of the language which has been used would lead me to believe that it is practically nothing but a book value, and other language leads me to believe that it is an attempt to put a value on it.

The CHAIRMAN: Mr. Macdonnell, may I suggest that we finish with Mr. Bernard and ask that question of Mr. Richard afterwards?

Mr. DRYSDALE: Perhaps we could stand Mr. Bernard down.

Mr. MACDONNELL: Could the Auditor General not tell us what that value is?

The CHAIRMAN: I think we should finish with Mr. Bernard first. I do not think he has anything more to add.

Mr. BERNARD: Thank you, sir.

The CHAIRMAN: Mr. Somerville and Mr. Duncan, have either of you anything to say?

Mr. R. B. SOMERVILLE (*President, Ontario Equipment and Supply Ltd.*): I would just like to make one point in regard to "declared value"; the terminology used by the importer in Canada. The declared value is a value for duty purposes, and I do not think it has any bearing on this figure that the president of the Crown Assets Disposal Corporation has given, because these are declared figures given to the president and I feel certain that he will clarify that himself.

The CHAIRMAN: Thank you Mr. Somerville. Thank you also Mr. Bernard. Now, Mr. Richard, would you like to go ahead?

Mr. RICHARD: In regard to this point of declared value, I think the description that Mr. McIlraith has just given is the correct one. It is the inventory or book value of the United States authorities, and we presume it includes the original cost, plus any additional charges they may have incurred. It is the figure at which they relieve their records of the goods declared surplus.

Mr. BROOME: In regard to that particular point, if it is a book value it will be the depreciated value?

Mr. RICHARD: No, sir.

Mr. MCILRAITH: No, it is not.

Mr. BROOME: You mean that they do not depreciate the equipment?

Mr. RICHARD: No.

Mr. MCILRAITH: The government does not do that.

Mr. RICHARD: It would be the laid down cost.

The CHAIRMAN: Mr. Richard, have you prepared any statement, or have you any statement you wish to give to the committee at this time?

Mr. MCGREGOR: Mr. Chairman, just before we leave this subject, could I follow it up with a question? In regard to this figure of $238,441, that was the value put on by the American government when the equipment was first shipped over from Newfoundland, and that is the value that stands there now. There has been no depreciation written off in spite of the fact that this equipment has worked eight or nine years?

Mr. RICHARD: Correct.

Mr. MCGREGOR: There has been nothing written off of that?

Mr. RICHARD: Correct.

Mr. MCGEE: Some of it has been used 18 years. Some of it was in operation in 1942.

Mr. MCGREGOR: Anything that has been used since 1942 would at this time be nothing more than scrap. I was taking it for granted that it was 1952-53, but anything that is included in there from 1942 will be known by anyone who has any experience in regard to equipment to be absolute scrap.

Mr. RICHARD: There are some pictures circulating around that would show the condition of that machinery.

Mr. KEAYS: I would like to clarify one item in this list and that is the item covering eight buckets, a dragline and clamshell. I would like to see someone purchase this equipment for $9,000, even today.

Mr. FISHER: What do you mean by that, Mr. Keays?

Mr. KEAYS: I mean that buckets, draglines and clamshells do not depreciate that much.

Mr. MCGREGOR: Do you mean since 1942?

Mr. KEAYS: Even since 1942 they would not depreciate that much.

Mr. MCGREGOR: They are 18 years old.

Mr. BROOME: If they were not used they would be worth every cent that they were worth then.

Mr. MCGREGOR: I am in this business and I say that they are out of date after 18 years. I suggest that anyone who knows anything about equipment of this type would know damn well that anything that is 18 years old is out of date.

Mr. BROOME: You are referring to the clamshell as well?

Mr. DRYSDALE: I wonder if I could just clarify this a little bit further in regard to this matter of prices. That would be the price that the United States government would pay for the material originally, whatever that is, which would be equivalent, I presume, to the wholesale price. They would not purchase it at some market price, or do you know that?

Mr. RICHARD: No, we do not know.

Mr. DRYSDALE: You do not know what relationship the price that the American government has to pay has to the average market price?

Mr. RICHARD: No.

Mr. DRYSDALE: They do not give you any indication or any breakdown in that regard? This is the type of price which I would call, for convenience, perhaps a wholesale price, and they add on any other items of expense that would be associated with the particular product?

Mr. RICHARD: That is right.

Mr. DRYSDALE: If there was an engine replaced, for example, would that be added on?

Mr. RICHARD: No. I would say no. I do not know about the replacing of an engine, but I do know that a lot of these items might not have an engine in them and would still carry the same value.

Mr. DRYSDALE: This value would then include items such as storage charges, for example?

Mr. RICHARD: It could, yes.

Mr. DRYSDALE: And if there was supervision required in regard to the storage would that be allocated to the charge as well? I am just trying to ascertain the situation.

Mr. RICHARD: Actually we do not receive a breakdown to that degree, but we know from experience in regard to Canadian materials, for instance, that often times the book value given to us for the item includes the original cost plus any additional expenditures that may have been incurred. In other words, the laid down cost plus anything else that may have been a capital expenditure.

Mr. MCGRATH: Mr. Richard, a few moments ago I asked you a question regarding the assessment as to market value of goods being disposed of by the Crown Assets Disposal Corporation for the United States government and your answer was in the negative, that there was not an assessment of the market value made or listed. Does your answer apply also to goods disposed of by the Crown Assets Disposal Corporation for the Canadian government?

Mr. RICHARD: Yes, we make an estimate of the recovery we expect to receive on a certain item, based on the experience we have in disposing of similar items over the years.

Mr. MCGRATH: Yes, but my question is, do you make any effort to list the market value or assess the market value; in other words, bearing in mind your responsibility in regard to the effect that your sale might have on the market at that particular time?

Mr. RICHARD: From that point of view, no.

Mr. MCGEE: There was some information given at another committee meeting recently that there was about three million yards of surplus uniform material that was bought during the Korean war in anticipation of shortages that would follow, if hostilities continued. Three million yards of material is obviously going to have an effect on the textile market. What is the position in regard to that particular item?

Mr. RICHARD: We have received word of this material. I have not got the information on hand yet but that is a problem that will have to be considered very seriously. We are very conscious of the effect that it might have on the market and we will attempt to deal with it so as not to disturb the market.

Mr. MCGRATH: I would like to ask a supplementary question, Mr. Chairman.

Mr. FISHER: You should let the original questioner ask the supplementary question.

Mr. MCGEE: I would like to ask a question. Apparently you have indicated the process by which you either do or do not dispose of certain equipment having regard to the condition of that market. Now, from your statement I have inferred that you have decided not to proceed with the disposal of this three million yards of cloth?

Mr. RICHARD: First of all we have not got it.

The CHAIRMAN: Mr. Richard is not seized with that problem as yet and therefore he does not answer and should not answer.

Mr. MCGEE: He did say that they were going to have to consider carefully the effect on the market.

Mr. MORTON: Mr. Chairman, once the equipment has been brought into the Crown Assets corporation the decision has been made to sell it. You only receive the equipment after the decision has been made to sell it?

Mr. RICHARD: When it is declared surplus, yes.

Mr. MCGRATH: Have you any one on your staff capable of assessing the goods you have for sale at a market value?

Mr. RICHARD: Yes, of course.

The CHAIRMAN: Mr. Richard, I believe you have a statement and I am sure that many of the questions will be answered in that statement. Would you proceed to read it?

Mr. DRYSDALE: This is the procedure I suggested earlier, Mr. Chairman.

The CHAIRMAN: Your opinion was overruled by the committee and I have to follow the decisions of the majority of the committee.

Mr. RICHARD: Mr. Chairman, as you suggested at the last session, we have reviewed the evidence and the line of questioning adopted by members of the committee and have prepared as much of the information as we could within the time at our disposal. I would now ask permission to take a few minutes of the time of the committee to attempt to give a proper picture of certain phases of our operations and state what information we have obtained.

The disposal of surplus assets is a most unusual business and one on which very little experience data is available. Each country has a problem of this nature to handle and has solved it in different ways but comparative information as to financial results, costs of operation and, particularly, data on original cost are difficult, if not impossible to obtain. Despite our best efforts, we have not been successful in obtaining statistical information on operations of this nature and their financial results from governments of the United States, the United Kingdom or France, although we have been made familiar with their methods and procedures which, in many cases, give evidence of their problems being similar to our own and, what is more gratifying, their solutions are parallel to those prevailing in our corporation.

I might say that over the years and as a result of our experiences, we have found it impossible to compile any general statistics on original cost of the surplus goods we have for disposal because of the following, and here I include Canadian surpluses as well as United States property:

1. Some agencies do not give us or do not have available information on the original cost although our report forms call for such details.
2. Such figures as may be given to us include not only the cost of an article where it is segregated as such but it may include such additional capitalized expenditure as cost of transportation, sometimes for two or three successive moves and also costs of installation or perhaps modification.
3. In many cases there is no direct relation between going market prices to original cost because articles are being sold for uses other than those for which they were made.
4. Materials or equipment are included in accumulations and lose their identity with the result that inventories of the declarers cannot produce the original costs or book values and the property concerned has so depreciated and has actually so physically deteriorated that research in connection with acquisition costs would be of little value. Cases are numerous where property has been left outdoors exposed to the elements for years or more than a decade of years and cannot even fetch low quality scrap prices in market centres let alone the far away locations where they may be.
5. Inventories of tooling and work-in-process will seldom have any monetary value stated and are expressed in terms of tonnage only.
6. Scrap of all kinds is a large proportion of our dealings and the recovery price is largely based on the value of the components whether metal, rubber or other materials and, in many cases, contains several basic elements. The original cost is not given and could have no bearing on recovery value.

We have found it preferable to consider each case on its merits and the circumstances involved rather than build up massive statistics and apply general rules of thumb and our procedure of calling for offers to establish a market value, we think, overcomes the necessity in many cases of having to resort to original costs.

Incidentally, may I point out to the committee that we do not, in any case, conduct auction sales as has been mentioned but that all our sales are made on the basis of written offers or tenders.

One member suggested we might file with the committee a copy of the inventory of United States surplus at present being sold in Newfoundland.

I have here one set of the offer forms being circulated by us in this connection. It consists of a bundle of eight and a half by fourteen inch paper, seven inches thick and weighing eighteen pounds and it contains approximately 1,370 different lots or declarations as we refer to them. Although the number of declarations is perhaps a high one in comparison to other sales, I must say there are a larger number of small two or three line items than usual with the result that the number of declarations as compared to the 1959 Spring Sale is bound to be deceptive. Normally 1,370 Canadian declarations, with supporting lists, would make an even bulkier stack of paper.

I would like to make a comparison here. This bundle represents, as I have stated, some 1,370 declarations. In the course of our normal operations, Canadian and United States surpluses combined, we receive some 1,450 of these per month and manage to dispose of them on the average in some $2\frac{3}{4}$ months so that at all times we may have over 4,000 in various stages of action. This would represent about four or five times the height of this bundle and I leave to the imagination of the committee the difficulties we experience when we are asked for a list of what we have for sale. It would be so much simpler if we could be told what type of property or material is wanted and where or how far the prospective purchaser is prepared to go to view it.

Every declaration—or every sheet in there—gives rise to the expenditure of tremendous amounts of paper and stationery. Invitations for offers have to be sent out in anywhere from fifty to one thousand sheets, with envelopes. Bids received in return give rise to files of documentation and, in most cases, to voluminous correspondence, to say nothing of the typing work necessary to produce all this documentation and the number of man-hours it requires.

Massive compilation of statistics in their connection would be very expensive and the use which could be made of it would not warrant the outlay.

In regard to volume which these declarations produce, I might add that oddly enough one of our main sources of trouble is getting the purchasers to remove the goods they have purchased and paid for.

One of the objectives of declarers in reporting goods surplus is to clear storage space needed for materials more urgently needed for their requirements and clearance of needed space is an important item.

We find that purchasers are inclined to leave the goods on the premises awaiting a sale by them to their clients and it requires the full time of a staff of officials or clerks to follow-up this phase of our operations which leads to correspondence with purchasers on the one hand and reports and more correspondence with declaring departments on the other.

Our general conditions of sales provide for the resale by us of the materials if they are not removed within a certain delay and any consequent loss of recovery to be at the expense of the first purchaser. This clause has been enforced but in application it is difficult to assess which might cause the greater delay, re-selling the goods or exerting pressure on the original purchaser for removal.

In our annual reports, we list the sales of $5,000 and over which have been made for the account of the Canadian government. There are 199 items shown

in the 1958-1959 report and 226 in the 1959-1960 report but I have already pointed out that reports of surplus are flowing in to us at the rate of 16,000 to 17,000 reports per year and the number of sales effected closely approximates this total. Therefore, one can judge that, in addition to the larger sales reported which, in number, are not more than 1 or 2% of the total, there are myriads of smaller sales made, each of which gives rise to practically as much paper work and clerical man hours as the larger sales.

Our annual reports do not contain the details of sales made by our Corporation for United States account. This policy was adopted quite some years ago in accordance with the principle that details of transactions in which another government is concerned should not be made public without their consent.

I have filed with the committee details of all sales of United States property made in 1958-1959 and include sales down to $5,000 and a like statement for the year 1959-1960. You will see from these statements that the declared value is not available in a large number of cases which precludes any attempt at generalizing as to percentage of recovery made on original cost.

The overall rate of duty and taxes set by the Department of National Revenue on United States surpluses sold by our corporation has been fixed at 17 per cent, that is to say, the price at which we sell the goods is 117 per cent of a net price of 100 per cent on which the Corporation retains 10 per cent and a remainder of 90 per cent accrues to the United States Treasury. Working it out another way, out of every dollar of gross price to the purchaser, the Department of National Revenue retains about 14½ cents, the Corporation about 8½ cents and the United States Treasury about 77 cents.

Reference was made at the last session of the committee to a brief presented by the Protem Association of Wholesale Distributors of automotive parts and vehicles to the Minister of Defence Production in reply to submissions opposing the present disposal of United States surpluses and particularly automotive and heavy construction equipment in Canada.

One member of the committee wished to know who the members of this association were and the list given to us is as follows:

Levy Auto Parts Co. Ltd., Toronto, Ontario
Hercules Sales Limited, Toronto, Ontario
Marvan Equipment Co., Kemptville, Ontario
Tanny Merchandising Corp., Montreal, Quebec
Princess Auto Co., Winnipeg, Manitoba
Lipton Auto Parts Ltd., Sydney, Nova Scotia

Some remarks were made concerning reports of United States bases in Newfoundland other than Pepperrell being closed down and I confirm here my reply that we have no knowledge of anything of that nature.

One member ventured the opinion that the bases mentioned are being reduced and in that connection I may say that we are informed programmes relating to construction at Harmon and Goose Bay will be completed this fall. This may have given rise to the reports mentioned and, incidentally, this phasing out of construction programmes at these points will undoubtedly end much of the cause of complaints against the sale of surplus American construction equipment in this country.

In reply to a question concerning the number of sales of United States surplus made by us in 1958-59 to municipalities, I may say that only three such sales were made directly by the corporation for a total of $593 but that one of our large purchasers reported to us having made sales to fifteen different municipalities in the Ottawa district.

In reply to a request for particulars as to the highest price received from any Canadian bidder on sales of Canadian surpluses to United States purchasers, I have here a list detailing, first, the actual sale price to such United States firms as have purchased from us and, secondly, the next offers received down to that of the best Canadian bidder and I am tabling this information with the committee.

CROWN ASSETS DISPOSAL CORPORATION

Sales of $5,000.00 and over to U.S. Firms as listed in 15th annual report April 1st 1958 to March 31st., 1959.

SHIPS AND SHIPS COMPONENTS

Amount		Description	Name and address
$			
17,000.00		Canadian Naval Vessel "La Have".....	James H. DeFuria, DeWitt, N.Y., U.S.A.
	Next Bid		
	$ 8,000.00	Island Traders Ltd., La Have, N.S.	

AIRCRAFT AND AIRCRAFT COMPONENTS

75,890.00		Stainless Steel Sheets (54,445.12 sq. ft.).....	Stainless Sales Corp., New York, N.Y., U.S.A.
	Next Bid		
	$64,444.44	Junction Salvage Co., Toronto, Ontario	
49,000.00		Mustang Aircraft with Engines (16).....	James H. DeFuria,
		Mustang Airframe (1).....	DeWitt, N.Y., U.S.A.
	Next Bids		
	$ 9,950.00	F. H. Farrington, Seattle 3, Wash. U.S.A.	
	$ 4,820.00	Joe R. Grant, Calgary, Alta.	
22,000.00		Mustang aircraft with Engines (7).....	James H. DeFuria
		Mustang Airframe.....	DeWitt, N.Y., U.S.A.
	Next Bids		
	$18,395.00	Trans-Florida Inc., Sarasota, Fla. U.S.A.	
	$ 4,200.00	Chas. Doyle, Minneapolis, Minn. U.S.A.	
	$ 3,151.00	Sigurdson Aviation Ltd., Winnipeg 3, Man.	
20,800.00		Mustang Airframes (8).....	James H. DeFuria,
		Merlin Engines (8).....	DeWitt, N.Y., U.S.A.
	Next Bids		
	$ 4,210.00	Trans-Florida Inc., Sarasota, Florida, U.S.A.	
	$ 1,431.00	Sigurdson Aviation Ltd., Winnipeg 3, Man.	
13,568.00		Instructional Dakota DC 3 Airframe.....	Beldex Corporation, St. Louis 21, Miss. U.S.A.
	Next Bids		
	$ 1,351.00	Charlotte Aircraft Corp., Charlotte 5, North Carolina, U.S.A.	
	$ 303.00	Sigurdson Aviation Ltd., Winnipeg 3, Man.	
7,391.00		Propeller Spares.....	Propeller Services of Miami Inc., Miami 48, Fla., U.S.A.
	Next Bids		
	$ 5,001.00	Exports Inc., Alexandria, VA, U.S.A.	
	$ 3,863.08	California Propeller, North Hollywood, Cal. U.S.A.	
	$ 1,617.45	Quipco Associates Inc., Hialeah, Fla., U.S.A.	
	$ 1,367.55	Lund Aviation (Canada Ltd.) Montreal, P.Q.	
6,000.00		Mustang Aircraft (2).....	James H. DeFuria, DeWitt, N.Y., U.S.A.
	Next Bids		
	$ 1,834.00	Trans-Florida Inc., Sarasota, Florida, U.S.A.	
	$ 804.50	Sigurdson Aviation Ltd., Winnipeg 3, Man.	
5,269.00		Aluminum Sheets (735).....	Chalk Metal Co., Los Angeles, Calif. U.S.A.
	Next Bid		
	$ 4,909.00	Metal Smelting & Refining Co., Montreal, P.Q.	

SUNDRY MERCHANDISE

Amount		Description	Name and address
22,519.00		Bar Steel (71,270 lbs.).....	Broadway Metals Corp., New York, N.Y., U.S.A.
	Next Bid $ 9,921.95	Junction Salvage Co., Toronto, Ontario.	
11,470.00		Rifle Spares.....	N. F. Strebe Gunworks, Washington 27, DC, U.S.A.
	Next Bids $ 6,457.79 $ 777.77	Numrich Arms Co., West Hurley, N.Y., U.S.A. Hercules Sales Ltd., Toronto 9, Ontario.	
7,527.85		Aluminum Rivet Wire (35,342 lbs.).....	Production Metals Inc., Brooklyn, N.Y., U.S.A.
	Next Bid $ 6,137.00	Ajax Aircraft Parts Ltd., Toronto 9, Ontario.	

With regard to the criticism expressed in the 1958 report of the estimates committee concerning the policy of the corporation in respect of the sale of land to municipalities, I should like to file with the Secretary a transcript of our procedure No. LB-2 regarding methods of disposal of property by our lands and buildings division which, in part, deals with the priorities granted and the order of their sequence and indicates that we are prepared to negotiate with municipal government bodies, including municipal school or hospital boards who wish to acquire properties for their own use at a fair market price if they will indicate their interest to us prior to the property being prepared for offer to the public.

The procedure is as follows:

Reports of surplus referred to the Lands and Buildings Division for disposal action shall be dealt with in accordance with the following:

1. *By allocation, without charge, to a Federal Government Department* which may have made a specific request for the surplus asset.

By Treasury Board Minute No. 502236 of June 19, 1956, departments of the Government must obtain prior approval of Treasury Board before obtaining allocation of any land valued at $15,000 or more from Crown Assets Disposal Corporation. Acquiring departments must be requested to produce such approval before allocation is effected.

2. *By negotiated sale, at a fair market price to, the undernoted priority purchasers* observing the order of preference listed hereunder:

(i) *A department of the Federal Government acquiring property for resale,* such as the Soldier Settlement and Veterans' Land Act Division, Central Mortgage and Housing Corporation, etc.

(ii) *Provincial Government departments* or agencies.

(iii) *Municipal Government bodies,* including municipal school or hospital boards who must be prepared to state that they wish to acquire the surplus assets for public use.

(iv) *Recognized educational or religious institutions,* also acquiring for public use, as noted in preceding paragraph.

(v) A lessor or lessee, under a lease settlement agreement.

Any of the above priority purchasers will be given the opportunity of meeting the highest acceptable public offer received if

(*a*) their interest in the asset became known to us only after public invitations to offer have been issued, or

(*b*) prior negotiations under (i) to (v) above have not reached a satisfactory conclusion as a consequence of which public invitations were issued.

(vi) *Power Lines, Communication Lines, Water Services,* and similar surpluses may, in general, be sold to *Servicing Companies or Commissions* by negotiation without calling for public offers.

3. *By public sale* after advertising and/or by direct invitations for offers.

Sales of real estate, buildings on leased property, power lines, communication systems, water services, etc. should be made the subject of formal agreements of sale where practicable but buildings for removal and other similar items will be documented by the normal use of "Offer Form" CADC 31 (Rev.) in accordance with the provisions of General Procedure No. 2.

All sales action by Lands and Buildings Division shall be handled from the Head Office in Ottawa. Offices in the field shall give such assistance to Head Office, Lands and Buildings Division, as may be requested.

In the case where their interest becomes known only after public invitations to offer, we are prepared to allow them to meet the highest acceptable public offer.

The final authority in regard to all sales of land is the governor in council to whom submissions are made upon the recommendation of the Minister of Defence Production who therefore has had an opportunity to review prices at which it is proposed to sell.

With regard to the remarks concerning the authority vested in the president, it would not be ethical for me to comment on this but I would like to file with the secretary a copy of a chart of the organization of the corporation which is published in the government publication entitled "Organization of the Government of Canada" at page 119 of the 1958 edition, with page 120 of this publication reproduced on the reverse side. This chart shows that I am responsible to the board of directors and, as provided for under the Surplus Crown Assets Act, we are responsible to and subject to the direction and control of the Minister of Defence Production.

CROWN ASSETS DISPOSAL CORPORATION

88 Metcalfe Street, Ottawa

Minister Responsible

The Honourable Raymond O'Hurley, M.P.,
Minister of Defence Production

Principal Officers

President and General Manager..... Louis Richard
Vice-President ..... G. W. Hunter
Assistant General Manager..... I. M. Mackinnon
Comptroller ..... A. R. Gilchrist
Assistant Comptroller..... L. M. Mondor
Secretary ..... K. H. Gray

The Crown Assets Disposal Corporation (originally established as War Assets Corporation) was created by *The Surplus Crown Assets Act* (S.C., 1944-45, Chapter 21, as amended—now the *Surplus Crown Assets Act*, R.S.C., 1952, Chapter 260) primarily for the disposal of Crown assets becoming surplus owing to the termination of the War, but its powers, duties and functions extended to other surplus assets. The Corporation is now charged with the disposal of assets which are surplus to the requirements of the Crown and any other matters which relate to this function.

The Corporation consists of the divisions of Commodity Sales, Lands and Buildings, and Supply.

The Commodity Sales Division deals with surplus goods and materials referred to the Corporation.

The Lands and Buildings Division is concerned with real property.

The Supply Division inspects inventories of assets declared surplus to the Corporation, classifies and stores certain specific materials and clears for sales action reports of surplus received in connection with certain governmental activities.

The Corporation maintains branch offices in Halifax, N.S., Toronto, Ont., Calgary, Alta., and Vancouver, B.C., in addition to its head office in Ottawa.

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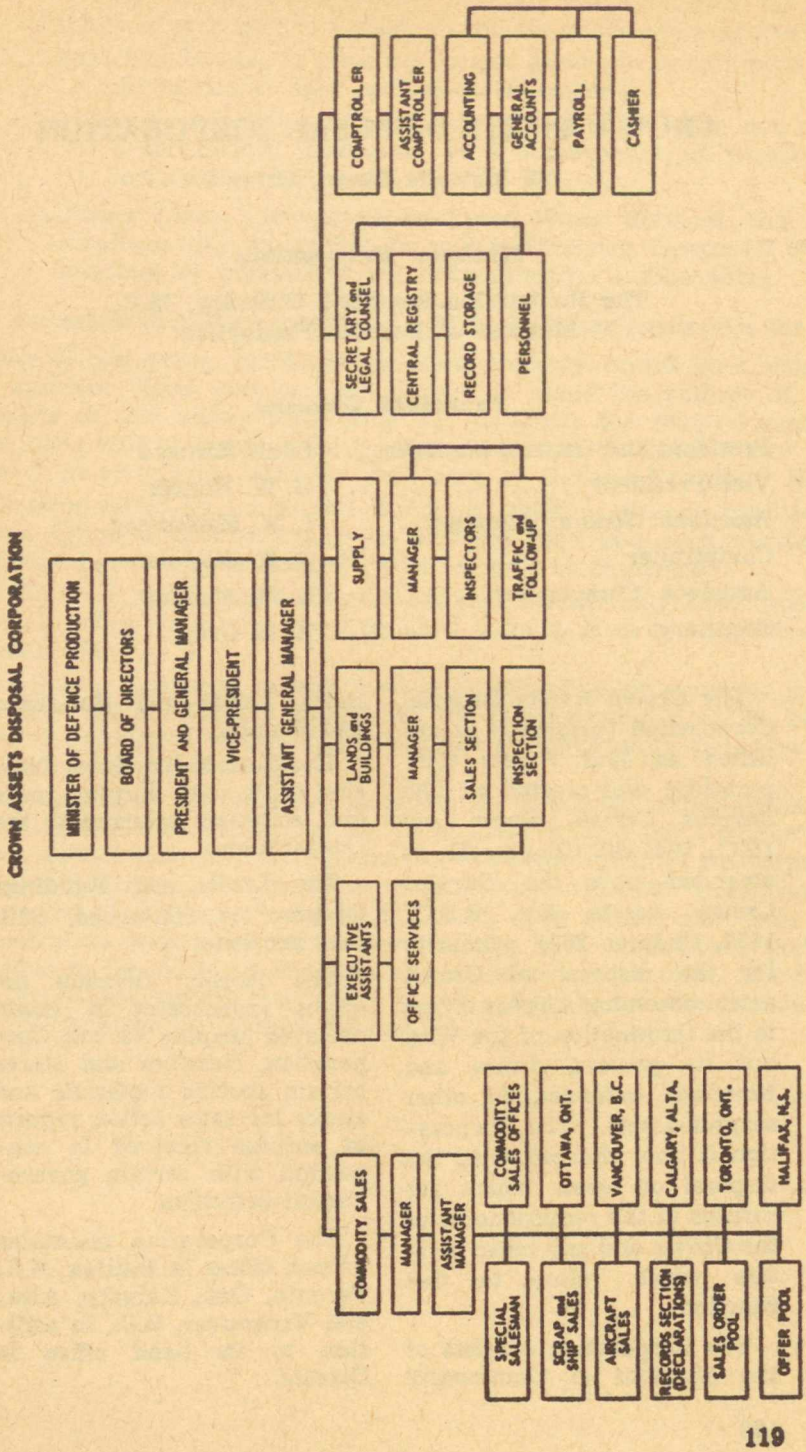

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The By-Laws of the corporation, which are approved by the governor in council, provide that the president "in general shall have all the powers and duties of supervision and management usually vested in the office of the president of a corporation."

The report of the management consultants, which I have tabled for the Committee, contains as a major recommendation the creation of a new administration services division and, in this respect, it contains no less than nine recommendations, each of which lists duties which they suggest be transferred from some division of our Corporation to a new all-inclusive division which would be responsible for all functions clerical in nature and this would include typing offers, orders and invoices, clearing shipments, central filing and registration, mail, operation of office equipment, purchasing, personnel functions and systems and procedures, a variety of duties which are not all closely related and a number of which require personnel specialized in these matters. The claim, of course, is that clerical costs will thereby be reduced. A tenth recommendation is, of course, the appointment of a manager for this division.

The management feels the consultants have not sufficiently demonstrated how such a division would work in practice nor where and how the savings would be effected and it is proposed to request them to elaborate thereon.

Indeed, the report indicates that to obtain the results desired, the consultants should be re-engaged to direct such modifications in our organization but this still leaves management without sufficient material to judge the wisdom of such a move.

One objection to such an amalgamation of duties, including inspection of surpluses, the circularization of offers, the opening of bids, the invoicing and billing, is the danger of centralizing all these responsibilities in one person and thus abandoning a number of cross-checks which are essential features of a business such as the disposal of surplus.

The entire conception of the savings recommendations of the consultants seems to give little thought to the necessities of an efficient system of internal check and the management have a feeling of responsibility and concern over this requirement and wish to avoid exposing any members of the staff to easy opportunity for irregularities. We hasten to add that we have complete confidence in our present personnel but feel in duty bound to protect them.

I think the Auditor General touched briefly on this point when last week he mentioned there was a tremendous conflict between the recommendations in the report and a great many of the items making up a system of internal control and that he proposed to discuss the report further presumably, we surmise, from that point of view.

As regards a policy respecting retirement of personnel at a fixed age, which is mentioned in the report, I might say that the staff of the corporation comes under the jurisdiction of the Civil Service Superannuation Act which provides rules and regulations under which extension of employment beyond sixty-five years of age may be made and these regulations have been wholly adhered to and our policy in this respect is not at variance with the practices being followed in the civil service.

Only two members of our staff are presently over sixty-five but less than seventy years of age and they will be retired by September 1960.

The corporation at its peak after the War employed 10,300 employees and, in the gradual process of reducing from this huge figure to the small staff of around 100 in recent years, emphasis was placed on the particular fitness of key personnel which should be retained without too much regard to age with the result that for awhile the age level of our staff was higher than the average in the civil service but we think our policy was the correct one to adopt in the circumstances.

Younger understudies have now been trained to replace retired or retiring personnel and the situation is now righting itself.

The CHAIRMAN: Thank you, Mr. Richard.

Mr. CHOWN: Mr. Richard, would you be good enough to tell the committee what are the terms of your own personal employment, when you were appointed to the presidency of this organization, by whom, and for what period you expect to continue at the head of the organization before your own personal retirement.

Mr. RICHARD: You want to know my age. Well, I was appointed in August, 1954, by the board of directors of the corporation, and I am 58 years of age. Is there any additional information you would like to have?

Mr. CHOWN: What are the terms of your employment? Are you under contract?

Mr. RICHARD: No.

Mr. CHOWN: Or are you appointed at the pleasure of the board of directors?

Mr. RICHARD: Decidedly.

The CHAIRMAN: How many directors are there?

Mr. RICHARD: There are four at the present time.

The CHAIRMAN: How many are provided for altogether?

Mr. RICHARD: Six.

The CHAIRMAN: Who are the four?

Mr. RICHARD: Mr. Gordon Hunter. I named them in the statement the other day.

Mr. MCGRATH: Are the four here?

Mr. RICHARD: Mr. Hunter is here. The others are Mr. R. G. Johnson, president of Defence Construction Limited, and J. H. MacQueen, president of Canadian Arsenals Limited. That makes three, and with myself it makes four.

The CHAIRMAN: How many meetings of the board of directors are held during the year?

Mr. RICHARD: About four.

The CHAIRMAN: Those directors are pretty busy men in their own capacity, are they not?

Mr. RICHARD: They are, yes.

The CHAIRMAN: You mentioned in your statement that you proposed to re-engage consultants, or you proposed to consider re-engaging them. Would there be any reason why you should not discuss your problems with the Auditor General first?

Mr. RICHARD: None at all.

The CHAIRMAN: And then consider whether it would be necessary to re-engage consultants.

Mr. RICHARD: I had it in mind to re-engage them to review our bonds for one thing, and to review other problems with them.

The CHAIRMAN: I think it was Mr. Broome, Mr. McGrath, and then Mr. McGee.

Mr. BROOME: I would like to go back to this summary of sales. I have two questions on it. I believe at a previous meeting Mr. Keays mentioned tariff 1215 which prohibited the importation of used or secondhand automobiles of all kinds.

Mr. DRYSDALE: Would you put it on the record?

Mr. BROOME: Yes. This is an item in the tariff schedule which prohibits the importation of these vehicles, yet in your sales of United States equipment

you appear to be selling vehicles which are prohibited under the law from being sold in Canada, How is it that you are in conflict—that one regulation is in conflict with another?

Mr. RICHARD: First of all, until you mentioned it the other day, I was not aware of the existence of that regulation.

Mr. BROOME: I am sorry, there is an exception under item F, which exempts them from the provision of this item; this is done by the governor-in-council so it might be that the order in council exempts these vehicles. That is one question.

The CHAIRMAN: Do you want to answer it?

Mr. RICHARD: I am informed that this question was taken up by us with the Department of National Revenue, and that they informed us that the international agreement supersedes it.

Mr. BROOME: That is right. Now I have added up this list of sales and, if my addition is correct, it comes to somewhere around $570,000 or $580,000; that is merely for the sale of United States government excess property in Canada of $5,000 or over for the fiscal year 1958-59; but appendix C-6 indicates that in the year March 31, 1959 there were sales of $1,485,534. This is roughly one-third of the total sales, so two-thirds of the sales were under $5,000 in value?

Mr. RICHARD: Yes.

Mr. BROOME: Could it not well be that the case made by Mr. Bernard is based on this: that from his own practical experience, there might be a lot of this equipment which is under $5,000? It seems to me that this must be so, because you still have two-thirds of the sales to account for, and they certainly would not be made up of thumb tacks.

Mr. RICHARD: Well, there are a lot of thumb tacks. But as I pointed out, there are 1,370 declarations this time, and certainly there will be a lot of small sales in there. But I think that this list of more important sales gives the trend, and a fair idea of the value obtained.

Mr. BROOME: I would imagine that the sales you are making for the American government are roughly of major items, and that you are not selling dish pans and so on, or it may be that you are.

Mr. RICHARD: There are any number—there is a great variety of items.

Mr. BROOME: Then two-thirds of what you have here, or twice what you have here in value represents sales of which we have no details?

Mr. RICHARD: That is right. I pointed out in this statement here that we woul make from 16,000 to 17,000 sales per year and of those there would be only about 200 of $5,000 or over. Nevertheless, there are thousands of other sales.

Mr. BROOME: One of them is where you mentioned six firms, starting off with Levy Auto Parts Company as one of the members of this pro tem association of wholesale distributors?

Mr. RICHARD: Yes.

Mr. BROOME: It certainly does not seem to be a very imposing list, but I would expect that of the six firms you have listed here four of them have participated and are a measure or representation of almost all sales outside of the Newfoundland area, the Maritime area?

Mr. RICHARD: Probably, yes.

Mr. BROOME: Would you not then say that they have a very major interest in the continuation of these sales?

Mr. RICHARD: I would say that they have.

Mr. MCGREGOR: That is, in the larger sales?

Mr. RICHARD: In the sales.

Mr. BROOME: Levy had two sales, they bought two of them.

Mr. DRYSDALE: Two of the three.

Mr. BROOME: This is only for one period, 1958-59; Levy had two Hercules; Marvan Equipment Sales had three; the other two had parts, and they undoubtedly participated in a major way; and two-thirds of it which you have not got listed would include such things as automotive parts.

I wonder why you have referred several times to this pro tem association. It seems absolutely clear that the pro tem association are feeding generously out of this potpourri.

Mr. RICHARD: Obviously they are people who are interested in having this sale continue. They are some of the people who are interested.

Mr. BROOME: My final question is on page 3 where you say:

> . . . out of every dollar of gross price to the purchaser, the Department of National Revenue retains about 14½ cents—

—which is about 14½ per cent.

Mr. RICHARD: That is right.

Mr. BROOME: In connection with material imported from the United States would you not agree that the majority of this equipment would come within that tariff classification which calls for 22½ per cent duty, when imported from the United States.

Mr. RICHARD: No; this is an overall rate which was agreed to by the department.

Mr. BROOME: I simply said that if these articles were imported from the United States would you not agree that the majority of them would come in under a 22½ per cent duty?

Mr. RICHARD: That is the point. The Department of National Revenue referred to that overall rate because of the difficulty of ascertaining the origin of the material. It might include material of Canadian origin, and it might include material of United States origin, and it is difficult to determine. Therefore a compromise rate has been established.

Mr. BROOME: All this material being sold is not of United States origin, is it?

Mr. RICHARD: No.

Mr. BROOME: It would be very difficult to state what percentage of it was of United States origin?

Mr. RICHARD: It is difficult, and I might say that we do sell some material which is definitely United States property in Canada, but which is definitely of Canadian origin; and in such a case it is not subject to duty at all.

Mr. BROOME: Subject to 14½ per cent?

Mr. RICHARD: It is not subject to any duty, because it is made in Canada.

Mr. BROOME: Therefore the only sales to which the 14½ per cent applies are sales of goods which originated in the United States?

Mr. RICHARD: No; sales of goods which originated in Newfoundland, or at United States bases.

Mr. BROOME: Is Newfoundland not part of Canada?

Mr. MCGRATH: I do not know!

Mr. RICHARD: I mean that when material of Canadian origin is surplus material arising out of contracts let in Canada, to a Canadian manufacturer by the United States, it definitely is of Canadian origin; but with material which comes from military bases the origin is difficult to ascertain. Therefore this special compromise rate applies.

Mr. BROOME: 14½ per cent is claimed by the government as the total amount of taxes; but when you consider the sales tax is 11 per cent, and when you apply it to all this, that gives you a 3½ per cent duty on this equipment; whereas if this equipment came from the United States, it would have to pay 22½ per cent.

Mr. MCGREGOR: When it was new.

Mr. BROOME: When it was new, naturally that is what I am talking about. And the same percentage would apply against the sale price.

The CHAIRMAN: Are there any other questions?

Mr. MCGRATH: My question concerns the second paragraph on page 4 of Mr. Richard's statement. I gather from that second paragraph on page 3 that little or no attempt was made to interest municipalities in the sale of this equipment. And yet you said:

> One of our large purchasers reported to us having made sale to 15 different municipalities in the Ottawa district.

Mr. RICHARD: That is correct.

Mr. MCGRATH: I was noticing, from your organizational chart, you have a fairly substantial sales section, I think, in personnel. What is the function of your sales personnel?

Mr. RICHARD: That is a long story. It is the function of the sales personnel, first of all, to determine what value is involved and what kind of purchasers are going to be interested in it, and to stir up interest from various trades in the goods we have for sale. When we call for bids the result of the bids is given over to them, and they determine whether the price is sufficient or not, ask the prospective purchaser for his money, and so on. That is quite a chore in itself.

Mr. MCGRATH: In spite of the fact that municipalities—I presume I am right in this—municipalities and municipal governments are entitled to a premium, is that correct? I mean, a premium in their bidding?

Mr. RICHARD: A premium?

Mr. MCGRATH: I do not know if that is the proper word or not.

Mr. DRYSDALE: "Preference."

Mr. MCGRATH: A preference?

Mr. RICHARD: Yes.

Mr. MCGRATH: Would that preference amount to a premium on their bidding?

Mr. RICHARD: Are you talking about United States surpluses?

Mr. MCGRATH: You refer to United States surplus in the second paragraph on page 4.

Mr. RICHARD: United States surpluses are a problem in themselves. First of all, it has to be viewed locally, at Newfoundland. That in itself is quite an expenditure of money, to go down there and examine the goods, which may or may not suit. I do not think any municipality is interested in spending $1,000 or $2,000, to go down to Newfoundland to see if they can get a tractor or a snow plow, or something to suit their requirements, without being assured there is material they desire there.

Mr. MCGRATH: The point I am making is there was no attempt to interest these municipalities, and yet there were some very industrious brokers obviously made a very good profit selling to these 15 municipalities in the Ottawa district?

Mr. RICHARD: Because they bought the goods in Newfoundland and brought them here. Actually the one I am speaking of there is in Kemptville.

Mr. McGRATH: Kemptville, Ontario?

Mr. RICHARD: Yes.

Mr. McGREGOR: I suppose what they would do is that they would make any repairs they wanted to them and fix them up?

Mr. RICHARD: Recondition the equipment and spend labour on it.

Mr. McGREGOR: Ten chances to one, if a municipality went there and saw the equipment in the state it is in, they would not buy it anyway.

Mr. RICHARD: I have circulated pictures, and you can see what sort of condition these materials are in. That is one thing I would like to impress upon the committee, the physical condition of all this surplus. It has to be seen to realize how much junk it is.

Mr. McGRATH: I do not wholly subscribe to that view, having seen a lot of this equipment there myself. I think that there is a lot of very valuable equipment there which is in very good condition—motor vehicles, and what-have you. I know that the United States army keep their equipment in top notch condition. The category you talk about applies more to construction equipment, heavy construction equipment, like cement mixers and things of that nature, and not mobile equipment.

Mr. RICHARD: It is in all sorts of condition.

The CHAIRMAN: Anything else, Mr. McGrath?

Mr. McGRATH: No, thank you.

Mr. McGEE: Coming back to the description of the directors: Am I correct in assuming the directors of this corporation are presidents of other Crown Corporations? Are you yourself a director of another Crown Corporation?

Mr. RICHARD: No, sir.

Mr. McGEE: What consideration do you know has been given to the appointment of some directors, other than persons in the government service or in Crown Corporations?

Mr. RICHARD: That is the minister's prerogative, and I cannot answer that. He is the one who appoints the directors, with the approval of the Governor in Council.

Mr. MORTON: Following through on that, perhaps we could have some idea, if you know, how much these directors are paid and what expenses they receive?

Mr. RICHARD: Do you mean, my salary?

Mr. MORTON: The directors, as directors, how much salary or remuneration do they get, and what is their expense account?

Mr. RICHARD: Not one dollar.

Mr. MORTON: I think that is the answer to Mr. McGee's question. These are heads of departments, and to bring anyone else in from outside, you would have to remunerate them?

Mr. RICHARD: If they were from out of town you would have to pay their travelling expenses to Ottawa each time, and it would involve an expenditure.

The CHAIRMAN: They do not get expense money, even?

Mr. RICHARD: They do not get expense money, because they are all Ottawa people.

Mr. McGEE: They do not receive any remuneration as a result of their position as a director?

Mr. RICHARD: No.

The CHAIRMAN: There is such a thing as luncheons or banquets.

Mr. ROBICHAUD: I would like to ask Mr. Richard one short question. I notice in the list you have just supplied to us, showing sales of $5,000 and over to U.S. firms, as listed in the 1958-59 annual report, there are 33 Mustang aircraft, with engines, which have been sold in your sales at approximately $3,000 a unit to the same company—James H. Defuria, DeWitt, New York. Has any attempt been made to follow up what was done with those aircraft? Were they exported to the United States or sold to foreign countries?

Mr. RICHARD: They are only sold for export to the United States. If they are to be exported elsewhere than the United States, from Canada, they have to have export permits.

Mr. ROBICHAUD: But as far as your corporation is concerned, they were exported from Canada to the United States?

Mr. RICHARD: Right.

Mr. ROBICHAUD: There were no other export permits issued for any other country than the United States?

Mr. RICHARD: Not on any aircraft that we have sold.

The CHAIRMAN: Mr. Macdonnell, you have some questions?

Mr. MACDONNELL: I think I had better wait until later, because I am raising a new subject.

The CHAIRMAN: These should not take long.

Mr. MACDONNELL: I am interested to know exactly how the income of the corporation, as shown on page 12, was made up.

> Percentage of net proceeds of sales made and of other income earned on behalf of: government of Canada, $843,229, and, others, $142,760.

I was anxious to know how that $843,000 was made up?

The CHAIRMAN: Would you let the auditor general answer that, Mr. Macdonnell?

Mr. MACDONNELL: Yes, please.

Mr. HENDERSON (*The Auditor General*): Mr. Macdonnell, if you will refer to page 13, schedule "A", summary of transactions in agency account, you will notice the proceeds from sales made on behalf of the government of Canada, others, etc., total a gross figure of $9,859,892. Do you see that?

Mr. MACDONNELL: Yes.

Mr. HENDERSON: If you look over on page 12, in the summary of income and expense, you will notice that the income is approximately 10 per cent of that—as a matter of fact, it is exactly 10 per cent, $985,989. That is because, as you will recall, perhaps, in my opening statement, and elsewhere in the report, the corporation retains 10 per cent of the proceeds of its sales on behalf of Canada and others, for the purpose of meeting its expenses. That is how that is arrived at. Does that answer your question?

Mr. MACDONNELL: You mean, if they make a sale this year of $1 million they are entitled to 10 per cent, in other words $100,000?

Mr. HENDERSON: Yes, they retain 10 per cent.

Mr. MACDONNELL: Are they entitled to a further 10 per cent on that next year?

Mr. HENDERSON: No, 10 per cent is retained by the corporation to cover their expenses, and 90 per cent is paid to the Receiver General, if in Canada to the Receiver General of Canada, and if in the United States, it is paid to the U.S. 10 per cent comes into their income.

Mr. MACDONNELL: What are the total sales made on behalf of the government of Canada, in Canada, in 1959?

Mr. HENDERSON: On page 13, $8,282,052. It is listed separately as, "Proceeds from sales made on behalf of: Government of Canada, others." It would include the United States. The 10 per cent comes into their income account on the left hand page, and it is applied in their other expenses.

The CHAIRMAN: Does that answer the question?

Mr. MACDONNELL: Thank you.

Mr. DRYSDALE: Mr. Richard, I was interested in your statement on page 3 and paragraph 5, where you state:

> The overall rate of duty and taxes set by Department of National Revenue on United States surpluses sold by our corporation has been fixed at 17 per cent.

Mr. RICHARD: Yes.

Mr. DRYSDALE: In connection with that, in the report of the public accounts committee, the last proceedings, No. 9, at page 272, on the exchange of notes between Canada and the United States, dealing with the 1951 agreement, in paragraph (*g*) they state:

> Sales prices shall be determined by CADC after calling for bids, and shall be deemed to include duty and taxes payable by the purchaser to the Canadian government.

The thought crosses my mind, one way of interpreting it—and I think it is a matter of interpretation—The duty and sales tax are generally collected when the item crosses the border, is that correct?

Mr. RICHARD: Yes.

Mr. DRYSDALE: Then the consideration that came to my mind was if an item crossed that was valued, say, at perhaps $50,000, that at that particular time the duty and sales tax, if it was to pass to one of the ordinary companies, would be your 22½ per cent and your 11 per cent sales tax, if that was the duty applicable. What I would like to know is: Taking the next step, how did they ascertain this arbitrary of 17 per cent, because it would seem reasonable to me, despite the amount of time that elapsed, under the wording of this particular agreement you would be entitled to collect the duty and sales tax on the original value, because it just says:

> It shall be deemed to include duty and taxes payable.

And it does not state at what date it would be ascertained. Under normal circumstances this sort of duty and taxes would be ascertained when the new equipment crossed the border, I think. To make it comparable with the Canadian product you would be entitled to tax it on that basis, regardless of the sales price at the present time. Have you any idea as to how this interpretation was arranged, the 17 per cent?

Mr. RICHARD: The material was allowed to come into this country in bond, so to speak, to the United States bases, and no duty was collected at the time. I presume that the Department of National Revenue take the view that they only want to collect duty on materials that are being sold out of these United States bases,—and on the salvage value, rather than the original.

Mr. DRYSDALE: But that is not what the agreement says. I am trying to ascertain what the authority was. Was there some opinion given, or how was it arrived at? There was nothing suggested in these two agreements between the United States and Canada as to how this rate is to be arrived

at—how the 17 per cent is to be arrived at. The normal situation is that when the goods come in, if they are going to any other individual, they would pay the total of the 22½ per cent, plus the 11 per cent sales tax. To my mind, in reading the agreement, that is still what could and should be collected—unless there is some other order in council or some other agreement, or something of that nature.

Mr. RICHARD: That is not the interpretation placed on it by the Department of National Revenue.

Mr. DRYSDALE: What is the basis of their interpretation?

Mr. MCILRAITH: You will have to go and look at the agreements entitling the United States government to establish bases in Canada. It will be embodied in that. It raises the whole question of the right of the United States government to establish these bases in Canada.

Mr. DRYSDALE: On the point Mr. McIlraith has raised, we have filed, for the benefit of this committee, the agreements between the United States and Canada, and I have read them. It says here: shall be deemed to include duty and taxes. On the basis of interpretation, Mr. McIlraith would agree that you take the normal interpretation. There has been a variation from this normal interpretation, and I want to know what the basis is, because it seems to me quite explicit in this original agreement.

Mr. MCILRAITH: Your question concerns when it is brought into Canada —is it brought into Canada when it is taken off the base? Is that the meaning of it? You have to determine that question.

Mr. RICHARD: That may be the answer.

Mr. DRYSDALE: Could you find that out for the next meeting?

Mr. MORTON: Mr. Chairman, is that not outside the scope of the corporation?

The CHAIRMAN: Yes.

Mr. MORTON: That information would have to come from the Department of National Revenue. I am just wondering if we are not transgressing.

The CHAIRMAN: I think Mr. Richard applies the rules, and does not make them; is that not correct, Mr. Richard?

Mr. DRYSDALE: I realize that, but who is giving him the interpretation which he applies, and what is the basis of that? I think it makes a difference. If the articles are coming into Canada—and according to the gentleman who testified this afternoon, are competitively affecting Canadians selling their equipment—there is a great deal of difference in the interpretation which is presently used, at the 17 per cent, and the interpretation that I have applied. It makes a great deal of difference in regard to the revenue that goes into the Canadian treasury; and I think we should have more than just the fact that Mr. Morton indicates it is transgressing. I think it is material to our whole examination.

Mr. MORTON: Mr. Richard is just following instructions.

Mr. BROOME: But all we want is a copy of those instructions.

Mr. DRYSDALE: I have asked him, if it is not available, to get it for the next meeting. Can you answer that question?

Mr. RICHARD: I would like to consider that.

In any event, I would like to say, whether the rate of duty is 17 per cent, 50 per cent, or 75 per cent, it would not affect the selling price; it would only be more revenue for the Canadian government and less for the United States treasury.

Mr. DRYSDALE: That is the point in which I am interested—the amount of money that goes into the Canadian treasury because, if we are getting 33½ per cent, taking an arbitrary item of $50,000, when it came across the border, if we are getting only 17 per cent of the item, it is depreciated down to a sales price of $3,000 or $4,000, and there is a vast difference to the Canadian treasury. In looking at it, the agreement seems to be susceptible, at first glance, to my interpretation. Everything else is clearly spelled out in that agreement, and I would think that if there is a variation from the normal rate of 33 per cent, on the basis I have suggested it would have been easy to put in a paragraph saying it should be 17 per cent.

If you are unable to find this information out yourself, could you find out the person who could supply us with that information?

The CHAIRMAN: Would you know, Mr. Hunter?

Mr. HUNTER: I have not the full details, but it was my recollection the rate of 17 per cent was arrived at as an average rate. They looked at a sample of all the items coming in, and National Revenue decided 17 per cent was a fair rate.

Mr. BROOME: Has that been changed since the sales tax was changed from 10 to 11 per cent? Does that reflect one per cent?

Mr. RICHARD: I know the rate has been changed a number of times.

Mr. BROOME: In following on, if there is an 11 per cent sales tax, and the average duty rate was something in the neighbourhood of 6 per cent—

Mr. RICHARD: Mind you, this is a composite rate, which is deemed to include Canadian and United States material. You have to look at it. It is probably a higher rate on United States material.

Mr. BROOME: May I follow that up? You said it includes Canadian and United States material.

Mr. RICHARD: Which cannot be determined.

Mr. BROOME: But it applies 100 per cent to American material. It applies to the moneys we remit to the states. How can we say it is a composite of American and Canadian?

Mr. MCILRAITH: It applies to all material, regardless of whether an American base themselves bought it—whether they purchased it in Canada or the United States. It may be that there should be no duty applicable to some of it. Indeed, in some cases there is not, and that is why the rate is averaged.

Mr. RICHARD: If 50 per cent of the material is of Canadian origin, you should take the view the rate is 34 per cent.

Mr. SPENCER: How long has this 17 per cent rate been in effect?

Mr. RICHARD: It was changed after the last change in the sales tax, whenever that was.

Mr. SPENCER: What was it before that, 16 per cent?

Mr. RICHARD: 15 something. I would have to look up that figure, as I cannot answer at the moment.

Mr. DRYSDALE: Mr. Chairman, I would again like to return to Mr. Richard. Could you get this information, or find out how it was arrived at? If it is impossible for you to get it, would you indicate who would be the person we would have to have to provide this information for us. I realize you are only enforcing the rates, but it is of interest to us.

Mr. RICHARD: I think National Revenue takes the view the goods enter Canada when they leave the American bases.

Mr. DRYSDALE: Everybody has expressed their opinion as to what it is. What I am interested in is this. There was an agreement and, as a result of that agreement, 17 per cent was reached. What I want to know is the basis on which the Department of National Revenue reached this 17 per cent. You have said you do not know, and I am not pressing you; I am asking if that could be produced from the Department of National Revenue.

The CHAIRMAN: Gentlemen, may I make a few remarks.

We have had two and a half hours of concentrated effort—and I might add, useful effort. I have been advised the Price Waterhouse Report will not be printed before Monday, as it takes a little while to set the type.

The next problem is when do we meet? I was going to suggest tomorrow at 2 o'clock, and Monday and Tuesday at 2 o'clock. On the other hand, if we meet tomorrow, may I suggest, unless you have a lot of questions now you want to ask of Mr. Ricard, that we might start with the Auditor General's report—unless you want to postpone everything until Monday.

Mr. DRYSDALE: We will go on with the others.

The CHAIRMAN: Then, the Auditor General's report tomorrow at two.

Mr. MCGREGOR: How about Tuesday instead of Monday?

The CHAIRMAN: Then we will take the Auidtor General's report, if it is convenient for you, Mr. Henderson. Would you be here tomorrow?

Mr. HENDERSON: Yes, indeed. The short statement already has been circulated, and the members will have an opportunity to read it between now and then.

The CHAIRMAN: The Auditor General's report will be taken up on Thursday at 2 o'clock, and Monday at 2 o'clock. Is that convenient?

Mr. HENDERSON: Yes.

The CHAIRMAN: On Tuesday, we will continue with Crown Assets Disporal Corporation, assuming the report is printed by that time, and then we expect we will be through with our studies.

Mr. BROOME: I have one more question I would like to put on the record for Mr. Richard. It has to do with one of these articles on page 272 of the Committee's minutes of proceedings and evidence, No. 9, where it says this:

> If at any time C.A.D.C. determine that excess property has no commercial value or that the estimated cost of care and handling of such property would exceed the estimated proceeds from its sale, such property may be destroyed or abandoned by C.A.D.C. at its discretion.

My question is whether Crown Assets have ever made any inspections of this surplus American equipment in Newfoundland, and whether you have exercised your right to scrap material under this condition—and if so, to what approximate extent. This question is prompted by the fact Mr. Richard has made it clear that he considers an awful lot of this material could be absolute scrap. Under the terms of the agreement with the United States, Crown Assets were entitled to scrap the material. I that is so, then why do you not scrap it?

Mr. RICHARD: Could I answer that at the next meeting?

Mr. MACDONNELL: Did I understand you to say, Mr. Chairman, that after we have had the meetings which you outlined, our work would be finished?

The CHAIRMAN: Not necessarily, but I hope so.

Mr. MACDONNELL: The banking and commerce comittee is going to have a powerful lot of meetings in the next week. Do we need to have so many so fast?

The CHAIRMAN: It really is a suggestion made to me by some of the government supporters, that in view of the number of committees meeting, and in view of the fact we have covered two crown corporations, the Canada Council, and will have finished, I hope, the Auditor General's report, that it might be a good time to wind this committee up, because we still have the report to prepare.

Mr. MACDONNELL: I am not suggesting it is not desirable; I am only wondering whether some of us may be able to find the time to attend all the meetings.

The CHAIRMAN: I thought if we could hit it hard on Monday and Tuesday, we might have a fighting chance to finish. I understand Combines start on Tuesday.

Our three witnesses are still here; did you want to question them any further? I might say that we are glad to see them, and to thank them for their attendance.

Mr. CHOWN: I was bold enough to open with a question which, indirectly, asked for Mr. Richard's age. May I now be bold enough to ask what is salary is?

Mr. RICHARD: $13,500 a year.

The CHAIRMAN: Gentlemen, we meet on Thursday, at 2 o'clock. The meeting will be held in Senate room No. 356-S.

APPENDIX "A-7"

(Please note that the page numbers of this report are indicated at the bottom of each page)

CROWN ASSETS DISPOSAL CORPORATION

SURVEY OF MANAGEMENT ORGANIZATION AND OPERATING AND ADMINISTRATIVE PRACTICES

MAIN REPORT, December 1959

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PRICE WATERHOUSE & CO.

CANADA CEMENT BUILDING
PHILLIPS SQUARE
MONTREAL 2

December 11, 1959.

L. Richard, Esq., M.B.E.,
President and General Manager,
Crown Assets Disposal Corporation,
Ottawa, Ontario.

Dear Sir:

The survey of the management organization and of the operating and administrative practices of the corporation provided for under the terms of reference given to us on September 3, 1959 (Appendices E-1 and 2) having been completed, we now submit our report on it, divided into two parts.

Part I deals with management organization, and contains recommendations for revision of the organization structure to achieve closer coordination, simplify the flow of work, eliminate overlapping of functions and obtain economies in operating costs. Charts of the present and the proposed organization structure (Appendices A and B respectively) show the effects of our recommendations.

Part II deals with operating and administrative practices. It makes proposals for establishing or revising certain corporation policies relating to such matters as personnel, planning and control. It also presents recommendations to simplify and integrate procedures and methods and to eliminate duplication, so that the work of the corporation can be performed more effectively and economically. As a result, the flow of work from receipt of the surplus declaration through to shipment and final settlement would be improved and expedited, thereby improving customer relations.

A summary of our recommendations is given in Appendix C.

We estimate that, at the present volume of operations, the implementation of these recommendations should result in savings amounting to $60,000 a year, as outlined in Appendix D.

Emphasis in the report has been placed on areas offering opportunities for improvements. With the exception of marketing practices, no reference is made to the many features of the present organization and practices which are well designed and operating effectively. Our review of marketing practices indicates that the present procedures are satisfactory, and we make no recommendations on them.

We record our appreciation of the corporation and assistance we received from all personnel of the corporation with whom we had discussions during the course of our work. It resulted in a saving of time and contributed greatly to the outcome of the survey.

After decisions have been made on the recommendations, best results will be secured by preparing a program of implementation in which responsibility is assigned for the detailed work for each project and the time required is estimated. We would be glad to assist in the preparation of such a program.

As related in the terms of reference, it is desirable that we provide guidance and assistance in implementing approved recommendations, members of the corporation's staff undertaking as much of the detailed work as possible under the general supervision of our representatives.

We shall be pleased to provide any further information required and to discuss the contents of our report with you at your convenience.

Yours very truly,

Price Waterhouse & Co.

CROWN ASSETS DISPOSAL CORPORATION

SURVEY OF MANAGEMENT ORGANIZATION AND OPERATING AND ADMINISTRATIVE PRACTICES

PART I - MANAGEMENT ORGANIZATION

We have prepared and attach charts showing the present organization (Appendix A), and a proposed organization (Appendix B) reflecting our recommendations. They show the organization structure, the functions assigned to each of the heads of divisions and the number of personnel in each organizational unit. The charts have been bound in such a manner that they may be unfolded and read alongside the text explaining the information contained in them.

PRESENT ORGANIZATION

We were informed that the basic management organization structure and assignment of managerial functions have not changed materially since the formation of the corporation. The number of employees has ranged from a peak of twelve thousand shortly after World War II to a low of one hundred in a recent year.

Under the present organizational structure seven heads of divisions respond, through the Assistant General Manager, to the President & General Manager. They are the managers of the supply, the land & buildings and the commodity sales divisions, the Comptroller, the Secretary, the Executive Assistant to the President and the Personnel Officer. The Assistant General Manager also holds the position of manager of the supply division.

The position of Vice-President is held by an Assistant Deputy Minister of Defence Production, who provides liaison between the corporation and the Department of Defence Production.

RECOMMENDATIONS - PROPOSED ORGANIZATION

The following are our recommendations on management organization, as reflected in the chart of proposed organization (Appendix B).

Executive Management

Although each division head is shown as responding formally to the Assistant General Manager, we find that in fact each responds directly to the President. The response to the Assistant General Manager obtains only in the absence of the President. We understand that the Assistant General Manager devotes about twenty-five percent of his time to his duties as such; seventy-five per cent of his time is occupied as manager of the supply division.

The sales and inspection activities of the corporation, and the related clerical functions, are of a nature and volume such as to warrant the appointment of a manager responsible for their overall management. The close inter-relationship of the work of the sales and the inspection functions is described under the next section entitled 'Supply Division'. We propose that the office of Assistant General Manager be a full-time occupation, responsible for

the overall direction of the divisions concerned with the sale and inspection of commodities, the sale of land and buildings, and administrative services. Under this concept of grouping operating activities under the Assistant General Manager, the President & General Manager would, as at present, be responsible for policy and planning at the executive level and for relations with the Minister, the Deputy Minister and the public; he would exercise the executive direction of the business of the corporation through the Assistant General Manager, the Comptroller and the Secretary.

Supply Division

The main functions of the supply division at present are:

1. Making clearance inspections at contractors' plants in connection with surpluses under the defence program.
2. Listing materials for sale by the commodity sales division.
3. Supervising disposal of scrap and waste material by contractors.
4. Clearing shipments of commodities.
5. Liaison with U. S. government agencies.

These functions are closely related to some of the functions of the commodity sales division and the Comptroller.

At present, commodities may be viewed twice; by the supply division (to verify existence and classification) and by the commodity sales division (to assist salesmen in selling them). The supply division inspectors and the commodity sales division sales offices now work independently.

Closer coordination and supervision, elimination of overlapping inspections, more flexibility in carrying out inspection and sales office functions, and some reduction in managerial, inspection and sales personnel would result from transferring the supply division inspection functions to the commodity sales division.

We therefore propose that the present functions of the supply division be reallocated as follows:

To the commodity sales division -
- Clearance inspections
- Listing of materials for sale
- Supervision of contractors' disposals

To an administrative services division (referred to later under that title in this Part) -
- Clearance of commodity shipments

To the Assistant General Manager -
- Liaison with U. S. government agencies

Under this proposal, inspectors would report to the chief salesman of the sales office concerned. The positions of inspector and salesman would be combined with the result that clearance inspections and field work relating to sales would be handled by the same employee. While this may require some instruction in certain cases, it would likely be of a minor nature.

This reallocation of functions would result in the reduction of one assistant manager and his secretary either in the present commodity sales division or the supply division.

Commodity Sales Division

The following recommendations, presented elsewhere in Part I, affect the commodity sales division:

1. Absorption of the clearance inspection and other supply division functions by the commodity sales division.

2. Transfer of the records section and offer and sales order typing to an administrative services division.

The functions of the six sales offices for Ottawa, Montreal, Toronto, Halifax, Calgary and Vancouver are to maintain customer relations, inspect surplus to be offered for sale where applicable, select the customers to whom invitations to bid will be sent, and (except for Ottawa and Montreal) receive and open bids, recommending to head office the successful bidder and obtaining a certified cheque from him. The Ottawa and Montreal offices are located physically in the head office and their business is conducted from it.

The Toronto office has two sales employees and five clerks. We recommend that Toronto office be transferred to head office and operated from it in the same way as the Ottawa and Montreal offices. The result would be that all clerical functions for preparing offer invitations, receiving bids and maintaining customer lists would be handled at head office. Inspection and customer relations duties could be carried out either by periodic trips from Ottawa or by resident inspectors and salesmen, as convenient. Through merging the Toronto office clerical functions with those of the Ottawa and Montreal offices a saving in cost will be achieved, and the preparation of offer invitations will be expedited.

Arising out of the recommended changes in functions, we suggest that the name of this division be changed to "Commodities division".

Land & Buildings Division

We have no recommendations to make on the organization of the land & buildings division.

Proposed Administrative Services Division

Under the present organization structure most of the routine clerical work is spread throughout the corporation. Some illustrations follow:

Work	Organization Unit
1. Receiving and registering declarations.	Commodity sales records section.
2. Typing 'sales sheets' for clearance inspections.	Supply division.
3. Preparing offer invitations.	Commodity sales head office and branch offices.
4. Receiving bids.	Commodity sales branch offices or Secretary (central registry).
5. Opening bids.	Commodity sales branch offices or records section.
6. Preparing sales orders and other forms.	Commodity sales head office.
7. Checking sales orders and other forms.	Comptroller.
8. Clearing shipments.	Supply, Comptroller.
9. Preparing invoices.	Comptroller.
10. Central files	Secretary (central registry) and Commodity sales records section.

This scattering of clerical functions has resulted in avoidable problems of coordination and a considerable amount of duplication. As examples, "sales sheets" for clearance inspections are typed by the supply division from the inspection sheets and retyped by the commodity sales division for the invitations to offer; shipments are followed up by the supply division and the Comptroller, both maintaining open files for unshipped sales orders; statistics of declarations received and on hand are accumulated by the commodity sales records section and the Executive Assistant to the President; sales statistics are prepared by the commodity sales division and the Comptroller.

There is a strong trend among well-managed, progressive companies to centralize responsibility for clerical functions. A special report on an office services survey in the September 1959 issue of Dun's Review contains several comments which are worthy of mention:

"The recent trend toward centralized office services and functions is accelerating and will probably spread into new areas during the next five years.....One of the most significant developments of the past decade has been the emergence of executives responsible for the improvement of company-wide clerical operations.....Although such an integrated approach is still rather uncommon except in very small and very large companies, indications are that this new development will take hold widely during the next five years.....Respondents in 67 per cent of the manufacturers surveyed with sales from $1 to $9.9 million think that the responsibility for company-wide clerical operations should be given to one executive. Many authorities .....foresee a new type of office manager - he's already appeared in some companies - who'll be in charge of data processing, records retention, duplicating departments, centralized transcription, company communications, centralized filing and so on".

We propose the creation of an administrative services division, headed by an administrative services manager who would report to the Assistant General Manager. The following functions would be assigned to this division:

1. Typing offer invitations, sales orders and sales invoices, and clearing shipments. These duties would be segregated in an offer & billing section of the division.

2. Central filing, declaration filing and registration, declaration statistics, mail, receiving and opening of bids (except for outside branches) and records storage and destruction. These duties would be segregated in a records section of the division.

3. Operation of reproducing equipment, stationery stores and office maintenance. These duties would be segregated in an office equipment section of the division.

4. Purchasing, referred to under "Executive Assistant to the President" below.

5. Personnel functions, including salary administration, recruitment, employee relations and personnel records, referred to under "Personnel Officer" below.

6. Systems and procedures, including maintenance of the procedure manual and organization charts, forms control, and clerical procedures and methods.

Each of the three sections mentioned above would be headed by a supervisor.

The principal advantages of centralizing these functions in an administrative services division are:

1. Lower clerical costs obtainable through specialization in performing such services.

2. Freeing of operating managers from administrative detail so they may devote their energies to their operating functions.

3. Central control to avoid duplication in effort and records.

4. Improved coordination of clerical work, leading to speedier processing of declarations and thus to better customer relations.

5. Flexibility to meet peaks, absences, vacations and resignations, with reduced engagement of the services of temporary personnel.

Comptroller

Considering the present volume of accounting transactions, the transfer to the administrative services division of sales order checking, invoicing and shipping clearance duties, and also the simplifications in accounting procedures proposed in Part II, we are of the opinion that one officer is sufficient to direct the work of the Comptroller's division. We recommend, therefore, that the position of Assistant Comptroller be abolished when the present Comptroller has retired.

Secretary

We were informed that the position of assistant to the Secretary was established in anticipation of the retirement of the present Secretary. We assume that when the succession has taken place, the office of assistant to the Secretary will be discontinued since there is no requirement for it. This observation applies equally to the private secretary to the assistant to the Secretary.

Executive Assistant to the President

We understand that the corporation intends in 1960 to discontinue the positions of Executive Assistant to the President and private secretary to the Executive Assistant, and to reassign their functions to other units of the corporation. We agree with this development and suggest that the reallocation of duties be arranged as follows:

To the administrative services division -

Operation of reproducing equipment
Stationery stores
Office maintenance
Declaration statistics
Purchasing

To the Comptroller -

Insurance and taxes in connection with accounts receivable arising from mortgages

Personnel Officer

The volume of work for salary administration, recruitment, employee welfare activities and personnel records is not large enough to justify a full-time Personnel Officer and a clerk-secretary, and we therefore consider that these positions should be discontinued.

Personnel functions and maintenance of the procedure manual should be assigned to the administrative services manager.

The responsibility for designating signing authorities for declaring departments and agencies, now the responsibility of the Personnel Officer, might well be assigned to the supervisor of the records section of the administrative services division.

Management Committee

Coordination would be improved, morale would be enhanced, and managers would better understand the work of their counterparts in other units of the corporation, if they met regularly as a body to discuss and gather opinions on certain policies and on subjects affecting more than one unit of the organization.

We suggest that a management committee be formed, comprising the President, Assistant General Manager, land & buildings manager, commodity manager, administrative services manager, Comptroller and Secretary. We conceive the committee as an organ of coordination, communication and participation, not as a decision-making body.

PERSONNEL POLICIES

Of the eight heads of divisions filling the senior managerial positions in the corporation, three are over 65 years of age (Messrs. Boyle, Gray and Price).

We understand that these three officers will retire during the year 1960, thereby bringing almost to a close a transition in the corporation's organization, created as a temporary, war-time, measure which became permanent after the cessation of hostilities and thereby gave rise to a number

of rather serious personnel problems.

We also are given to understand that as soon as these and other, more minor, moves have been completed, Crown Assets will introduce a policy whereby personnel must retire at a fixed age, probably 65, except in the most unusual circumstances. We wholly concur in this development, believing that it will result in raising morale throughout the organization chiefly because the course will then be cleared for employees to aspire to promotion in the normal way.

Present procedures for periodic appraisals of each employee's progress and standing are mainly directed to making decisions on salary increases. The introduction of a more comprehensive method of appraisal, assessing the qualifications of employees in such areas as conscientiousness, mental capacity, drive, perseverance and tact would provide a permanent record and serve as a foundation for employee training and promotion, in addition to improving morale and providing a basis on which to decide increases in salary.

PART II

OPERATING AND ADMINISTRATIVE PRACTICES

In this Part we present a number of recommendations on certain corporation policies and for improving operating and administrative procedures and methods. Attention is directed particularly to introduction of Xerography equipment for preparing offer invitations, sales orders and sales invoices (page 9), greater participation by managers in planning and control (page 13), simplification and integration of accounting procedures (page 16), and office layout (page 24).

PUBLIC AND CUSTOMER RELATIONS

A booklet might usefully be prepared for prospective customers and the public, along the lines of the one issued in 1946, explaining the objectives and functions of the corporation and outlining the procedures for obtaining offer invitations, accepting bids, making sales, and shipping surplus sold. This booklet would fill a need that is felt by several heads of divisions, and it would eliminate the preparation by senior officers of individual replies to a considerable number of general enquiries.

MARKETING PRACTICES

We reviewed the practices followed by the corporation in the marketing of disposals, including merchandising methods, distribution channels, use of advertising media and location of sales offices. After giving consideration to the many alternative practices that could be adopted by the corporation, we formed the opinion that the present practices are the most effective. Thus, we have no recommendations to offer on marketing practices, except for the proposal that the Toronto office be moved to head office (see Part I), a proposal designed to improve administrative, rather than marketing, effectiveness.

PROCESSING COMMODITY SALES OFFER INVITATIONS, SALES ORDERS AND SALES INVOICES

In Part I we proposed that the typing of invitations to offer, sales orders and sales invoices, and the clearing of shipments be assigned to an offer & billing section; that the functions of the commodity sales record section and central registry be assigned to a records section; and the operation of reproducing equipment be assigned to an office equipment section; all within a new administrative services division.

Preparing Offer, Order and Invoice Forms

Under present procedures, information appearing on a declaration of surplus is retyped, often several times, in the process of preparing invitations to offer and sales orders in the commodity sales division, 'sales sheets' in the supply division, and sales invoices in the Comptroller's division.

Eleven typists now perform this work at head office, including the typing of offer invitations for the Ottawa and Montreal branches.

The number of typists required at head office could, we estimate, be reduced to five (a decrease of six) through the introduction of Xerography equipment to reproduce most of the forms directly from the declaration.

If, as proposed in Part I, the Toronto office is moved physically to the head office, an additional reduction of two clerks could be achieved by using the process to prepare the Toronto offer invitations.

Xerography equipment uses an electrical photography process to transfer a form onto a blank piece of paper or onto a reproducing master. Specifically, the equipment would be used to copy the declaration form and attached lists, with certain information masked if necessary, onto multilith masters which would be run on the present multilith equipment to prepare the required number of offer, order and invoice forms. After the sale has been made, prices and the sale extensions and total (and quantities sold if different from the quantities declared) would be typed on the order and invoice forms. It would, of course, be necessary to redesign the declaration, sales sheet, offer, order and invoice forms so that information common to all of them appears in the same place on each form.

Sales sheets are typed by the supply division from inspection sheets prepared by the inspectors, or by the contractor, and checked by the inspectors. The Xerography process should be used to prepare the offer invitation forms directly from the inspection sheets, even though in most cases the latter are handwritten, provided the writing is neat and legible.

The splitting or regrouping of the items on a declaration into several separate offers creates some problems in applying Xerography. Items may have to be masked so that they will not be copied, or may have to be typed on separate multilith masters. To minimize this disability, declaring agencies, contractors and clearance inspectors should be required to show only one class of commodity on any one sheet of a declaration form.

Consideration should also be given to preparing all or some of the offer invitations, orders and invoices for the Halifax, Calgary and Vancouver offices by Xerography at head office.

We estimate that rental of the Xerography equipment and the cost of process chemicals would amount to some $2,500 a year. One additional employee would be needed to operate the equipment.

Declaration and Offer Clerical Procedures

The declaration numerical register kept by the commodity sales records section should be revised to eliminate the recording of superfluous information. Only the serial number, declarer's reference number and location of the file need be shown.

The supply division maintains a record of declarations received by it, showing details of declarations and their disposition. The principal purpose of this record is to accumulate certain data required for the annual report, such as statistics on the number of inspections and declared values. This register also should be revised to eliminate superfluous information.

Filing of declarations and offers could be simplified somewhat by using prefixes to two consecutive sets of serial numbers so as to distinguish between commodity declarations and lands and buildings declarations.

The storage space needed for closed offer files could be reduced by destroying, at the time that each file is closed, the standard supplementary attachments to each rejected bid.

At one time it was the corporation's practice to send a printed envelope, in which the offer was to be returned, with each request to bid. This practice should be revived, because it conduces to bids being received in proper form and decreases the time required for sorting mail.

The name and address on forms for offers, recommendation of acceptance of customer's offer, rejections, and insufficient recovery, should be addressographed where possible, and window envelopes used for mailing these forms.

A numbering stamp should be used to save time in entering declaration serial numbers on preaddressed form letters for bid rejections and insufficient recovery.

The Xerography equipment can be used to revise customer mailing lists. Names can be added to or deleted from master lists which are copied by Xerography to prepare the required number of revised lists. This would eliminate much of the present periodic retyping of these lists.

Procedures for Opening Bids

Laid-down corporation procedures provide that unsealed or otherwise improper bids received must be returned to the bidder for submission again in a sealed envelope properly marked. Enforcement of this regulation has been relaxed recently to ensure that a sale is not missed due to return of an unsealed bid to the bidder. If adequate control is to be maintained, the laid-down procedure for returning improperly-made bids should be followed at all times.

Control over receiving and opening of bids at head office would be improved by assigning the keys to the files in which unopened bids are held to a senior official responsible for opening and closing the files each day, and

by placing the files and personnel directly concerned with filing and opening bids in a private office.

Incidental to our review of control over the opening of bids, we considered the feasibility of (a) providing for opening bids in public and (b) centralizing all the opening in head office.

Opening, scrutinizing, sorting and recording bids in the sequence of the highest to the lowest bid is a time-consuming clerical task. Eight hundred or more bids, on some sixty declarations, are opened daily. To determine and announce in public the successful bidders, would increase substantially the operating costs of the corporation, because it would require:

(a) additional space to receive the public;

(b) a fixed schedule for the opening of bids, with extra staff to handle the maximum volume of bids that conceivably could be opened on any day. Opening of bids and selection of the successful bids would, of course, have to be completed in the presence of the public on the day of opening.

The following advantages of present practices would be lost, likely leading to reduced recovery to the Crown, if bids were opened in public:

(a) at present the amount of the successful bids is not disclosed until three months after the sale is made and the amounts of unsuccessful bids are never disclosed. This protects the customer in marketing the commodities. It also prevents customers from learning the bidding habits of their competitors;

(b) some protection against collusion amongst customers is afforded by the private opening of bids;

(c) the successful bidder does not learn the amounts of other bids. Under public opening he would be able to cancel his bid (by refusing to submit a cheque to complete the sale) if his bid seemed to him to be inordinately high compared to the others.

(d) bids are accepted at present if they are postmarked on or before the closing date for bids. If bids were opened in public on the closing date, bids in transit by post would not be eligible.

For these reasons and in view of the geographical locations of the branches, we came to the conclusion that neither of them is practicable.

Bid Verification

At present, a comptometer operator is employed substantially full-time in the commodity sales division to check the extensions and additions of all bids received. Similar work is done, we understand, at some of the branches. Since this practice rarely discloses an error and seldom, if ever, affects the choice of the bid to be recommended, it should be discontinued.

LAND & BUILDINGS DIVISION CLERICAL PRACTICES

The Xerography equipment can be used, in the same manner as for the commodity sales division, to revise land & buildings customer mailing lists.

At present the Secretary (central registry) is responsible for the custody of all land and buildings declaration files, even when a sale is in progress. Files in progress, as distinct from completed files, should remain in the custody of the land & buildings division until completion. This would eliminate transferring such files from and to central registry.

MANAGEMENT PLANNING AND CONTROL

Policy

The preparation of the annual forecasts and budgets is undertaken by the Comptroller's division and the President. Although other division heads may be consulted in connection with preparing budgets, they take no active part in that work. These heads of divisions do not receive regular reports of the income and expenses under their control.

It is good practice and beneficial for all heads of divisions to take part in planning and controlling the financial aspects of their operations, by means of plans, budgets, and periodic financial and statistical reports, comparing actual results with the budgets.

Each head of a division should develop the annual budgets for income and expense and capital expenditures insofar as they relate to the operations of his unit. These budgets would be based on past experience and a study of the expected conditions for the following year. The Comptroller should be responsible for coordinating budget preparation and issuing final budgets to the heads of divisions after approval, with any necessary revisions, by the President. Each head of a division should receive monthly a report of income and expense, in the same format as the budget, for the operations under his control.

Contents of Monthly Reports

At present a considerable amount of financial and statistical information is accumulated in various divisions of the corporation for submission to the Minister, the President, the Comptroller, and other heads of divisions. These reports include the monthly financial statements, a monthly report comparing actual and budgeted financial results, sales analyses, statistics on the number of declarations received and outstanding, and a summary of the number of employees.

A brief review of this area of management reporting indicated that there is considerable scope for simplifying, combining and in some cases eliminating monthly reports, and for consolidating those that are necessary into one master management report, in sections, so that the full report or any part of it may be distributed to the Minister, the President or individual heads of divisions. Amounts would be shown for the current month and the year to date, with comparisons with the budget where applicable. The report might well include, quarterly, a forecast of the expected volume of declarations for one year ahead.

Financial Control

To make the best use of financial reports as a medium of control it is essential that each item of income and expense be allocated to the head of the division responsible for controlling it. The accounting records should therefore be redesigned so that each item is accumulated in relation to the head of the division responsible. This would permit the Comptroller's division to furnish each head of a division with a monthly report for the operations under his control.

Monthly Financial Report Procedures

The preparation and presentation of monthly financial reports would be simplified and expedited by pre-printing the report forms on multilith masters, by eliminating cents in reports, and by entering figures for certain reports for internal use manually on the pre-printed multilith masters. The working papers used for preparing these reports may be so designed that, after the general ledger is balanced, the ledger balances are entered directly on printed summary sheets or, in the case of expense reports, on pre-printed multilith masters, so that the work involved in preparing and typing work sheets and reports is minimized.

Information for the House of Commons and Others

We observed that a number of records and reports, such as certain sales statistics, are prepared mainly in case a question is raised in the House of Commons, or by the Minister or Members of Parliament. Where questions may be expected to arise only infrequently from such sources, it is normally easier to gather information to meet a specific question than to maintain continuous records to answer questions that may never be asked.

The policy should be established that records, reports and files are not to be maintained solely for this purpose without specific authorization by the President.

Sales Analyses

Under present practice, sales are analyzed by the Comptroller's division in four different ways: by declaring department (in a separate ledger), by declaring agency and commodity classification, by province in which the purchaser is resident, and by branch office concerned. The classification by declaring agency and commodity is necessary to calculate the remittances to the agencies and to provide information on the trend of operations. However, we suggest that the corporation reconsider the usefulness of analyzing sales by declaring department, by province in which the purchaser is resident, and by branch office concerned. It is recognized that such analyses provide interesting information and may be helpful in providing answers to questions emanating from the House of Commons. However, due to their fortuitous nature, there is doubt as to their usefulness either in assisting management to operate the corporation or as general statistics.

Commodity Sales Division Reports

The commodity sales division prepares a daily report on sales over $500. Thought should be given to raising the minimum sales reported to, say, $5,000, thereby reducing considerably the time required to prepare the report.

A weekly report is prepared summarizing completed sales, giving for each sale such information as the name of the successful bidder, the

sale price, the number of requests to bid sent out, and the number of replies. We understand that only the totals on this report are of interest to management. The report might well be discontinued and replaced by a daily tabulation, for each branch, of the number of completed sales, number of requests to bid, and number of replies received.

The commodity sales division prepares an analysis of sales in dollars by branches, which duplicates a similar analysis prepared by the Comptroller's division. We suggest that these analyses be discontinued unless they can be shown to be useful, in which event arrangements should be made to confine their preparation to the Comptroller's division.

Supply Division Reports

The supply division prepares a monthly report of all unshipped sales orders. We propose that the principle of exception be applied to this report by modifying it to show only unsatisfactory conditions. Only orders outstanding over a specified period, say thirty days, need be shown, and the report may be prepared directly from an open file of copies of unshipped orders.

Declaration Records and Statistics

Records and reports of declarations received and on hand are prepared by the commodity sales records section and also by the Executive Assistant to the President. The records and reports prepared by the Executive Assistant should be discontinued, and arrangements made for the records section to accumulate and report all required information.

Personnel Reports

A monthly report is prepared by the Personnel Officer summarizing the number of personnel in each unit and location. This report could be incorporated in the monthly management report referred to above, and need show only the total number of employees and details of changes during the month.

ACCOUNTING PRACTICES

At present, thirteen people are employed in the Comptroller's division. We feel that this number could be reduced to seven, through transfer to the administrative services division, as proposed elsewhere, of duties related to preparing and checking sales orders, sales invoices and clearing shipments, and through simplifying a number of accounting records. Most of the recommendations for simplification have to do with combining records now prepared separately, so that related documents and records are prepared in one writing instead of several.

Official Receipts for Cash Received

Under present procedures an official receipt in five copies is prepared for each cheque received. As it is unnecessary to furnish an official receipt for cheques received, except for spot-cash or currency sales, we recommend that it be discontinued. For spot-cash sales, the interim receipt copy forwarded by the branch could be stamped, signed and sent to the customer in lieu of the present official receipt. The purposes of the four copies of the official receipt can be achieved in other ways, as outlined in the next section.

Cash Receipts

At present each cheque received is recorded six times: by the central registry at the time the cheque is received, on the bank deposit slip (two copies), in a cash blotter kept by the cashier, in a cash receipts book kept by an accounting clerk, on a proof sheet at the time the item is posted to accounts receivable, and on the official receipt to the customer (five copies). All these records could be discontinued and replaced by a revised set of forms under which all the required records are prepared in one writing. The central registry record, the cash blotter, the accounts receivable proof sheet, and the official receipt and copies thereof, could be discontinued in their entirety. The proposed set of forms would consist of a bank deposit slip and a duplicate thereof, a cash receipts record, and an accounts receivable record, all so designed that by the use of carbon paper the declaration number, name of the payor and amount received are written simultaneously on all forms. The appropriate sales division would be notified of the cheque by the cashier sending the remittance advice (sent in by the customer with his cheque) to the division after marking the advice "paid".

Although corporation regulations require that cheques submitted by customers be certified, this rule is not always applied. When uncertified cheques are received they are usually deposited, but the sales order is not released until about two weeks later to ensure that the cheque is not returned unpaid. To avoid delays in orders and difficulties in collection, the rule that cheques must be certified should be enforced, except in the case of offers from federal, provincial and municipal government agencies.

Sales Orders, Invoices and Shipment Clearance

We have proposed in Part I that the functions of the Comptroller's division relating to checking sales orders, preparing sales invoices, approving and distributing sales orders and invoices, and clearing shipments be transferred to a new administrative services division. The Comptroller's division would continue to post accounts receivable records and follow up on collections.

With these revisions in functions, it will no longer be necessary to prepare master invoices (summarizing certain sales orders) or the cash sales summary invoices. Instead, the invoice copy of the sales order or of the

cash sale offer can be used.

Separate series of consecutive numbers should be used for sales orders where no separate invoice is required, sales orders where an invoice is also required, and sales invoices.

Procedures for recording and processing adjustments where quantities shipped are less than the quantities bid on and paid for, sales are cancelled, and similar variances, can be simplified. The adjustment recommendation form now prepared by the supply division can be used as a source document for preparing a refund cheque-voucher (if the overpayment is to be refunded to the customer) or a credit note (if the overpayment is to be credited to the customer's account). It is not necessary to prepare a credit note if the overpayment is to be refunded immediately, nor is it necessary to prepare the present cheque requisition form. This subject is further commented upon below under "accounts payable and cash disbursements".

Sales Analyses

We have previously suggested that reconsideration be given to the need for certain of the sales analyses now prepared. If some or most of these analyses were discontinued it would be possible to eliminate the analysis sheets now used to make them, and instead use copies of the invoices, sorted and resorted, to provide the analyses required. In any case, existing duplication arising through the preparation of sales analyses according to branches by both the Comptroller's division and the commodity sales division, and preparation of sales analyses by agency and commodity, both manually and on the accounts receivable bookkeeping machine, should be eliminated.

Accounts Receivable

Accounts receivable records are now kept on a National Cash Register Co. bookkeeping machine. Accounts receivable could be handled more easily and more quickly by using a manual system under which the basic accounts receivable record is a sheet for each offer cheque received, prepared simultaneously with the bank deposit slip and cash receipts record, and showing the customer's name, declaration serial number and amount. This sheet would be filed alphabetically in an accounts receivable file, and applicable invoice amounts posted to it. When the balance became nil the sheet would be placed in a closed file so that only sheets with open balances remain in the accounts receivable ledger. Since each sheet would refer to only one offer cheque from a customer, problems of applying invoices against specific cheques would be minimized. The present operation of posting each offer cheque received to an accounts receivable ledger card would be eliminated.

An accounts receivable ledger for long-term accounts receivable under mortgage is now maintained in duplicate: by bookkeeping machine as part of the accounts receivable ledger and in a manually-prepared deferred accounts ledger. Only the manually-prepared ledger is required.

Several periodic accounts receivable listings are now prepared: a monthly list of all accounts receivable (showing names and balances outstanding), a quarterly list of accounts over $5,000 which are outstanding, and a quarterly typewritten ageing of accounts. These listings take a good deal of time to prepare and some of the information they contain is of limited use. We suggest that they be eliminated, and in their place the accounts receivable ledger be balanced monthly, using an adding machine, and a report prepared monthly of debit balances over thirty days old and credit balances over ninety days old.

Accounts Payable and Cash Disbursements

Under the present system a two-part cheque form and a separate three-part voucher form, a voucher register and a cash disbursements book are used to record expenses, customer refunds and other payments. These procedures can be simplified considerably through the use of a multi-part combined cheque-voucher form. Copies of this form would act as the cheque and remittance advice, the voucher register and the cash disbursements record. The present cheque requisitions, voucher form, voucher register and cash disbursements book would be eliminated. Expenses, refunds, accounts payable and cash disbursements would be summarized periodically from the cheque-voucher form and recorded in summary form only.

It appears to be unnecessary to send purchase invoices to the appropriate manager for review and approval if the purchase is covered by a purchase order or service agreement and conforms with it.

Monthly remittances to agencies other than the Receiver-General may be simplified by providing a sufficient number of extra invoice copies to be used in place of a typed detailed list of sales for each agency.

Purchasing

We have recommended in Part I that responsibility for purchasing be transferred to an administrative services division. If and when that is done, procedures for issuing and filing purchase orders and receiving memoranda can be simplified and consolidated. The vendor and numerical purchase order copies and the receiving memoranda copies now filed in the Executive Assistant's office can be discontinued. The purchase order, receiving report, and purchase invoice follow-up registers, now kept in the Comptroller's division, can be eliminated and a copy of the transmittal memo can be used as the record of invoices sent to managers for approval.

The present card record of stationery forms purchased could be discontinued and the commodity file purchase order copy used in its stead.

Payrolls

Payrolls are now prepared on the bookkeeping machine. We have suggested above that accounts receivable records be prepared manually instead

of on this machine; use of manual procedures to prepare payrolls would eliminate the only other function of this machine. A manual system could be used to write the cheque, the pay notice to employee, the earnings records, and the payroll journal at one writing, using a writing-board.

There appears to be no good reason for allocating fringe benefits, such as superannuation contributions, unemployment insurance, and other benefits to the unit in which each employee works. It would be adequate to accumulate these items in one general account for each type of benefit.

A record is now prepared reconciling the change in total gross pay, each deduction, and the net pay from one month to the next. It would be satisfactory to reconcile only the gross pay on a working paper and discontinue the present record. Changes in pay can be recorded directly on the employee's earnings card from the Personnel Officer's notification or other source, without preparing a separate payroll change form in the Comptroller's division.

The Canada Savings Bond ledger might be discontinued and the employee earnings record and the copy of the bond application form used in its place.

To improve internal control, the function of reconciling the payroll account should be reassigned to someone who has no responsibility for payroll preparation. At present the clerk who supervises the preparation of the payroll also reconciles the payroll bank account.

Accounting Ledgers and General Journal

Separate ledgers are maintained for the general ledger, subsidiary expense ledger, travel advances, miscellaneous accounts receivable, and travel expense by employee. The number of accounts is sufficiently small to warrant merging all of these ledgers into the one general ledger.

The code of ledger accounts should be redesigned to reflect the merging of the ledgers, to permit the accumulation of expenses according to the manager responsible for incurring them, and to place the ledger accounts in the exact sequence required for monthly financial reports.

Expense vouchers are recorded in the voucher register. They are also posted individually to the expense ledger. To avoid this duplication expense totals should be posted from the books of original entry to the expense ledger (which, as above recommended, should be merged with the general ledger), instead of posting each expense voucher separately. The subsidiary ledgers for travel advances and miscellaneous accounts receivable could be discontinued and replaced with periodic analyses of the general ledger accounts concerned.

The monthly preliminary and adjusted trial balances are recorded in a bound book. This book could be discontinued. The general ledger would be

balanced by the use of an adding-machine and the ledger balances then carried to financial report working papers or direct to reproducing masters as proposed elsewhere in Part II.

Standard journal entries, prepared (except for the amounts) for a year in advance on journal-voucher forms, can be used to save time in recording recurring month entries such as depreciation and expense accruals.

Fixed Asset Records

Responsibility for the maintenance of fixed asset records and property lists should be assigned to the Comptroller. At present a fixed asset ledger is kept by the Comptroller and a separate list of corporation property is kept by the Executive Assistant to the President.

The present practice of allocating depreciation to individual items of furniture and equipment in the fixed asset ledger and to each division of the corporation is unnecessary. Instead, the relatively small total depreciation charge may be treated as an expense of the Comptroller's division. The monthly re-computation of depreciation to the exact amount should be discontinued and replaced with an estimate calculated at the beginning of the year.

Employee Compensation Insurance Provision

The general ledger shows, as a liability, a provision of about $40,000 for employee compensation insurance, set up many years ago. The need for this provision should be reassessed. If it is not essential to retain it, it may be transferred to surplus, and future compensation payments charged to current operating expense instead of against it, as is done at present.

SECRETARY'S FUNCTIONS

Office of the Secretary

A considerable number of files and history and progress card records are now maintained by the private secretaries to the Secretary and his assistant. These files and records should be reviewed and those not essential to the performance of the work of the corporation should be eliminated. The permanent files of agreements and other documents could be rearranged so that they are filed strictly by declaration number or name of purchaser. This will permit the elimination or reduction of the index panels and kardex records now used to locate files. The register showing particulars of documents to which the Corporate Seal has been applied might well be discontinued.

Files, other than personal and progress files, now located in the Secretary's offices can be transferred to central files in the administrative services division.

Central Registry Files

Cross-reference card files now maintained by name, subject, and geographical location in the central registry should be reviewed so that those not essential to the work of filing and locating files can be eliminated. Land and building declaration files can be indexed by declaration serial number instead of the present consecutive number determined independently of the serial number. Reference should be made to "Declaration and offer clerical procedures" towards the beginning of this Part II regarding the use of a separate set of serial numbers for land and building declarations.

RECORDS RETENTION

Policy

The corporation has no laid-down policy on the period for which records are to be retained. We suggest that rules be established for the period for which records used in quantity are to be kept and where they are to be stored. Such records used in quantity include declaration and offer files, agreements, general correspondence, sales orders and invoices, accounts payable vouchers, paid cheques and general accounting records. At present most of these records are kept for ten years or more before destruction.

Retention Periods

In general, not more than two years' files need be retained in the corporation's premises. Older records that must be retained should, if it can be arranged, be stored with the Records Management Branch of the Dominion Bureau of Statistics. This would allow the corporation to surrender the present storage space in its basement at head office, saving an annual rent of $1,600.

A relatively short retention period, possibly two years would be sufficient, should be established for commodity offer files where the sale price is below a certain minimum amount such as $100. Where the sales price is above this minimum, the files should be retained for a longer period, say seven years. A retention period of perhaps seven years should be set for land and buildings offer and agreement files, except for special cases individually determined where agreement files might be kept for as long as twenty years.

The accounting copy of the sales invoice could be retained for seven years, the sales statistics copy of the sales invoice for one or two years, and shipping copies of the sales order (returned by the declarer) for one or two years.

Purchase invoices, related vouchers and paid cheques might be retained for seven years.

These periods are suggestions; due consideration must be given to the whole subject of records retention and decisions reached on the lengths of time to be used after taking into account such factors as legal responsibility and usage.

Adoption of these proposals would reduce materially the storage space required by the corporation.

Storage files now located in the commodity sales records section, central registry, the supply division and the office of the Secretary should be transferred physically to the administrative services division records section.

PERSONNEL PROCEDURES

Most of the forms used by the Personnel Officer have not been revised for some ten years. We suggest that all personnel forms, such as the 'payroll advice', 'pay revision approval', 'efficiency report', 'statement of duties', and 'requisition for staff', be reviewed to determine whether some combination of forms can be made and to ensure that they meet the current requirements of the corporation.

SYSTEMS AND PROCEDURES

Procedure Manual

We suggested in Part I that the responsibility for preparing and revising the procedure manual be assigned to the administrative services manager. However, each head of a division should be responsible for keeping up-to-date the portions of the manual which apply to his operations. New or revised procedures should be issued by the head of the division concerned after review, for coordination purposes, by the administrative services manager and approval by the President.

Over a period of time the form and content of the present procedures manual should be revised to separate policy from operating and administrative procedures (by placing policy matters in a separate section or at the beginning of the related procedure), to use a simpler and more direct style, and to ensure that all procedures are up-to-date.

Position Descriptions

We propose that the corporation develop descriptions outlining the responsibilities and duties for each position. Copies should be distributed to each head of a division (covering all positions) and to each employee (for his position). The copies held by each head of a division should be available to his employees for reference. The purpose of this suggestion is to facilitate coordination and ensure that each employee understands the functions, responsibilities, authority and relationships of his own position and those with whom he comes in contact.

In many instances the job specifications now kept by the personnel officer would serve as a basis for the position descriptions.

OFFICE LAYOUT

After decisions have been reached on the reassignment of functions and activities as proposed in Part I, office space should be reallocated to provide a straight-line flow of work from receipt of declarations through to completion and recording of the sale. This will facilitate coordination and expedite the processing of declarations and bids.

When recommendations for reductions in personnel requirements, reallocation of functions, reduction in files and rearrangement of office space have been approved and implemented, space no longer required at head office and the Toronto office can be surrendered. We estimate that the savings in rentals to be achieved from reduction of space occupied in the head office, the basement of the head office, and Toronto office, could be substantial.

CROWN ASSETS DISPOSAL CORPORATION

PRESENT ORGANIZATION

Board of Directors

Vice-President — G.W. Hunter

President and General Manager [2] — L. Richard

Assistant General Manager — I.M. Mackinnon

Supply Division Manager [26]
I. M. Mackinnon

D. D. P. & C. C. C. declaration inspections
Supervision of contractors' disposals
Shipment clearance

Assistant Manager — A.A. MacMillan

Inspectors
- 2 Head office
- 12 Toronto
- 2 Montreal

- Secretary
- Secretary-clerk
- Clerk
- 2 Typists

Shipment Clearance
- Clerk
- 2 Typist-clerks

Land & Buildings Division Acting Manager [7]
T. P. O'Donoghue

Sale of land, buildings and installations

- Assistant Clerk
- 3 Secretaries
- 1 Typist-clerk

Commodity Sales Division Manager [56]
A.H. Boyle

Sale of merchandise
Declaration files
Declaration statistics
Sales orders

Assistant Manager — T. Thomson

- Assistant Clerk
- 3 Secretary-clerks

Sales Order Section
- Supervisor
- 3 Typists

Records Section
- Supervisor
- Secretary-clerk
- 3 Typist-clerks
- 2 File clerks

Bid Sub-section
- Clerk
- Typist-clerk
- Comptometer operator

Sales Offices

Office	Sales	Clerks
Aircraft	1	3
Ottawa	3	6
Montreal	2	
Toronto	2	5
Halifax	2	3
Calgary	3	3
Vancouver	1	1
Total	14	21

Comptroller [13]
A.R. Gilchrist

Accounting
Billing
Financial matters
Budgeting
Financial reports

Assistant Comptroller — L.M. Mondor

- 2 Accountants
- Cashier
- 2 Accounting clerks
- Bkkpg. machine op.
- Comptometer clerk
- 2 Statistics clerks
- Secretary-clerk
- Typist

Secretary and Legal Counsel [9]
K.H. Gray

Secretarial
Legal aspects - sale of land
Legal matters
Central files
Mail

Assistant — M.J. Ellsworth

- Secretary
- Secretary-clerk

Central Registry
- Supervisor
- 2 File clerks
- Mail clerk
- Messenger

Executive Assistant to the President [5]
L.L. Price

Purchasing
Reproducing equipment
Stationery stores
Office maintenance
Declaration statistics

Office Services (Equipment and forms)
- 3 machine operators

- Secretary-clerk

Personnel Officer [2]
P.V. Crerar

Salary administration
Recruitment
Employee relations
Personnel records
Procedure manual

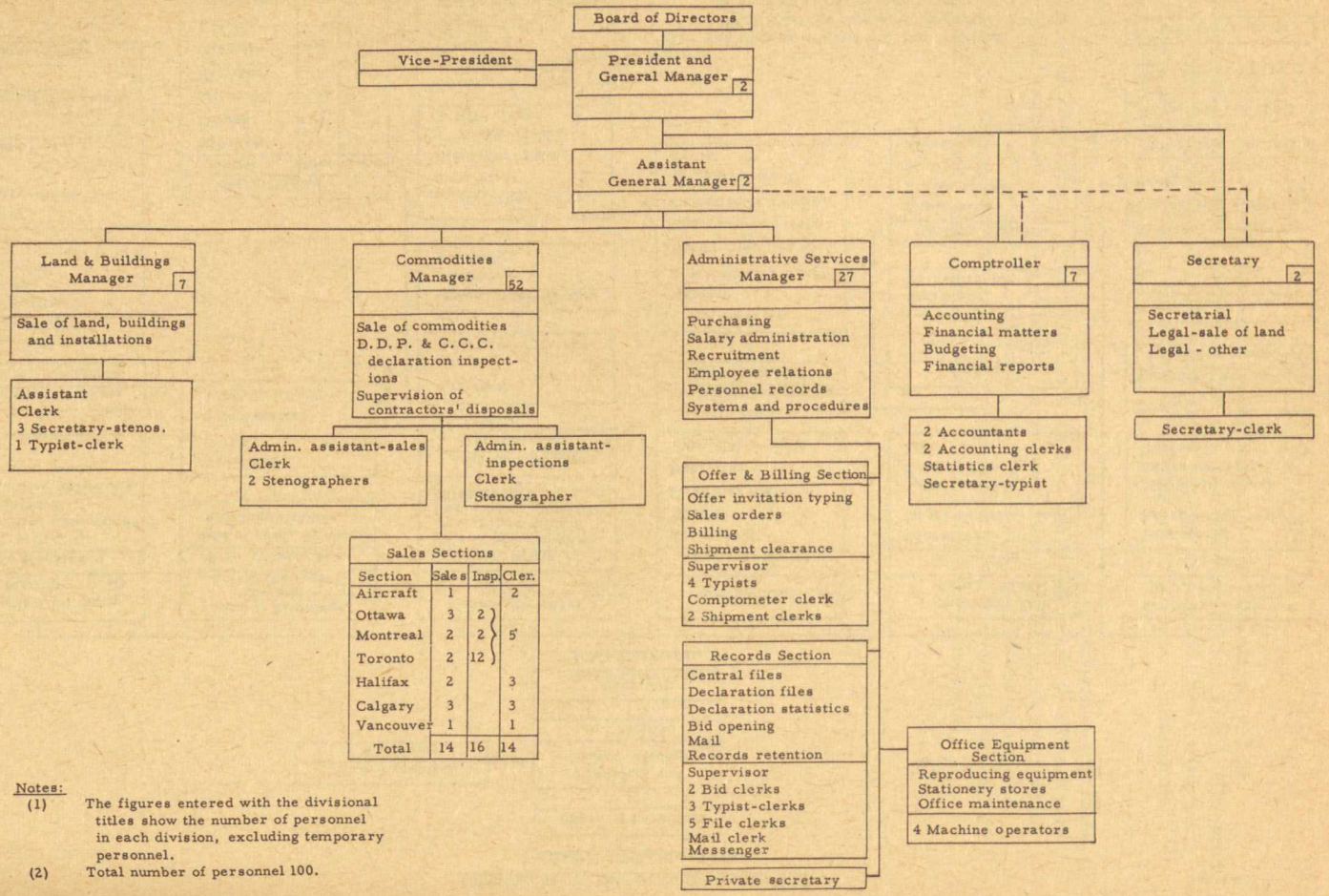
- Secretary-clerk

Notes:-

(1) The figures entered with the divisional titles show the number of personnel in each division, excluding temporary personnel.

(2) Total number of personnel 121.

CROWN ASSETS DISPOSAL CORPORATION
PROPOSED ORGANIZATION



Notes:

(1) The figures entered with the divisional titles show the number of personnel in each division, excluding temporary personnel.

(2) Total number of personnel 100.

CROWN ASSETS DISPOSAL CORPORATION

SURVEY OF MANAGEMENT ORGANIZATION AND OPERATING AND ADMINISTRATIVE PRACTICES

SUMMARY OF RECOMMENDATIONS

PART I MANAGEMENT ORGANIZATION

Recommendation	Purpose	Page Number of Main Report
1. Expand the office of Assistant General Manager to a full-time occupation, responsible for overall direction of sale and inspection of commodities, sale of land and buildings, and administrative services.	Provide for full-time executive direction of these functions.	1
2. Eliminate the supply division. Transfer clearance inspection and related activities to the commodities division, and shipment clearance to an administrative services division.	Closer coordination of operations, elimination of overlapping inspections, more flexibility and economies in operating costs.	2
3. Close the Toronto sales office. Operate the Toronto office activities from head office in the same manner as the Montreal sales office.	Reduction in clerical personnel, cost economies, more expeditious handling of offers.	3
4. Create an administrative services division, responsible for typing offers, orders and invoices, clearing shipments, central filing and registration, mail, operation of office equipment, purchasing, personnel functions and systems & procedures.	Lower clerical costs, elimination of duplication, improved coordination, speedier processing of declarations, flexibility to meet peaks and absences.	3
5. Select and appoint an administrative services manager, responsible to the Assistant General Manager.	Provide for management of the administrative services division.	4
6. Eliminate the positions of Assistant Comptroller, and Personnel Officer.	With recommended realignments of managerial functions, these positions are no longer required at the present level of operations.	6, 7
7. Create a management committee comprising the President & General Manager, Assistant General Manager, land & buildings manager, commodities manager, administrative services manager, Comptroller and Secretary.	Improve coordination, communication and participation, and enhance morale.	7
Personnel policies		
8. Upon completion of plan of staff changes, formulate a policy under which personnel must retire at a fixed age.	Have a defined and clearly understood retirement policy leading to improved morale and staff development.	8
9. Provide more comprehensive periodic appraisals of employees' progress.	Facilitate development of employees; ensure that able replacements are available when personnel retire or leave.	8

PART II OPERATING AND ADMINISTRATIVE PRACTICES

Recommendation	Purpose	Page Number of Main Report
Public and customer relations		
10. Prepare a booklet explaining the objectives, functions and disposal procedures of the corporation.	Inform customers, prospective customers and the public about the corporation. Reduce correspondence with public.	9
Processing commodity sales offer invitations, sales orders and sales invoices		
11. Use Xerography equipment to reproduce most offer invitation, sales order, and sales invoice forms directly from the declaration of surplus.	Eliminate retyping of information shown on declarations; speed up processing of declarations and orders; achieve substantial clerical economies.	10
12. Use Xerography equipment to reproduce supply division "sales sheets" directly from inspection sheets.	Eliminate typing of "sales sheets"; achieve clerical economies.	10
13. Consider preparing offer invitations, orders and invoices for Halifax, Calgary and Vancouver offices by Xerography at head office.	Eliminate retyping of information shown on declarations; achieve clerical economies.	10
14. Simplify the declaration numerical registers kept by commodity sales records section and the supply division.	Eliminate superfluous information.	10
15. Use prefixes and two consecutive sets of serial numbers to distinguish between commodity declarations and land and buildings declarations.	Simplify filing of declarations and offers.	11
16. When each offer file is closed, destroy the standard supplementary attachments to each rejected bid.	Save storage space.	11
17. Send a printed return envelope with each request to bid.	Conduce to bids being received in proper form; save time in sorting mail.	11
18. Use a numbering stamp to enter serial numbers on bid rejection and insufficient recovery letters.	Save clerical effort.	11
19. Use Xerography equipment to revise customer mailing lists.	Eliminate retyping these lists periodically.	11

PART II OPERATING AND ADMINISTRATIVE PRACTICES
(continued)

	Recommendation	Purpose	Page Number of Main Report
20.	Refuse improperly made bids; assign control over files of sealed bids to a senior official; place personnel and files concerned with sealed bids in a private office.	Improve control over sealed bids received.	11
21.	Discontinue checking calculations on each bid received.	Eliminate work for which cost exceeds benefits; achieve clerical economies.	13
	Land & buildings division derical practices		
22.	Use Xerography equipment to revise customer mailing lists.	Eliminate retyping these lists periodically.	13
23.	Assign custody of declaration files in progress to land & buildings division.	Eliminate frequent transfer of these files to and from central registry.	13
	Management planning and control		
24.	Arrange for managers to take a greater part in planning and controlling the financial aspects of the operations of their units. Each manager should develop the budget for his unit and receive a monthly report of actual results compared to the budget, for the activities under his control.	Improve financial control; develop managers through participation in management planning and control.	14
25.	Combine numerous monthly reports into a master management report, sections of which may be distributed to interested managers.	Provide operating and financial data to managers in complete and concise form; eliminate overlapping of reports.	14
26.	Improve methods used for preparing and presenting financial reports, by using multilith equipment and pre-printed summary and report forms.	Save time and effort.	15
27.	Maintain records to answer questions from the Minister or the House only on specific authorization by the President.	Avoid accumulating data to answer questions that may never be asked.	15
28.	Appraise benefits of analyzing sales by declaring department, by province and by branch.	Some analyses may be unnecessary.	15
29.	Reduce content of sales and bid reports prepared by commodity sales records section, unshipped orders report prepared by supply division, and monthly personnel report.	Eliminate preparation of unnecessary information.	15, 16
30.	Make administrative services division records section responsible for preparing declaration statistics.	Eliminate duplication of statistics; prepared now both by commodity sales division and Executive Assistant to the President.	16
	Accounting practices		
31.	Discontinue furnishing an official receipt to customers for cheques received.	Official receipt is not essential; achieve clerical economies.	17
32.	Redesign forms used to prepare cash receipts records so that all necessary records are prepared in one writing. Discontinue the central registry record of cheques received and the cash blotter.	Achieve substantial clerical economies.	17

PART II OPERATING AND ADMINISTRATIVE PRACTICES
(continued)

Recommendation	Purpose	Page Number of Main Report
33. Enforce regulation that cheques submitted by customers must be certified.	Avoid collection problems and delays in processing orders.	17
34. Simplify procedures for processing sales invoices and adjustments; in some cases eliminate credit note and cheque requisition forms now used and process refunds from the adjustment recommendation form.	Eliminate unnecessary forms and reduce clerical work required.	17
35. If number of sales analyses required can be reduced (recommendation 28) use a copy of the invoice instead of analyses sheets to make the analyses. In any case, eliminate existing duplication.	Reduce clerical work required.	18
36. Keep accounts receivable records manually (instead of by bookkeeping machine) using a form originated when an offer cheque is received as the accounts receivable sheet.	Eliminate posting of most cheques received to accounts receivable ledger; achieve clerical economies.	18
37. Reduce listings taken from accounts receivable ledger. Report only exceptional balances.	Achieve clerical economies.	19
38. Use a cheque-voucher form set to prepare all basic accounts payable and cash disbursements records. Discontinue cheque requisition voucher form, voucher register and cash disbursements book.	Achieve clerical economies.	19
39. Simplify purchasing procedures; eliminate several follow-up registers.	Eliminate unnecessary records.	19
40. Prepare payrolls manually (instead of by bookkeeping machine) using a "one-write" system.	Permit corporation to dispense with bookkeeping machine.	19
41. Simplify or eliminate certain payroll records such as the expense distribution of fringe benefits, monthly payroll change reconciliation, and Canada Savings Bond ledger.	Eliminate unnecessary clerical work.	20
42. Assign responsibility for reconciling the payroll bank account to a person independent of payroll preparation.	Improve internal control.	20
43. Merge general ledger and subsidiary ledgers.	Eliminate unnecessary work.	20
44. Simplify procedures for preparing journal entries.	Eliminate unnecessary work.	21
45. Assign responsibility for fixed asset records to the Comptroller's division.	Fixed asset records now kept by both the Assistant Comptroller and the Executive Assistant to the President.	21
46. Simplify accounting for depreciation.	Eliminate unnecessary work.	21

PART II OPERATING AND ADMINISTRATIVE PRACTICES
(continued)

Recommendation	Purpose	Page Number of Main Report
47. Appraise the need for the provision of $40,000 for employee compensation insurance now appearing on the books as a liability.	Transfer the provision to surplus if it is not required.	21
Secretary's functions		
48. Review files and records in the office of the Secretary with a view to eliminating any unnecessary or overlapping files and records.	Eliminate unnecessary clerical work.	21
49. Discontinue the register showing particulars of documents to which the Corporate Seal has been applied.	Eliminate unnecessary clerical work.	21
50. Review filing procedures in central registry to simplify index records.	Eliminate unnecessary clerical work.	22
Records retention		
51. Establish a records retention policy setting out the length of time records will be retained and where they will be stored.	Provide for storage and eventual destruction of records no longer useful; reduce office space required for files.	22
52. Consider storing most records over two years old with the Records Management Branch if feasible.	Reduce storage space required by the Corporation; save annual rental of $1,600 for space in basement of Trade and Commerce Building.	22
Personnel procedures		
53. Review form and content of all personnel forms to ensure they meet current needs.	Most personnel forms have not been revised for some ten years.	23
Systems and procedures		
54. Amend the style and content of the procedures manual. Separate procedures from policy and use a more direct style.	Make the manual easier to use.	23
55. Prepare position descriptions outlining the duties of each position.	Facilitate coordination and understanding.	23
Office layout		
56. Reallocate office space to provide a straight-line flow of work.	Facilitate coordination; expedite processing of declarations and bids.	24
57. After implementation of other recommendations, surrender space no longer required at Ottawa and Toronto.	Achieve substantial economies in rent.	24

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Appendix D

CROWN ASSETS DISPOSAL CORPORATION

SUMMARY OF ESTIMATED SAVINGS

	Estimated Savings			Page Number of Main Report
	Staff	Dollars		
PART I - MANAGEMENT ORGANIZATION				
1. Elimination of assistant manager and his secretary in either the commodity sales division or the supply division through merger of the commodity sales and supply divisions	2	11,500		2
2. Elimination of positions through reassignment of functions -				
Assistant Comptroller	1	9,500		6
Personnel Officer and his secretary	2	9,700		7
	5	30,700		
3. Less: Establishment of position of administrative services manager and his secretary	2	13,500		5
	3		17,200	
PART II - OPERATING AND ADMINISTRATIVE PRACTICES				
4. Application of Xerography equipment to reproduce offer invitations, orders and invoices -				9
Reduction in clerical staff	8	21,800		
Reduction in cost of forms	-	1,000		
	8	22,800		
Less: Xerography machine operator	(1)	(3,000)		
Machine rent and supplies	-	(2,500)		
Net Saving	7	17,300		
5. Elimination of unnecessary information and bid verification in commodity sales records section	2	5,200		13
Carried forward	9	3 $22,500	$17,200	

	Estimated Savings			Page no. of main report
	Staff	Dollars		
Brought Forward	9 3	$22,500	$17,200	
6. Simplification of shipment clearance function	1	2,700		16
7. Simplification of accounting practices	4	13,700		16
8. Reduction in rent at head office, basement of Trade and Commerce Building, and Toronto office	- 14	11,000		24
			49,900	
ESTIMATED SAVINGS	17		$67,100	
Or, say,			$60,000	

NOTES:

1. Where savings arising from salaries are entered the amounts represent the actual salary plus 10% for fringe benefits.

2. In calculating the estimated savings, for the reasons given on page 6 of the main report, no account has been taken of the savings arising from the discontinuance of the positions of
   (a) assistant to the Secretary and the assistant's private secretary. Their annual remuneration totals $11,800.

   (b) executive assistant to the President and his secretary, with reassignment of their functions to other units. Their annual remuneration totals $11,900.

PRICE WATERHOUSE & CO.

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Appendix E-1

CANADA CEMENT BUILDING
PHILLIPS SQUARE.
MONTREAL 2

September 1, 1959.

L. Richard, Esq., M.B.E.,
President & General Manager,
Crown Assets Disposal Corporation,
Ottawa, Ontario.

Dear Mr. Richard:

We very much appreciate the opportunity provided us on July 31 in our Montreal office and on August 27 in your office at Ottawa to discuss with you a possible review of the Corporation's administrative organization and practices which you indicated is currently under consideration. At the conclusion of our meeting last week it was agreed that we should summarize in this letter our understanding of the scope and objectives of the work contemplated and the way in which we would propose to undertake the study should we be entrusted with it.

In providing us with background about the Corporation and its operations, you mentioned that since the inception of the Corporation (and its predecessor organization) there had been, over the years, a substantial reduction in the volume of business from the peak reached during and immediately following the war years. However, a relatively stable level of operations has prevailed during the past few years. While there are no specific areas where weaknesses in administrative organization or practices are known to exist, you indicated that management considers that it would be desirable at this time for an independent review of these areas to be conducted by outside consultants to ascertain whether, in the light of their knowledge and experience, there may be possibilities for improvements or economies.

At our initial meeting we outlined the manner in which our Firm's management consulting services are organized and conducted. This division of our practice, with a staff of some twenty-five specialists, is under the direction of two partners, Messrs. J. J. Macdonell and Frank Willcox, both of whom participated in the discussions with you. Most of our consulting specialists have had extensive administrative and technical experience in industrial and commercial organizations before becoming professional consultants with us. In the group are professional accountants and engineers, and qualified specialists in such areas as management organization, electronic

and mechanized data processing, market analysis, operations research, methods simplification, management planning and controls, cost control, personnel appraisal, wage and salary administration, plant and office layout, and other related subjects in the general area of corporate organization and administration.

Based on the information about the Corporation's activities which you kindly furnished to Mr. Macdonell in Ottawa, we consider that the work which you have in mind would be divided into two phases. The first phase would be a review of all aspects of the Corporation's management organization and its operating and administrative practices. At the conclusion of this phase, estimated to require four to six weeks, we would discuss in detail our findings with you, in terms of the areas in which revisions are indicated, the nature of the changes proposed, and the manner in which they could be introduced, together with estimates of the benefits to be achieved thereby, whether by way of monetary savings or otherwise. A summary report would then be prepared to place on record the results of this phase of the work.

In the second phase we would provide necessary guidance and assistance in implementing approved revisions resulting from the first phase. It is usually practical and desirable at this stage for members of our client's staff to carry out as much of the detailed work as possible under the general supervision of our representatives. But if, for any reason, it proves to be impracticable to detach members of the Company's staff from their regular duties for such purposes then we are prepared to undertake all necessary work to carry the installation of revised procedures to completion. Sometimes, of course, where a considerable degree of technical knowledge may be required, such as in electronic or mechanization work, it may be necessary for us to do a considerable amount of the detailed work when the required skills and experience are not available in the client's organization.

The fees for our management consulting services are the product of the actual time required to complete the engagement at the per diem rates for the specialists assigned to the work. From the information which you have given us about the Corporation's operations, we estimate that the first phase of the contemplated work, as defined above, would likely require the services of two of our senior specialists for a period of from four to six weeks. On this basis we estimate that our fee for the first phase might be expected to range between $5,000 and $7,500, travelling and other out-of-pocket disbursements extra. We are prepared, however, to undertake that in any event the first phase, as referred to above, will be undertaken and completed for a fee which would not exceed the latter sum, namely, $7,500. At the conclusion of the first phase and following review of our findings with you, we would then be in a position to estimate specifically the time and cost with respect to each project on which further work is authorized.

In response to your enquiry concerning the date on which work might be commenced, we indicated that in the light of our present work

commitments, we should be in a position to commence the study towards the latter part of September or at the beginning of October, should this time be convenient to the Corporation.

We hope the foregoing summarizes adequately the substance of our discussions with you on this subject but we shall be very pleased to supplement it with any further information desired. May we assure you of our desire to be of service to the Corporation, and again thank you for considering us in this matter.

Yours very truly,

(Signed) PRICE WATERHOUSE & CO.

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Appendix E-2

CROWN ASSETS DISPOSAL CORPORATION
Trade & Commerce Building,
Ottawa, Ont.

September 3, 1959.

Mr. J.J. Macdonell, C.A.,
Price Waterhouse & Co.,
Canada Cement Building,
Phillips Square,
Montreal 2, P.Q.

Dear Mr. Macdonell:

I have yours of September 1st, 1959, together with your formal letter of the same date, in triplicate, summarizing our discussions to date on the proposed study of our organization.

In substance, the contents of your formal letter are in agreement with our views and desires and you may consider we have reached an agreement and it is suggested you plan to commence work on this study in accordance with schedule arranged, that is to say, towards the latter part of September or at the beginning of October.

The writer is leaving today and will be absent until about September 15th and, for this reason, would like to consider that, although we agree to entrust your firm with this work and also agree to the basis of remuneration laid down, we might feel free to amplify or clarify some points if this is deemed required after a more detailed perusal of your letter upon my return to Ottawa.

Yours very truly,

Louis Richard
President and General Manager.

LR/jmd

APPENDIX "B-7"

CROWN ASSETS DISPOSAL CORPORATION

Summary of Sales of U.S. Government Excess Property in Canada, $5,000.00 and over, under the provisions of International Agreement—Department of External Affairs Notes 100 and E. 24 and United States Department of State Notes 317 and 318 of 1951.

FISCAL YEAR 1958–1959

Agency	Sales price	Declared value	Description	Purchaser
	$	$		
US Navy, Argentia....	16,112	N/A	1 Crane Shovel, Thew, 1953...	J. D. Irving Ltd., St. John, N.B.
"	7,500	N/A	3 Dump Trucks GMC, 1954...	Tanny Merchandising Corp., Montreal, P.O.
"	5,326	N/A	1 Barge, Cargo, non-propelled, Approx. 570 ton cap. (Scrap)	J. D. Irving Ltd., St. John, N.B.
"	15,500	N/A	1 Barge, Cargo, Steel Construction, non-propelled 120 ft., Hull BC 6675	Diamond Const. Co. Ltd., Fredericton, N.B.
"	6,703	14,868	2,386 Oil Drums, Empty 18 gauge; 69 Oil Drums, Empty, 16 gauge.	Hercules Sales Ltd., Toronto, Ont.
USAF, Pepperrell.....	15,650	N/A	1 Crushing and Screening Plant, Iowa Mfg. Co.	Concrete Products (Nfld.) Ltd.,
			Crushing and Screening, Washing Unit, Bin Unit.	St. John's, Nfld.
"	5,250	N/A	1 Rock Screening Plant, Secondary Unit, 1943, Iowa Mfg. Co.	J. Goodyear & Sons Ltd., Grand Falls, Nfld.
"	6,652	22,174	Asphalt Petroleum for Paving, leaking drums and solidified —approx. 110,000 gals.	Newfoundland Hardwoods Ltd., Clarenville, Nfld.
USAF, Harmon.....	5,575	N/A	5 Trucks, 2½ ton, Reo 1953....	Levy Auto Parts Co. Ltd., Toronto, Ont.
"	14,300	N/A	5 Trucks, Dump, 5 ton IHC, 1953	J. Goodyear & Sons, Ltd., Grand Falls, Nfld.
"	6,000	N/A	1 Truck, Cargo, 5 ton IHC, 1952	J. Goodyear & Sons, Ltd., Grand Falls, Nfld.
			1 Truck, Cargo, Diamond Cargo, 1952	
"	5,135	N/A	5 Trucks, Dump, IHC, 4—1953 1—unknown	Levy Auto Parts Ltd., Toronto, Ont.
"	10,100	N/A	1 Shovel, Revolving Crawler Crane, Lima Co. 1951	R. A. Douglas Ltd., New Glasgow, N.S.
"	5,100	N/A	1 Shovel, Revolving Crawler Crane, Bucyrus Eric Co. 1951	R. A. Douglas Ltd., New Glasgow, N.S.
"	5,500	N/A	1 Compressor Mounted on 1944 GMC 2½ ton truck	J. Goodyear & Sons Ltd. Grand Falls, Nfld.
"	11,250	N/A	1 Crane Shovel Power Unit Revolving Crawler, 1951 Marion Power Shovel-Mfr.	Roberval Sales & Equip. Corp., Montreal, P.Q.
			1 Crane Revolving Crawler, 1939, (unintelligible)	

CROWN ASSETS DISPOSAL CORPORATION—*Continued*

Agency	Sales price	Declared value	Description	Purchaser
	$	$		
USAF, Harmon.....	5,787	N/A	2 Grader Road, Caterpillar D 12, 1943 1 Grader Road, Caterpillar D 12, 1946	Tanny Merchandising Corp., Montreal, P.Q.
"	7,350	N/A	2 Tractors Wheeled DED with blades, 1951 Letourneau Co.	J. D. Irving Ltd., St. John, N.B.
"	5,351	N/A	5 Tractors Wheeled Type 4 with blades, 1 without blade, Letourneau Co.	Hercules Sales Ltd., Toronto, Ont.
"	5,100	39,636	Misc. Spare Parts for Rock Crusher Units	W. J. Lundrigan, Corner Brook, Nfld.
"	10,050	48,581	Misc. Heavy Equipment Spares	W. J. Lundrigan, Corner Book, Nfld.
"	6,200	61,763	Misc. Vehicle Spare Parts.....	J. D. Irving Ltd., St. John, N.B.
"	5,312	31,624	Misc. Vehicle Spare Parts	J. D. Irving Ltd., St. John, N.B.
"	8,100	35,200	Misc. Plumbing Material.....	Abe Levine & Sons Ltd., Fredericton, N.B.
"	8,600	N/A	Aluminum Scrap, 65,000 lbs	Abe Levine & Sons Ltd., Fredericton, N.B.
"	11,060	N/A	3,500 Drums, Steel..... (2,500—16 gauge) (1,000—18 gauge)	Arshinoff & Co., Ltd. Ville La Salle, P.Q.
"	25,600	N/A	8,000 Drums, 53 gal. cap..... (6,000—16 gauge) (2,000—18 gauge)	Rosemont Barrel & Drum Inc., Montreal, P.Q.
US Army Engineers Harmon.....	10,100	42,000	1 Crane, Revolving, Crawler, Boom 50'—1951 Lorain	W. J. Lundrigan, Corner Brook, Nfld.
"	9,015	47,866	1 Crane, Revolving, Tractor, IHC, TD 9 2 Tractors, Crawler, Bulldozer, TD 24, IHC, 1951	J.D. Irving, St. John, N.B.
"	6,012	43,366	2 Tractors, Crawler, IHC TD 24 (1951-1952)	Automotive Hardware, Ltd., Toronto, Ont.
"	12,407	71,466	2 Tractors, Wheel Type w/scraper, 1951 1 Tractor, Wheel Type w/scraper, 1952	J. G. Webster Const. Ltd., Truro, N.S.
"	13,836	71,466	1 Tractor, Wheel type Letourneau, 1951 2 Tractors, Wheel type Letourneau, 1952	J.D. Irving Ltd., St. John, N.B.
"	5,236	21,119	1 Truck, Dump, Mack 1951 1 Truck, Lumber Carrier, Ross. 1952	J. D. Irving Ltd., St. John, N.B.
"	5,236	27,851	Misc. Caterpillar Spare Parts.	Tanny Merchandising Corp., Montreal, P.Q.
"	11,637	84,219	Misc. Tires and Tubes..... (217 Tires) (439 Tubes)	Hercules Sales Ltd., Toronto, Ont.
USAF, Goose.....	11,438	N/A	1 Tractor, Low speed, caterpillar, 1952 1 Tractor, Caterpillar 1952 2 Snowmobile Bombardier, Neighe, 1952 1 Weasel Fuel Track, Studebaker, 1945 1 Crane Crawler, Lima, 1951	Marvan Equip. Sales, Kemptville, Ont.
"	10,200	123,612	Plumbing Supplies.....	Automotive Hardware Ltd., Toronto, Ont.
"	6,900	560,465	1Aircraft Cargo, USAF Ser: 54-638, Fairchild (Crashed)	Frank J. Abel, Dallas, Texas.
"	13,000	N/A	10,000 Empty Drums, 55 gal..	Rosemont Barrel & Drum Inc., Montreal, P.Q.

CROWN ASSETS DISPOSAL CORPORATION—*Continued*

Agency	Sales price	Declared value	Description	Purchaser
	$	$		
US Army Engineers Goose	9,865	238,441	Misc. Heavy Construction Equip. as follows: 2 Tractors w/dozers and winch, IHC, 1953 2 Pavers, Dual Drum, Ransome, 1942 1 Generator, Portable, 1,000 Watt, 1942 1 Compressor, LeRoi, 1951 1 Crusher, Austin-Western 1942 3 Cement Finishers Koehring 1942 1 Spreader, Blaw Knox, 1942 1 Sub Grader, Blaw Knox, 1942 1 Well Drill, Cyclone, 1942 1 Welder Arc 1 Sweeper, Rotary, Little Giant 1 Melting Kettle and 2 Melting Applicators 1942 8 Buckets, Dragline and Clamshell 5/8 cu. yd. to 2 cu. yd., 1942 1 Paver Adnum, Black Tip 1942; 2 Float Foot Bridges Flex Plane 1942	Marvan Equip. Sales, Kemptville, Ont.
"	6,759	158,994	1 Spreader, Concrete, Blaw Knox, 1951 1 Subgrader Blaw Knox, 1952 1 Finisher, Concrete, Blaw Knox, 1952 1 Spreader, Concrete, Koehring, 1952 1 Machine, Concrete Curing, Flex Plane, 1952 2 Pavers, Concrete Multifoote 1 Finisher, Asphalt, Adnum, 1951 1 Batch Plant 100T Heltzel 1952 1 Bridge Cross Over, Blaw Knox, 1952	Automotive Hardware Ltd., Toronto, Ont.
"	5,998	50,527	1 Grader, Road, Austin-Western, 1951 1 Tractor Crawler, Caterpillar, D8, 1953 2 Trucks, Dump, Diamond T, 1953	Marvan Equip. Sales, Kemptville, Ont.
"	8,315	61,643	1 Grader Road, 1951 Caterpillar 1 Pan Breaker w/plow Killifer 1 Tractor Crawler, 1951 D8, Caterpillar 1 Roller Compactor, 1952 Oscillating, Brothers 1 Roller, 1953, Buffalo, Springfield 2 Compactor, 1953, Ferguson 1 Compactor, Brothers, 1952	Geo. W. Crothers Ltd., Toronto, Ont.
"	13,671	71,213	1 Tractor Crawler, D6, 1951, Caterpillar 1 Air Compressor, portable, LeRoi, 1953 1 Crusher, Secondary, Diamond, 1952	Marvan Equip. Sales, Kemptville, Ont.
"	21,563	N/A	Misc. Caterpillar Spare Parts	Crothers Limited, Toronto, Ont.
"	38,334	282,442	Misc. Electrical Materials and Wire	Ballast Metal & Equip. Inc., Montreal, P.Q.
"	14,444	37,175	Misc. Tires, Tubes and Tire Chains	Hercules Sales Ltd., Toronto, Ont.

CROWN ASSETS DISPOSAL CORPORATION—*Continued*

Agency	Sales price	Declared value	Description	Purchaser
	$	$		
USAF—Frobisher.....	12,000	N/A	40,000 Empty Drums.....	Hercules Sales Ltd., Toronto, Ont.
"	10,663	N/A	35,444 Empty Drums, 55 gal...	Hercules Sales Ltd., Toronto, Ont.
USAF DEW Line Various Locations...	5,512	48,082	6 Hysterway Cranes and Attachments for D8 Caterpillars	Hercules Sales Ltd., Toronto, Ont.
"	9,300	39,498	Caterpillar Spares.....	Hewitt Equip. Ltd., Montreal, P.Q.
"	10,100	27,115	Caterpillar Spares.....	Hewitt Equip. Ltd., Montreal, P.Q.
"	6,200	57,351	Misc. Tractor Parts.....	Contractors Equip. & Parts Ltd., Edmonton, Alta.
"	5,000	45,908	71,963 gals. Gasoline Aviation. 25,730 gals. Oil 2,200 gals. Gas Acto Auto 3,420 gals. Gas Naptha 11,376 gals. Oil, Misc. 4,530 lbs. Grease, Misc. 3,753 gals. Compound Arctic	Dept. of Transport, Ottawa, Ont.
"	19,755	38,019	121,365 gals. Gasoline Aviation 31,950 gals. Oil Diesel Fuel 543 gals. Misc. Oil 100 lbs. Grease	Eldorado Aviation Ltd., Edmonton, Alta.
"	8,407	39,224	581 Sleeping Bags, Heavy.....	Army & Navy Dept. Store Ltd., Edmonton, Alta.
"	11,111	54,845	1,549 Used Sleeping Bags Canadian and U.S.	Hercules Sales Ltd., Toronto, Ont.
"	7,658	37,825	638 Used Sleeping Bags Canadian and U.S.	Hercules Sales Ltd., Toronto, Ont.
"	6,046	94,573	Obsolete Protective Clothing.	Universal Ship Supply Ltd., Montreal
"	6,467	28,500	3 Generators, 60 KW.....	Wright Equipment Ltd., Calgary, Alta.

Summary of Sales of U.S. Government Excess Property in Canada, $5,000.00 and over, under the provisions of International Agreement—Department of External Affairs Notes 100 and E.24 and United States Department of State Notes 317 and 318 of 1951.

FISCAL YEAR 1959–1960

US Navy, Argentia....	5,111	N/A	40 tons Misc. Metals, Alloys, Aluminum, Copper, Iron, Pig etc. (Scrap)	Hercules Sales Ltd., Toronto, Ont.
US Navy, Washington.	103,000	781,184	Machine Tools.....	Sorel Industries (1959) Ltd., Sorel P.Q.
USAF, Pepperrell.....	5,200	N/A	1 Crane, Shovel, Basic Unit, 10 ton, ¾ yd, crawler mounted, Mod. TL25K Thew Lorain 1952	Cape Horn Const. Co. Ltd. St. John's, Nfld.

CROWN ASSETS DISPOSAL CORPORATION—*Continued*

Agency	Sales price	Declared value	Description	Purchaser
	$	$		
USAF, Harmon.....	9,385	N/A	1 Crane, Crawler, 10 ton Mod. 22B, Bucyrus Erie 1951	Dr. S. Chernin, Stephenville, Nfld.
"	8,333	N/A	1 Crane, Crawler, 10 ton Mod. 22B, Bucyrus Erie 1951	Claxton Ray, Stephenville, Nfld.
"	8,669	N/A	1 Grader, Road, Mod. D12 Caterpillar, 1949 1 Loader, Scoop Type, Hiloader, 1952	Claxton Ray, Stephenville, Nfld.
"	10,340	N/A	2 Engine Assy. w/comp parts, applicable to shovel Model L82, Caterpillar Mod. D342	Wm. J. Lundrigan Ltd., Corner Brook, Nfld.
"	10,626	N/A	4,087 Empty Drums 55 gal...	Rosemount Barrel & Drum Inc., Montreal, P.Q.
US Army Engineers Harmon.....	8,680	57,610	2 Tractor, Crawler TD 24 Bulldozer, Diesel, IHC, 1951 1 Truck, Dump, 8 cu. yd. Mack, 1951	Roberval Sales & Equip. Corp., Montreal, P.Q.
"	7,700	86,732	4 Tractor, Crawler, TD24 IHC, Bulldozer, 1951	Miller Ventures Inc., Montreal, P.Q.
"	21,315	24,000	1 Crane, Revolving, Crawler, 1951 1 Crane, Revolving, Crawler, Mod. L82 Lorain 1951	Wm. J. Lundrigan Ltd., Corner Brook, Nfld.
"	6,622	12,043	2 Compressor Air Trailer Ingersoll, Modl 315 1951	R. A. Douglas Ltd., New Glasgow, N.S.
USAF, Goose.....	7,500	N/A	2 Snowplow Trucks, mounted 7½ ton, 4 x 4, William Bros., Hall Scott 1951 1 Snowplow, Truck mounted Oshkosh, 1952 1 Snowplow, Truck mounted Oshkosh, 1948	Forest Sales Ltd., Montreal, P.Q.
"	10,779	N/A	1 Crane, Truck Mounted 20-ton, Lima, 1952	Marvan Equip. Sales, Kemptville, Ont.
"	5,302	N/A	2 Trucks, Crane, 2½-ton 6 x 6, Reo, 1952.	Tanny Merchandising Corp., Montreal, P.Q.
"	8,518	N/A	1 Crane Shovel, Front ½ cu. yd., truck mounted, 4½-ton, IHC, Mod. 15B 1944 1 Crane Shovel, Basic Unit truck mounted, 20½-ton Thew Lorain Shovel Co. 1951	Marvan Equip. Sales, Kemptville, Ont.
"	5,058	N/A	1 Crane, Crawler, GED ¾-cu. yd., 10-ton, Mod. 22B, Bucyrus-Erie Co.	Abe Levine & Sons Ltd. Fredericton, N.B.
"	6,647	N/A	1 Scraper, earth moving towed, 12 cu. yd., 1948 R. G. Letourneau 1 Crane Truck, gas driven, 10-ton, Mod. 150 TC, 1948, Pawlings & Harnischfiecer	J. G. Webster, Truro, N.S.
"	6,200	N/A	1 Lot Misc. Plumbing and Heating Supplies 5 Ton Electrical Supplies (Scrap)	Giguere & Begin, Ste. Germaine, Dorchester, P.Q.
"	5,111	N/A	10 Tons Pipe Copper assorted lengths and sizes (Scrap)	Hercules Sales Ltd., Toronto, Ont.
"	9,200	N/A	8,000 Drums, Empty.....	Rosemount Barrel & Drum, Inc., Montreal, P.Q.
"	10,100	N/A	5,000 Drums, Empty, 55 gal...	Arshinoff & Co. Ltd., Ville La Salle, P.Q.

CROWN ASSETS DISPOSAL CORPORATION—*Concluded*

Agency	Sales price	Declared value	Description	Purchaser
	$	$		
US Army Engineers Goose	5,680	56,642	3 Truck, Dump, 9.7 cu. yd. Diamond T, 1952 3 Trucks, Platform, 3-ton Federal, 1952	Roberval Sales & Equip. Corp., Montreal, P.Q.
"	12,275	N/A	1 Tractor, Crawler D-8 Caterpillar, 1953 2 Tractor, Crawler D-6 Caterpillar, 1952 3 Scoopmobile, Mod. C, Mixermobile, 1953 1 Payloader, Mod. HY Hough 1952	Roberval Sales & Equip. Corp., Montreal, P.Q.
"	9,941	N/A	4 Tractors, Crawler, D-8 Caterpillar. 3—1953 1—1952	Princess Auto & Mach. Ltd., Winnipeg, Man.
"	10,001	51,210	1 Scrubber and Washer, Paddle type, Portable, Pioneer, 1945 1 Screen, Revolving, Local made, 1952 1 Sand Plant, Portable, Mod. 300, Pioneer Athey 1951 1 Finishing Machine, Mod. 51XE. Blaw Knox 1951	Forest Sales Ltd. Montreal, P.Q.
"	16,342	51,765	877 Cylinders, Empty, Oxygen 254 Cylinders, Empty, Acetylene	L'Air Liquide, Montreal, P.Q.
US Army, Churchill..	8,765	37,150	1 Crane Shovel, truck mounted, 20-ton, Mod. 34T Bladwin-Lima-Hamilton	Prodor Const. Co. Ltd., Edmonton, Alta.
"	8,000	32,463	1 Crane Shovel, ¾-cu. yd. 20-ton, truck mounted 6 x 6	Prodor Const. Co. Ltd.,
"	10,000	47,076	1 Crane Shovel, ¾-cu. yd. Mod. 22B, Bucyrus-Erie 1 Crane Shovel, ¾-cu yd. Mod. 22B, Bucyrus-Erie 2 Shovel, Front ¾-cu. yd 2 Fairlead Sheave 1 Bucket Dragline 1 Bucket Clamshell 1 Tagline Track, riding 1 Tagline, interchangeable 4 Booms	Henry J. Kaiser Co. Ltd., Montreal, P.Q
USAF DEW Line Various Locations....	14,450	126,170	10,174 Drums, Empty, Light.. 2,443 Drums, Empty, Heavy.	Standard Barrels & Drum, Inc., Ville LaSalle, P.Q.
"	27,864	223,650	16,695 Drums, Empty, Light. 5,670 Drums, Empty, Heavy	Standard Barrels & Drum, Inc., Ville LaSalle, P.Q.
"	5,494	N/A	7,326 Drums, Empty.....	Imperial Oil Ltd., Edmonton, Alta.
CCC—USAF Longueuil, P.Q.....	11,157	N/A	Miscellaneous used Aircraft Spares	Associated Products of America, Inc., New York, N.Y. U.S.A.
CCC—USAF Montreal, P.Q.....	6,750	22,543	Research Equipment used on Micro Wave Optico Project at McGill University, Montreal	McGill University, Montreal, P.Q.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

Public Accounts (1959), Volumes I and II and The Auditor General's Report Thereon

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THURSDAY, JUNE 9, 1960

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WITNESSES:

From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Mr. B. A. Millar and Mr. D. A. Smith, Supervisors of Audits.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23282-7—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 9, 1960.
(12)

The Standing Committee on Public Accounts met at 2.30 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Bissonnette, Broome, Chown, Coates, Hales, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGee, McGregor, Morton, Payne, Pratt, Smith (*Simcoe North*), Spencer, Stefanson, Tucker and Villeneuve.—19

In attendance: *From the Office of the Auditor General of Canada*: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; Messrs. B. A. Millar, G. Long, D. A. Smith and J. R. Douglas, Supervisors of Audits; and Mr. E. Cooke, Administrative Officer.

The Committee proceeded to its consideration of the Annual Report of the Auditor General for the fiscal year ended March 31, 1959.

The Chairman referred to a memorandum prepared by the Auditor General to assist members in their study of the Auditor General's Report. The said memorandum was considered in conjunction with the Main Report. Mr. Henderson and his associates supplied information thereon.

Paragraphs 1-25, 27-37, 39, 41-45 of the Report were adopted.

Paragraphs 26, 38, and 40 of the Report were allowed to stand.

The witnesses undertook to supply, at the next meeting, additional information as requested.

During the latter part of the sitting, Mr. Morton presided as Acting Chairman.

At 5.00 p.m. the Committee adjourned until 2.00 p.m., Monday, June 13, 1960.

E. W. Innes,
Clerk of the Committee.

23282-7—1½

EVIDENCE

THURSDAY, June 9, 1960

The CHAIRMAN: Gentlemen, we have a quorum.

May I refer to the future meetings, as agreed by the committee yesterday. On Monday, June 13, we will meet in this room at 2 p.m. and on Tuesday, June 14, we will also meet in this room at 2 p.m. On Monday, we will consider the Auditor General's Report and on Tuesday, the Crown Assets Disposal Corporation.

At this moment I would like to introduce the various gentlemen behind me. First of all the Auditor General is on my right, Mr. Max Henderson. Then we have the assistant auditor general to his right, Mr. Ian Stevenson, the man, I believe, who is primarily responsible for the writing of the report which we have to examine. Then we have the audit supervisors. There is Mr. B. A. Millar, who is primarily in charge of the audit of the Department of National Defence and Defence Production. There is Mr. G. R. Long, in charge of the revenue department, including customs, excise and taxation, the post office and the Secretary of State; Mr. D. A. Smith, who is in charge of the audit of the Department of Transport, the Department of Public Works, Department of Agriculture and others; Mr. J. R. Douglas, who is in charge of the Department of National Health and Welfare and Veterans Affairs audits, and also other matters. Mr. A. B. Stokes, who is not here today, is in charge of the Audit of Crown Corporations.

Today, gentlemen, we will start on the examination of the report of the Auditor General to the House of Commons for the fiscal year ending March 31, 1959.

You have before you copies of the memorandum which was prepared by the Auditor General. This memorandum summarizes some of the features of the report. It is purely as a matter of convenience and it should be read in conjunction with the Auditor General's report.

Would you please refer to page 2 of the Auditor General's memorandum. If it meets with your consent I might read these paragraphs as we come to them.

> Paragraphs 1 to 6. These are simply introductory paragraphs listing the statutory audit directions, noting the audit certification given, referring to the nature of the audit examination made, and acknowledging cooperation given by treasury and departmental officers.

Paragraphs 1 to 6 of the report:

> Section 70 of the Financial Administration Act requires that the Auditor General report annually to the House of Commons the results of his examinations, and this is the report with respect to the fiscal year ended 31 March 1959.
>
> 2. In making audit examinations the directions given by section 67 of the Financial Administration Act were observed:
>
> > 67. The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property and shall ascertain whether in his opinion

(*a*) the accounts have been faithfully and properly kept,

(*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 sevenue,

(*c*) money has been expended for the purposes for which it was appropriated by parliament, and the expenditures have been made as authorized, and

(*d*) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

3. The statement of expenditure and revenue for the year ended 31 March 1959 and the statement of assets and liabilities as at that date, prepared by the Department of Finance for inclusion in the public accounts, have been examined and certified in accordance with the outcome of the examinations, as required by section 69 of the Financial Administration Act, subject to observations in this report.

4. Following established practice, audit examinations were conducted on a test basis during the year, the extent of the tests varying according to the nature of transactions, the effectiveness of the internal control and the degree to which past experience had indicated the accounts to be in good order. The attention of responsible administrative and accounting officers was directed to transactions which, in the audit office view, were not in harmony with annual parliamentary appropriations of continuing statutory financial directions, or which lacked conformity with executive orders. Where appropriate action was taken to regularize a transaction before the accounts were closed for the fiscal year, no reference is made in this report.

5. Audit officers were given full opportunity to examine vouchers, records and files pertaining to the accounts of the various departments, and all supplementary information and explanations required were readily provided by treasury and departmental officers. Appreciation of this co-operation, which facilitated the performance of the audit, is now recorded.

6. This report gives, first, a summary of the expenditure and revenue for the fiscal year under review in comparison with the two previous years, following which audit observations are made drawing attention to various 1958-59 expenditure and revenue transactions. A summary is then given of the assets and liabilities as at the close of the fiscal year, followed by audit observations regarding certain of the items appearing in the statement of assets and liabilities. Reference is then made to the audit of the accounts of those crown corporations that are audited by the audit office, and the report closes with mention of the special statutory audits and examinations undertaken during the year.

Mr. Henderson, in paragraph 2 you set forth the statutory rules and regulations, if I may put it that way, under which you operate.

Mr. MAX HENDERSON (*Auditor General of Canada*): that is correct—from the Financial Administration Act.

Mr. BELL (*Carleton*): Mr. Henderson is one who has spent a large part of his life in private business. Do the provisions of the statute, as they now appear, seem to you, as one who has had experience, as being an ample safeguard, and do they as well give you all the authority you think you need? Or is that a question which you would like to reserve until next year?

Mr. HENDERSON: Most certainly I could answer it more informatively next year. My general impression of that paragraph is that it contains a certain rigidity which perhaps is not present in private practice. However, it is all-inclusive in many respects because it gives the Auditor General quite a bit of leeway. For the present I find that it imposes a substantial enough responsibility that I am just anxious to get on with the work and leave the opportunity of discussing it with you in more detail until I have more experience perhaps next year.

Mr. BELL (*Carleton*): Thank you.

The CHAIRMAN: Beginning at page 5 of your memorandum under the heading "The Audit Office" you advance certain ideas which I assume you have drawn from your experience in private practice.

Mr. HENDERSON: Experience in private practice and also my conception of the responsibilities of an auditor which naturally is based to a considerable extent on my experience in large Canadian corporations, notably where we have to meet among other things, the requirements of the stock exchange. And in the case of those which have their stock listed on the New York stock exchange there is an exceptionally rigid observance of the security exchange regulations, the New York state exchange regulations, and so on.

The CHAIRMAN: On page 6 at line 11 you have what is perhaps an idea:

> —We are already seeking to achieve this objective by the submission of detailed reports to the managements on the results of our work, a practice we hope to extend to all departments and crown corporations within the next twelve months.

Mr. HENDERSON: I am glad you brought that up. Very briefly, the procedure here contemplates that upon the completion of the auditing work of a government department, crown corporation or, of course, business for that matter, the auditor is required to certify the correctness of the accounts under the Companies Act or whatever legislation is effective. In the case of the Auditor General of Canada that certificate is quite a brief document attesting to the fact that the accounts are correct and properly show the state of the operations of the business. It is then the practice, in my belief, for the auditors to go over their notes and write what I might loosely call a long form report addressed to the management of the corporation in which they bring to the attention of the management all the things encountered during the course of their work, in which there are any constructive suggestions with the reasons whereby there can be improvements. They may refer to the scope of the work and make an assessment of the system of internal check. It is only a constructive report bringing out these points. This is an annual document addressed to the management. In the case of government departments it would seem they should be addressed to the deputy minister or the minister. In the case of crown corporations I think such a report would be particularly useful to the management and especially to its board of directors.

It seems to me that the managements are entitled to such a report from their auditors—particularly the managements of government agencies. It goes without saying that if that report were to contain any matters which indicated incorrectness of the accounts, or anything else, that would be already the subject of a qualification in the short report. There are, however, a great many other things. Perhaps their system of internal check is not functioning properly, or there may be ways in which suggestions could be thrown out which would lead to savings of money. I think to have all these things wrapped up in a comprehensive fashion is a constructive approach. That is the approach I am seeking to bring to the work in this office. We have a limited staff and have quite a lot of work. Therefore, it is not possible to start in right away by having

this in respect of every one of the audits, especially this year; but I express the hope—and it is our target—that a year from today we should be in a position to furnish these across the board.

Mr. HALES: Is this a new procedure which you outline or has it been done in previous years?

Mr. HENDERSON: This procedure was not followed by my predecessor. My experience is, however, that it is standard practice in industry.

Mr. CHOWN: Would the Auditor General be good enough to let us know to what extent it was done this year when this change of administrative policy was integrated?

Mr. HENDERSON: It developed, I might say, perhaps, as a result of my appointment, which was on March 1. A number of these reports are being readied at the moment with respect to certain of the audits we have completed. Naturally, they require extensive discussion and cross-checking at the various levels in my office before we release them. But the aim is to get them into the hands of the managements of the government agencies as expeditiously as possible.

Mr. CHOWN: Are there any of these reports ready at the moment, and if so, with respect to what departments?

Mr. Henderson: The ones we have in course of preparation at the present time consist of—and I will ask you to check me on this, Ian—the St. Lawrence Seaway Corporation, Eldorado Mining and Refining Limited, the Royal Canadian Mint, the Canadian Broadcasting Corporation, the audit of which is to be concluded within about ten days—the framework of the report is in readiness. I think those are the principal ones.

Mr. CHOWN: What you would hope to achieve as an end would be the type of thing you have been experiencing in private practice, namely that you will in each year render to each department, agency and crown corporation of the government certain recommendations, such as was done by Price Waterhouse for the crown assets disposal corporation?

Mr. HENDERSON: Yes.

Mr. CHOWN: Or would it be that extensive?

Mr. HENDERSON: Except if I see a state of affairs an examination of which would call for experience beyond the experience available in my office, I would naturally so state and advocate that they employ an outside firm to do it.

By and large, however, I subscribe to the principle that by reason of his close knowledge of the client's affairs, the auditor is in the best possible position to function as a financial advisor and assessor of a situation within the company.

There are certain limitations, but a great many firms, as you know, call on their auditors, during the course of the year, for a variety of problems and their advice on a number of things. Already we have been called in on some of those problems by some of our "clients", as I call them.

Mr. CHOWN: I think it is a very progressive development, if I may say so, Mr. Chairman, along with the other checks we have in the form of the treasury board, and so on.

To what extent will the reports you produce be available to parliament? Will they be in any way privileged? Will they be producible, for example, at the meetings of this committee next year?

Mr. HENDERSON: I would think so; I would think that would be a normal procedure.

Mr. CHOWN: They are not submissions, for example, on a confidential basis to the minister, which perhaps would make them privileged?

Mr. HENDERSON: I really have not crossed that bridge. I suppose we should do that when we come to it. But usually, certainly in their initial stages, they are produced in order to help the management of the agencies, and it is conceivable that the publication of some of the reports, under the circumstances you mention, might prejudice effective action.

Mr. CHOWN: Yes.

Mr. HENDERSON: I think I brought that point out in the case of crown assets disposal, whereby as a result of publishing it the management's hands, to a certain extent, can be tied.

Mr. CHOWN: Quite.

Mr. BELL (*Carleton*): In view of the fact this is a new development, I think we should cross these bridges as we come to them, rather than take a firm position at the present time.

Mr. HENDERSON: That is my feeling.

The CHAIRMAN: This is only in the ideals stage.

Mr. CHOWN: I was only developing this examination because I think it is a very interesting and progressive step our new Auditor General has taken. I think he is to be congratulated; and I think it is good to have it on the record.

The CHAIRMAN: Before Mr. McGee asks questions, how do you propose to carry on this experiment in the future, when the government expenditure increased from $2,449 million in 1950 to $5,707 million in 1960, and the size of the audit staff has gone from 166 to 132?

Mr. HENDERSON: That is a problem with which I have yet to deal. I may say that thanks to the far-sightedness of my predecessor in office, I should tell you the audit supervisors we have here present today form a simply admirable team, in my view, and the way they are going about tackling this job, with all their other work, is highly commendable. Nevertheless, they are going to require additional staffing, and I foresee I shall have to take that up with the appropriate authorities when I have my facts.

At the moment I have been concerned with concentrating on the scope of the audit program across the board. That is of vital importance; that is to say, to ensure we are, in fact, covering as much of the territory as we should be covering. The majority of the work is based on these checks, and the developing of those is a matter of prime importance. That alone will probably necessitate additional staff. I am hoping in a very short time to have completed this examination of the scope of the audits, and to lay my case at the door of the appropriate authorities.

Mr. MCGEE: There is another very fascinating aspect of this question which is going to have a fundamental effect, I think, on our previous concepts. We have reviewed the activities of the organization and methods division of the civil service commission. We did that last year, before the estimates committee. We learned there that this organization went into a government department—and, I believe, a crown corporation, although I could be wrong on that—I think, at the request of the deputy minister, and it always seemed to me this could be not the best practice and format. Neither would the alternative be somebody in the civil service commission designating this group to go into a particular department. But it seems to me, on the basis of human nature, it could happen the department which was most in need of such examination would probably be the last department to request it.

Following along the lines of Mr. Chown's questioning, if you determine in your audit acitivities that some form of examination might be desirable, then, presumably, you could come into the picture, by requesting that certain lines of inquiry might be initiated by this organization and methods division of the civil service commission, thereby removing, if this can come about, what I believe in the original instance to be the fundamental weakness in this request system.

Mr. HENDERSON: Well, if I find a situation calling for an examination of their internal methods and procedures, I would have no hesitancy in so stating in the report to the deputy minister, and spell out how I think we could do it—which, in many cases, would be the suggestion that he contact the civil service commission and ask for their organization and methods people to come in and do it. Alternatively, it may be a situation that we ourselves in the course of our work, could give a quick going over, because in examining organization and procedural methods you do have to relate them very closely to the accounting system; that is to say, the system of internal control. I have seen many reports of organization and methods, in my experience, which are impracticable of adoption because they do not tie in with the flow of the accounting work, and particularly the task of internal check. The two must be related. You really have just to use your best judgment at the time this comes up.

In the meantime, on the question of the organization and methods division of the civil service commission, I noted its introduction when it was brought out in the public service. I thought it was an exceptionally progressive and desirable step, and I am sure they are fulfilling an excellent function. I have seen some of their reports.

Mr. CHOWN: Would this be conceivably true, as was suggested yesterday by Mr. Richard in connection with the Price Waterhouse report: are there indications, in your first look at it, that there could conceivably be conflict in a number of areas with accounting and auditing procedures?

Mr. HENDERSON: I think so, because that firm are not the auditors of the corporation, and therefore to that extent are not completely familiar with its system of internal check.

The CHAIRMAN: Do you feel that you could implement some of their recommendations, if not all, if given the opportunity?

Mr. HENDERSON: I think so, subject to a detailed discussion of this with Mr. Richard and his principal officers.

Mr. CHOWN: Are you the auditors of that crown corporation?

Mr. HENDERSON: Yes, sir.

The CHAIRMAN: Is there anything else, gentlemen, on paragraph 2? Paragraph 3 is really the certification, is it not, of the accounts you state that you have examined and certified?

Mr. HENDERSON: Yes.

The CHAIRMAN: Paragraph 4 refers to test basis of audit examinations.

Mr. MCGEE: Mr. Chairman, I have a question with reference to the final sentence of paragraph 4. I can see where, on the face of it, there is perhaps good reason for this practice; but is there a danger, in your view, that possibly some highly irregular practice might have taken place? Would you care to comment on the ramifications of this particular matter?

Mr. HENDERSON: I think that perhaps I would like Mr. Stevenson to answer that question, because he can explain to you the practice that has been followed in the office in dealing with these cases. I think you submit the text, do you not, of some of the comments to the departments?

Mr. IAN STEVENSON (*Assistant Auditor General*): Yes; each of the paragraphs in the report is submitted in draft form to the departments concerned, in order that we might have the benefit of their comments, so as to be assured that we are making a fair presentation of the facts. But particularly, Mr. McGee, with regard to your inquiry about the regularization of a transaction, what we have in mind in this comment at the end of paragraph 4 is the type of case where a payment might, by regulation, require the approval of treasury board, and, for example, the treasury board minute was not to be found in the documentation. In a case such as that we would suggest to the responsible administrative officer that the approval of treasury board be obtained. It would be that type of regularization that we are referring to here.

Mr. MCGEE: And this is not a setting up of an umbrella under which other things might be happening?

Mr. STEVENSON: No, sir.

The CHAIRMAN: Mr. Henderson, I just have one question. Have you any idea of the staff in other audit offices?

Mr. HENDERSON: You mean, in the Canadian government, or in other countries?

The CHAIRMAN: Both, if you have it—just to get a comparison.

Mr. HENDERSON: Some of the internal auditing staffs in the government are quite large. I believe that in some instances the internal auditing staffs are larger than that in my office.

In the case of other countries, I am given to understand that the comptroller general of the United States has a staff of the order of 6,000, or 6,200, of which something like 3,500 represent his straight auditing staff. That is to say, their work would conform to ours.

In the United Kingdom, where their spending is less than three times ours —I think I am right on that—their staff, I was told the other day, is about 550. So that, with a staff of 132, I do not think we are over-staffed.

Mr. MACDONNELL: Mr. Chairman, may I ask a question, following up Mr. McGee's question, which I thought interesting. May we take it that regarding that word "regularize"—which could be quite a broad word—these things that are dealt with, without being referred to in the report, are only where it is perfectly clear that it is purely a technical point which is overlooked? The discretion is not given here, I take it, to overlook a situation where somebody might just get away with something without putting it to treasury board, let us say?

Mr. STEVENSON: No, sir.

Mr. MACDONNELL: I want to be sure that the word "regularize" is not used in a broad sense, but in a narrow sense.

Mr. STEVENSON: In a narrow sense. It would mean a case where a regulation, had not been observed, and, in the narrow sense, this situation had been corrected.

Mr. CHOWN: It deals entirely with inadvertent or innocent mistakes?

Mr. STEVENSON: Yes, sir, that is what we had in mind in this comment.

Mr. MCGEE: What would be your course of action, if there were some doubt in your mind about the true innocence of the mistake?

The CHAIRMAN: What do you mean? You did not believe the—

Mr. MCGEE: This is designed to cover inadvertent errors or omissions. What would happen in a particular instance where, in your opinion, it was not quite as innocent as it appeared: what would your course of action be then? How would these facts come to light?

Mr. HENDERSON: I think in that case, Mr. McGee, I would immediately discuss it with the chief executive of the agency concerned, and then I would make reference to it, depending on that discussion. Perhaps it would be a harmless thing, if he explained it satisfactorily. But, for the record, it would then be contained in my report—my long form report—in order that there may be no misunderstanding about it, and to ensure that the management were watched to see that it did not occur again.

Mr. CHOWN: And, also, to protect yourself?

Mr. HENDERSON: Well, that is always a useful medium too, for that purpose.

The CHAIRMAN: There is no chance of fixing! Is there anything else on that paragraph, gentlemen? Paragraph No. 5. I see you say that you were in fact given full opportunity to examine vouchers, et cetera, in this paragraph.

Mr. STEVENSON: Yes, sir.

The CHAIRMAN: Paragraph No. 6.

Mr. HENDERSON: That just refers to the summary that now follows, of the expenditures and revenues.

The CHAIRMAN: According to your memorandum on paragraphs 7 to 25:

> These provide a broad over-all summary of expenditure and revenue for the year ended March 31, 1959, compared with the two previous years.

(Paragraphs 7 to 25 of the Auditor General's report are as follows:)

Summary of Expenditure and Revenue

7. Expenditure for the year ended 31 March 1959 totalled $5,364 million and revenue $4,755 million, resulting in a deficit of $609 million. By comparison, there was a deficit of $38 million in 1957-58 and a surplus of $257 million in 1956-57.

Expenditure

8. Of the expenditure of $5,364 million incurred during the 1958-59 fiscal year, $1,970 million was under the authority of continuing statutory appropriations and $3,394 million was from appropriations granted for the year. Appropriation Acts Nos. 2, 3, 4 and 5 of 1958 and Nos. 1 and 3 of 1959 granted in the aggregate $3,818 million towards defraying the expense of the public service in 1958-59. After the expenditures of $3,394 million had been charged to these appropriations there remained unspent balances totalling $424 million, of which all but $30 million lapsed at the year-end in compliance with section 35 of the Financial Administration Act.

9. The $30 million that did not lapse comprised the unspent balances of amounts provided by Votes 709, 734 and 741. These balances remained available for expenditure in 1959-60 by reason of special wording of the votes, each of which related to a continuing project. Vote 709 was for: "Payments to a province during the 1958-59 and 1959-60 fiscal years... of amounts not exceeding one half of the cost of labour incurred in the period from the 1st day of December, 1958, to the 30th day of April, 1959, on winter work projects in municipalities...". Vote 734 was for: "Purchase of flour to be given to the United Nations Relief and Works Agency for Palestine Refugees in the Near East—Further amount required 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, 1960". Vote 741 was for: "Purchase of wheat and flour to be given to Commonwealth countries in South

and South-East Asia to relieve food shortages 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, 1960".

10. Two special Warrants were issued by the Governor General in 1958-59 to provide funds for the administration of the Public Service during the early part of the fiscal year, when Parliament was not in session. These special Warrants—one issued on 9 April 1958 for $203,368,605 and the other on 1 May 1958 for $107,191,590—were based on certificates given by the Heads of the various departments that the amounts requested by them were urgently required for the public good. Appropriation Act No. 2, 1958, provided that to the extent of $200,768,605 and $102,791,590, respectively, the amounts authorized by that Act to be paid and applied in respect of individual items, were to be deemed to include, and not be in addition to, amounts authorized for such items by the Warrants. The $7,000,000 balance of the Warrants, authorized as loans to the Trans-Canada Air Lines, was considered as included in amounts authorized to be advanced to the Canadian National Railways under the Canadian National Railways Financing and Guarantee Act, 1958.

11. The following table summarizes the expenditure, by departments, for the fiscal year 1958-59, in comparison with the corresponding amounts for the two previous years:

Department	1956-57	1957-58	1958-59
	$	$	$
Agriculture	84,652,000	94,661,000	165,842,000
External Affairs	60,228,000	60,209,000	75,486,000
Finance	1,152,759,000	1,187,362,000	1,228,205,000
Labour	75,854,000	81,695,000	86,756,000
National Defence	1,759,426,000	1,668,439,000	1,424,741,000
National Health and Welfare	561,689,000	662,730,000	872,917,000
National Revenue	61,824,000	67,709,000	68,788,000
Northern Affairs and National Resources	36,970,000	49,095,000	65,177,000
Post Office	139,993,000	153,320,000	157,803,000
Public Works	165,337,000	205,992,000	221,182 000
Trade and Commerce	55,389,000	56,939,000	65,636,000
Transport	158,163,000	206,734,000	288,838,000
Veterans Affairs	251,458,000	277,242,000	288,784,000
Other departments	285,293,000	315,284,000	353,885,000
	4,849,035,000	5,087,411,000	5,364,040,000

12. The increase of $71 million in expenditure by the Agriculture Department during 1958-59, in comparison with 1957-58, was mainly due to payments of $41 million to Western grain producers during the year (there was no corresponding outlay in 1957-58), together with increases of $11 million in the deficit of the Prairie Farm Emergency Fund, and of $9 million in respect of the net operating loss of the Agricultural Commodities Stabilization Account.

13. The increase of $15 million in expenditure by the External Affairs Department during the fiscal year under review was largely due to the increase of $11 million in gifts of wheat and flour to India, Pakistan and Ceylon (such gifts amounted to $2 million in the preceding year).

14. Although the expenditure by the Finance Department during 1958-59 was only 3.4% greater than the total spent in the preceding fiscal year, significant variations occurred in individual classes of expenditure. There were increases of $84 million or 22% in subsidies and

other payments to Provinces and of $81 million or 14% in public debt charges. These increases were largely offset by the decrease of $40 million in the Government's contributions to the Superannuation Account (there had been a special statutory contribution of $44 million in 1957-58 as a result of the general salary increase effective 1 May 1957) and by the grant of $100 million to the Canada Council in 1957-58 which had no counterpart in 1958-59.

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15. The decrease of $244 million in expenditure recorded for the National Defence Department during 1958-59, in comparison with 1957-58, was mainly accounted for by decreases of $49 million or 19% in the Naval Service, $136 million or 18% in the Air Force Service and $48 million or 40% in mutual aid to NATO countries. The decreases for the Navy and Air Force were, however, actually much less substantial than thus appears because outlays of $212 million were charged against the National Defence Equipment Account during the year, compared with $24 million similarly charged in the preceding fiscal year. When National Defence expenditures charged to 1958-59 appropriations are combined with outlays charged to the National Defence Equipment Account, the total outlays for the year, in comparison with the preceding year, were:

—	1958-59	1957-58	Decrease (Increase*) Amount	%
	$	$	$	
Naval Service	251,345,000	262,874,000	11,529,000	4.4
Army Service	410,265,000	402,672,000	7,593,000*	1.9*
Air Force Service	759,021,000	759,961,000	940,000	0.1
Defence Research Board	74,360,000	78,666,000	4,306,000	5.5
Mutual Aid	70,712,000	118,464,000	47,752,000	40.3
Other	70,777,000	70,149,000	628,000*	0.9*
	1,636,480,000	1,692,786,000	56,306,000	3.3

The National Defence Equipment Account had been established under the authority of section 3 of the Defence Appropriation Act, 1950. The charges during 1958-59 closed out the Account, pursuant to an announcement made by the Minister of Finance in the course of the 1958 Budget Speech:

> . . . we propose to eliminate the balance remaining in the national defence equipment account. This account was set up in 1950 when NATO was being organized, and to it was credited the value of all equipment given by Canada to our NATO allies. At its peak there was about $310 million in this account. The former government drew on this account from time to time by charging to it, and not to budgetary expenditures, the cost of replacing such equipment. On the basis of past practice there would be about $165 million in this account at the end of this year. We believe that in the interests of good accounting practice and the maintenance of proper parliamentary control of expenditures this account should be liquidated during the current year.

16. The increase of $210 million in expenditure by the National Health and Welfare Department during the fiscal year under review was in large part due to the following increases: $80 million in the

deficit of the Old Age Security Fund (payments out of the Fund during the year were greater by $85 million or 18% than in the preceding year); $37 million or 8.4% in family allowances; $16 million in unemployment assistance; $11 million or 33% in general health grants to Provinces; and $10 million or 25% in old age assistance and other welfare services. In addition, payments totalling $55 million were made to participating Provinces under the Hospital Insurance and Diagnostic Services Act, which came into force during the year.

17. The $16 million increase in expenditure by the Northern Affairs and National Resources Department over the 1957-58 total, resulted mainly from increases of $9 million or 47% in the Northern Administration and Lands Branch and of $5 million or 28% in the National Parks Branch.

18. The increase of $82 million in Transport Department expenditure during 1958-59, in comparison with 1957-58, was principally due to the following increases: $25 million or 27% in Air Services; $19 million or 58% in Marine Services; $30 million in the deficit of the Canadian National Railways; and $10 million in charges relating to activities of the Board of Transport Commissioners (owing to the appropriation of that amount for supplementary credit to the Railway Grade Crossing Fund).

Revenue

19. The revenue for the fiscal year 1958-59 totalled $4,755 million, compared with $5,049 million for 1957-58 and $5,107 million for 1956-57. The following is a summary by main sources:

—	1956-57	1957-58	1958-59
	$	$	$
TAX REVENUES:			
Personal income tax	1,400,451,000	1,499,788,000	1,353,500,000
Corporation income tax	1,268,301,000	1,234,807,000	1,020,550,000
Income tax on dividends, interest, etc., going abroad	76,447,000	64,334,000	61,213,000
Sales tax	717,081,000	703,170,000	694,491,000
Other excise taxes	267,152,000	249,421,000	240,624,000
Customs duties	549,075,000	498,069,000	486,509,000
Excise duties	271,444,000	300,133,000	316,744,000
Succession duties	79,709,000	71,608,000	72,535,000
Other tax revenues	18,272,000	1,498,000	1,213,000
NON-TAX REVENUES:			
Return on investments	206,656,000	169,424,000	221,204,000
Net postal revenue	145,773,000	152,860,000	157,541,000
Other non-tax revenues	106,180,000	103,676,000	128,599,000
	5,106,541,000	5,048,788,000	4,754,723,000

20. The amounts shown for personal income tax, corporation income tax and sales tax do not include collections of old age security tax levied at the rate of 2% on personal incomes (on the first $3,000), corporation profits and on sales. Such collections were credited direct to the Old Age Security Account, as follows:

Old Age Security Tax	1956-57	1957-58	1958-59
	$	$	$
On sales	179,270,000	175,792,000	173,623,000
On personal incomes	124,999,000	135,001,000	146,350,000
On corporation profits	67,336,000	60,664,000	55,328,000
	371,605,000	371,457,000	375,301,000

21. The following is a summary of the excise taxes, other than sales tax, collected during the year ended 31 March 1959, in comparison with the corresponding amounts for the two previous fiscal years:

Excise Tax	1956-57	1957-58	1958-59
	$	$	$
Cigarettes	110,850,000	121,493 000	127,148,000
Automobiles	79,693,000	72,331,000	59,308,000
Manufactured tobacco	18,925,000	18,368,000	18,175,000
Television sets and tubes	12,587,000	10,005,000	10,241,000
Phonographs, radios and tubes	6,411,000	6,855,000	7,557,000
Toilet articles and preparations	6,062.000	6,269,000	6,824,000
Jewelry, clocks, watches, chinaware, etc	6,141,000	5,353,000	5,599,000
Sundry excise taxes	27,550,000	9,472,000	8,343,000
Refunds and drawbacks	−1,067,000	−725,000	−2,571,000
	267,152,000	249,421,000	240,624,000

The decrease in revenue from the tax on automobiles in 1958-59, compared with 1957-58, was partly due to the reduction in the rate of tax from 10% to 7½% effective 7 December 1957.

22. A listing of the excise duties collected in the three-year period is given in the following table:

Excise Duty	1956-57	1957-58	1958-59
	$	$	$
Cigarettes	112 634,000	123,301,000	132,547,000
Beer	83,078,000	88,226,000	83,058,000
Spirits	70,341,000	83,653,000	96,551,000
Other excise duties	8,487,000	8,417,000	8,688,000
Refunds and drawbacks	−3,096,000	−3,464,000	−4,100,000
	271,444,000	300,133,000	316,744,000

There were no changes in excise duty rates during the fiscal year ended 31 March 1959.

23. The following is a summary of the return on investments during 1958-59, in comparison with the two preceding fiscal years:

Investment Return	1956-57	1957-58	1958-59
	$	$	$
Bank of Canada	89,865,000	68,711,000	88,632,000
Loans to national governments	10,326,000	10,122,000	31,947,000
Central Mortgage and Housing Corporation	17,495,000	18,221,000	28,961,000
Exchange Fund Account	17,420,000	22,880,000	18,626,000
Canadian National Railways	30,846,000	12,454,000	11,451,000
Other loans and investments	40,704,000	37,036,000	41,587,000
	206,656,000	169,424,000	221,204,000

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 (in 1956-57 a special payment of $42,593,000 was included, representing the inner reserves no longer required). The large increase in revenue from loans to national governments in 1958-59 resulted almost entirely from the United Kingdom's interest payment of $21,900,000 on the 1946 loan, whereas in each of the two preceding years the interest payment had been deferred. The

Central Mortgage and Housing Corporation amounts represent mainly interest on debentures, together with annual profits earned by the Corporation (and profits realized on sales of properties which had been acquired from the Government of Canada). The amounts shown as revenue from the Exchange Fund Account are for earnings derived from the invested portion of the Fund (see paragraph 50). The amounts for the return on the Canadian National Railways investment represent interest received on loans and advances made under the annual Canadian National Railways Financing and Guarantee Acts (the 1956-57 amount includes $26,077,000 received as a divident, equivalent to the 1956 profit from operations):

24. The net postal revenue amounts listed in the table in paragraph 19 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:

—	1956-57	1957-58	1958-59
	$	$	$
Gross Postal Revenue	167,829,000	177,433,000	183,291,000
Disbursements—			
Remuneration of postmasters and staffs	19,492,000	21,317,000	21,781,000
Miscellaneous expenditures	2,564,000	2,256,000	3,969,000
	22,056,000	*24,573,000*	*25,750,000*
Net Postal Revenue	145,773,000	152,860,000	157,541,000

25. An analysis of the amounts shown for 'other non-tax revenues' in 1958-59, in comparison with the corresponding amounts for the two previous fiscal years, is:

—	1956-57	1957-58	1958-59
	$	$	$
Privileges, licences and permits	18,003,000	19,307,000	27,883,000
Proceeds from sales	28,852,000	22,321,000	23,521,000
Services and service fees	21,985,000	22,556,000	27,195,000
Refunds of previous years' expenditure	27,775,000	28,083,000	37,663,000
Miscellaneous	9,565,000	11,409,000	12,337,000
	106,180,000	103,676,000	128,599,000

Mr. Henderson: It has been the practice in the report to give a quick run-down of the facts and figures that we are dealing with, so as to provide a proper background against which the observations can be made. I would direct attention, Mr. Chairman, to the comment at the end of these paragraph listings, where I say that I believe that inclusion in the report of financial information of this type is essential to a proper understanding of the accounts. It would be rather helpful to us if the committee had any views as to this type of presentation, so that we might be moved accordingly in the preparation of the reports. For example, it occurred to me that we might have perhaps two or three appendices at the back of the report, to which reference could be made. For example, we might put in the statement of expenditure and revenue and the statement of assets and liabilities of Canada, because in these long form reports that I speak of we, perhaps generally speaking, put in the balance sheet and the statement on the operation of the corporation, so we could make ready reference, and it is all to hand in one piece. You do not have

to look somewhere else for the basic statement. In our experience in Canada we do have the statement of expenditure and revenue for the whole country and we do have a statement of the assets and liabilities. They are, however, in the big public accounts book along with the minister's own report. So that this document, you see, would then stand on its own feet. That is the point.

Mr. BROOME: Mr. Chairman, in regard to the expenditures, I was wondering whether the Auditor General in his spot checks could give any indication as to the speeding up of spending in last month or six weeks of the financial year in order that a department may use up the appropriations which were unexpended as of that time? In other words from your checks have you found that departments go on a spending spree towards the end of the financial year?

Mr. HENDERSON: My actual experience in departments is limited to the crown corporations.

Mr. BROOME: Can you tell from the checks made by the people of these departments?

Mr. STEVENSON: I think we have the impression that there is a tendency in that direction. I think it is only natural that there would be, but this is not something we are able to check in the audit, nor have we considered that it is something that we ought to report upon.

Mr. BROOME: Do you not consider perhaps that a request for an appropriation in the estimates should be sometimes reviewed perhaps a little more rigorously than at other times? There could be the opportunity for the wasting of public funds in the rush of a department head, or a section head, to live up to the limit of his appropriation so that it would not be cut down next year?

Mr. STEVENSON: This is one reason, sir, why in the past it has not been the practice in the Auditor General's report to comment upon or summerize the appropriations, expenditures and lapsed balances. We have thought that, by drawing attention to that situation in the audit report, this might encourage the departments to go out and spend more at the end of the year in order to reduce the amount of their lapsed balances. In the United Kingdom this information is given, and in certain of the provincial governments it is given. I think, if I might suggest it, it would be of interest to us to know whether the committee would feel that the Auditor General's report could helpfully comment upon the instances in which large balances have lapsed at the end of a year. However, this is the reason why we have not in the past included information of this sort in the audit report.

Mr. BROOME: If you have not included it in your report because of the fact that it would aggravate a situation of which you are already conscious, that would leave me to think that perhaps this situation is a lot more serious than you think. I know of one particular expenditure that was made in a hurry at the end of the year and the item purchased is still sitting in its packing case now, a year later, you see.

Mr. STEVENSON: Sir, I think a case such as that which you have mentioned we would regard as definitely being of audit concern, where equipment was obtained and then was sitting around and not being used; but in the ordinary way we do not take note of this. We realize that, human nature being what it is, there is a tendency in this regard, but we are not able to check on it. We have not in the past been able to check on it and come to a conclusion as to what the extent might be, unless we ran into a situation such as that to which you referred.

Mr. BROOME: Would it not be a fair summarization to say that the spending department should be just as careful of the taxpayer's dollar in the eleventh month of the year as it is in the third or fourth month of the year? It should be part of the Auditor General's job to check on that condition.

Mr. HENDERSON: Mr. Broome, if I could just add to what Mr. Stevenson says, one of the surest ways of finding out if that practice is being followed is through the medium of having effective internal monthly statements such as you find in a well-run business.

Mr. BROOME: But we do not have that?

Mr. HENDERSON: We do in the case of some of the crown corporations. I am not too familiar with the departments, but I would just like to say that an inquiry will be made by us under the heading of the system of internal control as to whether or not they do in fact have this within the organization; and if they do not we will recommend and find out what is involved in obtaining it so that the chief executive of the agency, be it a government department or a crown corporation, has this report laid on his desk every month. We will also see this. If the level of the expenditures in the last month causes us to detect this type of thing going on then, of course, we would do something about it. That is one sure way of finding out whether it is happening. I do not believe it has been too prevalent a practice.

Mr. BROOME: Is it prevalent in any department of government excepting crown corporations?

Mr. STEVENSON: I have no department particularly in mind.

Mr. BROOME: You know of no department where they do have this month by month summarization of expenditures against appropriations?

Mr. STEVENSON: I am sorry, sir. On that point, of course, the treasury officer in each department provides the department with a statement at the end of each month showing the status of its appropriations at the end of the month. That statement is issued within a few days after the close of the month.

Mr. BROOME: The total for the whole department is shown against the total amount of money they have for the year, for each month?

Mr. STEVENSON: For each of their appropriations.

Mr. CHOWN: Two points have arisen out of the evidence that we have received to date on this matter.

Mr. Henderson was asking if he could usefully take out, for example, a summary of the expenditures and revenues this is the way I interpreted what he said, and make an appendix in his report, is that correct? I think this would be a useful thing subject to the wishes of the rest of the committee members, because it would condense the report and give us the meat, as most reports should. It would also give us easy reference to the appendix or series of appendices as part of the whole.

The second point that arose, and again speaking subject to the wishes of the committee members, I think if this system of having monthly reports is going to be instigated, as suggested by the Auditor General, then I can see no harm in making this a part of your report, perhaps as an appendix, particularly if you are going to do it anyway. This would summarize all the monthly expenditures and that part of the appropriations that are not expended at the end of each year, as is done, as you have said, in the United Kingdom.

Mr. HENDERSON: We can take that into consideration. I see the merits of that suggestion, and it is feasible.

Mr. MORTON: In respect to the unspent balances, which are referred to here, is it true to say they consist of two types of items; first, those items that had been budgeted and appropriated for, and for which no action has been taken to fulfil the purpose for which the money was spent—that is, equipment to be purchased, and some decision made not to purchase the equipment.

Secondly, it would consist of that group of expenditures that have been authorized; orders have been given for certain equipment, but not fulfilled, and the money is not required or, perhaps, for a building that has been authorized and has not been completed in time for payment.

Is there an analysis of those figures?

Mr. STEVENSON: No, there is no breakdown of that sort. However, there are those two classes of items.

The CHAIRMAN: I have a question which follows right on yours, Mr. Morton.

What were the principal lapsed balances included in the $424 million total of unspent balances referred to in paragraph 8?

Mr. STEVENSON: There is a summarized statement of appropriations, expenditures and lapsed balances given in the public accounts, of course.

I mentioned that we did not comment on this information in the Auditor General's report. However, there is a statement by departments, giving the departmental totals. It is to be found at page 2 of Part II of the public accounts.

Mr. MACDONNELL: Did I understand Mr. Stevenson to say that it is a natural tendency for them to want to see the money spent?

I remember, several years ago, I was in Georgian Bay, and I was informed of some dredging that was done there, which was not necessary; they did it because there was money left. If I had not been in the army, I would not believe anything like that would happen. Certainly in the army, there was an irresponsible way of spending money.

Where does the treasury come in? Is there a representative of the treasury in the various departments?

Mr. STEVENSON: Yes.

Mr. MACDONNELL: How close would he be to that kind of thing? If his eyes and ears were open, would he not know about that?

Mr. STEVENSON: He would be closer than we would to this situation.

Mr. MACDONNELL: It would be assiduous to try to find out.

Mr. STEVENSON: I do not think he would regard it as his responsibility; it would be the responsibility of the administrative officers of the department.

Mr. MACDONNELL: But is he only there to add up figures? I thought he would be there as a watch dog, to see that the money was properly spent.

Mr. HENDERSON: I have no doubt he has some regard for that, but he operates according to a treasury manual of instruction. I think Mr. Balls, the comptroller of the treasury, should be here to explain that feature. However, I have no doubt that if he sees an upsurge of expenditures, he draws it to the attention of the department, and Mr. Balls.

Mr. MACDONNELL: Mr. Chairman, I do not want to take up the time unnecessarily. However, I do remember that particular case. While it did not impress me at the moment, it does now, when I hear this kind of thing commented on, and the suggestion made that as long as it is not your own money that you are spending, the desire of spending it is very strong in all of us.

Mr. BROOME: Is it not true, Mr. Chairman, with a treasury official, that he does not know the details of the job, and whether it is necessary or not; his job is to see the money is expended in accordance with the money which has been voted by Parliament under the various appropriations—and as long as these figures jibe, that is the end of his job. There could be $1 million wasted. Say parliament has voted that amount, at the request of the department; they spend it, and there could be $1 million wasted.

Is not that true, in regard to the operations of the Auditor General—that you see they spend according to the terms under which they should spend it; but whether it should have been spent or not, you are not too much concerned about that?

Mr. HENDERSON: It is not my responsibility to question policy.

Mr. BROOME: Or administration.

Mr. HENDERSON: Or administration—unless I feel it is inefficient or wasting money, or that they are going the wrong way around it, or the most costly way.

Mr. BROOME: How can you get in behind the scenes, to do some of your own policing, of which the committee is concerned?

Mr. STEVENSON: One way would be in our examination of stores.

Mr. BROOME: Turnover of stores and inventory, and that sort of thing?

Mr. STEVENSON: Yes—where we might observe the supply of a certain class of stores item was excessive. Then, of course, this would reflect over-purchasing at an earlier date. I think it is a difficult thing for the auditor, at the time of the purchase, to reach any conclusion as to whether that purchase should or should not be made; I think that is within the purview of the administrative officer, and within his control.

Mr. BROOME: Yet, we could talk to the point that that administrative officer wants so much money to run his department, and he does not want his budget cut for the next year; therefore, there is that tendency to get rid of all he has, so he will not get cut. The same applies to staff. They do not want to get rid of staff, because they may need them. It is difficult to increase staff, but no one is after you to reduce it.

Mr. HENDERSON: But the officials of the treasury board, when the estimates are being readied to be brought before treasury board, do go over the submissions in quite a bit of detail, and they require a comparison of the opposed spending, not with the proposed spending of the budget last year, but with what they actually spent.

Mr. BROOME: That is the key.

Mr. HENDERSON: Well, that is a proper comparison, and I think you will agree.

Mr. MACDONNELL: Unless there was an improper expenditure, for the reason Mr. Broome mentioned.

Mr. HENDERSON: I do not know in what depth they look these estimates over, but I do not think it would do any harm to give them a thorough going over.

Mr. MORTON: If I may make a further comment in respect to the unexpended portion, I would gather that each department would take a certain pattern year after year, because their operations are somewhat the same, and by comparing the percentage of the unspent balance from time to time, it would give you some idea; and if there was a greater percentage left at some time, one might be suspicious and look twice.

I speak of this, having seen the operations, of course, on a much smaller scale, in the Toronto board of education. We used to watch these balances, and if there were any outstanding balances that seemed larger than normal, we used to find out further details about them. I realize this is on a much larger scale, but I imagine each department would have a certain pattern of expenditure throughout the year, and you could compare, month to month, the expenditure balances as they arose. They might find something out of line which would raise your suspicions.

Mr. STEVENSON: I am afraid, Mr. Morton, that the unexpended balances at the end of successive years vary widely.

You will notice the comment at the bottom of page 2 of the memorandum. Reference is made to the unspent balance at the end of 1958-59, totalling $424 million, whereas in 1957-58—at the end of that year—the unspent balance totalled only $92 million.

Mr. MCGEE: Perhaps it might bring us closer to what we would like to reach, if we had a look at the unspent portion of the Auditor General's office.

Mr. BROOME: And use it as an example.

Mr. CHOWN: Is it so unpredictable? I notice that the amount mentioned is $42,109. The layman's question, in my mind, that arises, is this. In looking at page 2, for the year ended March 31, 1959, we have $394,874,710 in lapsed unexpended balance, and the question which comes to my mind is whether or not our deficit position by the end of the year would have been increased by that amount of money, had it been spent.

Mr. HENDERSON: It certainly would have been increased.

Mr. CHOWN: Then, of course, the question of how you even put together a budget comes to mind, when you have such tremendous variations in the amount appropriated and the amount that is lapsed. I do not know how it can be a predictable thing at all.

Mr. BELL (*Carleton*): Are we not taking the Auditor General out of his field, in asking him how a budget is put together? We are getting on to the administrative side rather than the audit side.

Mr. HENDERSON: The only observation I can make is that when the budget is put together, all due regard has to be had to the actual results of the preceding years, in order to keep the figures as realistic as possible.

Mr. CHOWN: Could you go on, Mr. Stevenson, to answer Mr. McGee's question now that I have taken up sufficient time for you to find the answer?

Mr. STEVENSON: In regard to the Auditor General's office, 1958-59, on page C-2 of the public accounts.

Mr. HENDERSON: We did not spend $42,000.

Mr. STEVENSON: There was available for expenditure in that year $848,790 out of an appropriation for salaries and expenses of the office, and of that amount we spent $806,681, so we underspent approximately $42,000.

Now, in our case this was because throughout the year we were not able to maintain our establishment at the full approved total.

Mr. BROOME: What was it?

Mr. STEVENSON: In that year it was 139.

Mr. HENDERSON: There was an average of 136 throughout the year, and we ran at 132 out of an establishment of 142 at the end of 1959-60.

The CHAIRMAN: Why were you not able to maintain it?

Mr. HENDERSON: As I understand it the civil service commission were unable to locate the necessary staff for us. We have to look to them to find our accountants.

The CHAIRMAN: You mean you are not able to recruit your own staff?

Mr. HENDERSON: No sir.

Mr. MCGEE: Was this a continuing condition, or does it fluctuate?

Mr. STEVENSON: It fluctuates from time to time throughout the year. In 1959-60, the average, as Mr. Henderson has said, was 136, and it varied from a high of 139 down to a low of 132 at the end of the year.

Mr. CHOWN: Would this fluctuation turn on staff who had been with you for a long time, or on staff you had recruited very recently? I mean that you are having some difficulty in recruiting?

Mr. STEVENSON: Yes.

Mr. CHOWN: Is it because of retirement among your older personnel?

Mr. STEVENSON: During the past year there were separations totalling ten in number; several of these were retirements and several were resignations of staff to take other positions, and we were not able to recruit new staff through competitions held by the civil service commission sufficient to maintain our establishment.

Mr. CHOWN: Do you feel that your auditors are adequately paid?

Mr. STEVENSON: We recruit normally at what we call the auditor one level. This would be for a young man with a bachelor of commerce degree, or alternatively a high school graduate with three years experience in a professional account's office. These are our two basic requirements. For the auditor one grade, the salary scale runs from $4,200 to $4,800, and the start is at $4,200. This makes it very difficult, because we learned just recently that a bachelor of commerce graduate in Ottawa may receive $5,000.

The CHAIRMAN: When you say "we" it is not "we" at all, it is the civil service?

Mr. STEVENSON: I was referring to our particular grade, but this would apply to other grades.

The CHAIRMAN: Who hands you the staff? Do you recruit your own staff?

Mr. STEVENSON: No. The civil service commission recruits it for us.

The CHAIRMAN: Are they necessarily competent to interview professional people and to determine their qualifications for your specialized job?

Mr. STEVENSON: Competitions are held by the civil service commission, and these are advertised throughout the country. Candidates are examined by a review board of the civil service commission. The board consists of a chairman, who is a representative of the staff of the civil service commission, a second member who is a technical officer selected from some other department, and a third member who, in our case, would be a member of our own staff.

Mr. CHOWN: I have one question more before Mr. McGee. Is this auditor one classification which you mentioned unique to your department, or is it one which is applicable across the entire service?

Mr. STEVENSON: It is a combination of the two, sir; there are two other departments having grades similar to ours, in auditor one, auditor two, and auditor three grades.

In the treasury office there are corresponding grades for treasury auditor one, two, and three; and also in the taxation division there are assessors one, assessors two, and assessors three grades, and these are all the same.

Mr. CHOWN: The pay is the same, but the name is different?

Mr. STEVENSON: That is right.

Mr. CHOWN: Arising out of this evidence I would go on to say that it is my opinion that it is of paramount importance that the personnel in your department should be adequately paid, and should receive sufficient to attract first class chaps, such as the men that I see around you today—to attract them to this particular department because of the unique and very responsible job they have to do. And it is important for us to know this, because if there is the feeling that there is an inadequate initial offering of salary, then perhaps it is our responsibility to see that the situation is corrected. I think it is correctable by reason of the fact that while what you call the appropriate

opposite member in treasury and taxation, is of another name, or of another classification of position, yet they are able in those departments to recruit staff more readily than you.

Mr. STEVENSON: I do not know the situation in those departments, but I have the impression that they have their difficulties also.

Mr. BELL (*Carleton*): They do.

Mr. MCGEE: Is there a subtle difference between your office and a functional department? Do you have a minister going to bat for you in the way that government departments do?

Mr. STEVENSON: No.

Mr. MCGEE: Or are you dependent on recommendations of this committee?

Mr. HENDERSON: I do not think so. We do not have a minister of our own, but we report directly to parliament, and this committee is the instrument. That is correct.

Mr. CHOWN: Would you be prepared, following up this discussion, to make a recommendation with regard to salary scales?

Mr. HENDERSON: I intend to do so, but I have not as yet had a meeting myself with the civil service commission, because I have not got all my facts. I have not concluded my examination of the scope, and until I have the facts ready, I have just withheld making a recommendation.

Mr. CHOWN: But a recommendation along this line from this committee would be useful?

Mr. HENDERSON: Extremely so.

Mr. BELL (*Carleton*): Surely the committee will have to have collected a lot more facts before it can make a recommendation. I realize that the Auditor General will fight for his staff, because he looks like the type of man to do that; but I would not be prepared to go out on a question of salary unless the whole scope was laid before me. I want to see that they get the best salaries so that they may recruit the very best men, but let us not on that basis of just casual evidence decide to make a recommendation as to what the salaries scales, levels, and classifications should be.

Mr. CHOWN: I was not going to go that far. I was saying that from the evidence before us this is a unique department without a minister to report to, and I was only suggesting a recommendation that they might be reviewed.

Mr. BELL (*Carleton*): We know they are under the regulations of the civil service commission now.

Mr. HENDERSON: We have not made a case to them as yet, and we have withheld doing so until we have all the facts.

The CHAIRMAN: May I ask a question: in fact, the audit office is independent of other departments, and it reports to Parliament?

Mr. HENDERSON: That is correct.

The CHAIRMAN: You are directly under Parliament.

Mr. HENDERSON: I am an officer of Parliament.

The CHAIRMAN: But while in fact you are an Officer of Parliament, yet your staff is recruited by the civil service commission?

Mr. HENDERSON: That is correct.

The CHAIRMAN: If that is correct, do you not think it is time perhaps that you should recruit your own staff? How can you be independent and act for and on behalf of Parliament when at the same time all your people are selected by the civil service commission?

Mr. HENDERSON: Well, that is the situation as I find it, and I believe it has obtained for a great many years.

Following up what Mr. Bell said, our salary scales at all times must conform to the governing pattern, and we cannot get the type of people that our contemporaries hire. I would like to see an arrangement whereby I might be free to recruit my own staff, giving an undertaking to stay within a set of rates or an establishment which would conform to the proper pattern, because we cannot have competition between departments, whether it be in respect of accountants or others. I think our rates at some of the lower levels are not too bad, but in some of the higher levels I believe they need some overhaul. It should be a matter of overall government policy, but in the matter of getting the best people and being free to act in this regard I think this would be of assistance to us.

There is a great demand today, particularly for the young accountants. I tried my hand at Carleton university and at some of the other universities, although I knew perhaps the civil service commission should be doing it and probably did. I found, however, that other people had got in there ahead of us.

Mr. MCGEE: It is my understanding that a young student, say a high school graduate, goes into a chartered accountant's office for a period of years during which he writes certain examinations stage by stage in conjunction with his work. I believe the term applied to this is articling.

Mr. HENDERSON: That is right.

Mr. MCGEE: I would like to ask you if it is possible for such a young man to embark on such a career within the framework of the government in an articling capacity in much the same way as he would be able to do it in a firm. I am wondering if we are losing at an early stage an opportunity to recruit able accountants.

Mr. HENDERSON: I am speaking now in a dual role because I happen to be on the council of the institute of chartered accountants in Quebec. In answer to your question, however, I should tell you that the office of the Auditor General never has been recognized as an accredited training ground for experience for the C.A. degree. The offices of the chartered accountants are examined by the institute to see whether or not they provide the proper background for experience. Mr. Sellar has told me on several occasions that he greatly hoped the day would come when this office would be recognized. Also in my opinion it should be. I am prepared to shoot my ammunition ahead of the game by saying I am very hopeful that within a year or two I will be in a position to make representations to the Canadian institute to that effect, and in the event it should be recognized it would be of tremendous help to us in attracting people to work with us and also work toward the degree. They have to have no less than three years practical experience.

Mr. CHOWN: Is this practicable in any province, to your knowledge, under the provincial institute?

Mr. HENDERSON: No; they do not recognize the provincial auditor or the federal Auditor General. In the United States the comptroller general has had the same problem but has fought a notable battle and won recognition in something like eighteen of the states. Having achieved that, he has been able to offer terms of experience equivalent to private firms.

Mr. CHOWN: Do you know if this is possible provincially, in so far as the legal profession is concerned.

Mr. HENDERSON: I am not too familiar with that.

Mr. CHOWN: I am making it as a statement of fact. It is possible. That is just another plank in your argument with the institute.

Mr. HENDERSON: When the time is ripe I intend to make a pitch.

Mr. McGEE: Further in the area of education, I believe there is a public administration faculty at Carleton university and also perhaps at Ottawa university. In other departments of government there are means provided whereby persons employed in a particular capacity might participate in furthering their qualifications possibly for senior positions. I am wondering if you have a comment in respect of participation within your department.

Mr. STEVENSON: We encourage new recruits to our office to continue their studies at Carleton university or Ottawa university in courses such as you mention. If the man we are taking in has a B.A., perhaps having specialized in economics, we would suggest that he take an evening course in accounting. On the other hand, if a young man comes in with a commerce degree we might suggest that he consider taking a course in public administration or administrative law or something of that sort.

Mr. McGEE: This is excellent.

Mr. BELL (*Carleton*): Before we refer to paragraph 8 on which we started, I would like to make this suggestion. In much of the examination we have had in the last three-quarters of an hour there has been some confusion as to the respective roles of the treasury board, the comptroller of the treasury and the Auditor General. I think it might be useful for the committee if they had a considered statement given by the Auditor General, perhaps at our next meeting, on the respective roles of the three groups I have mentioned in the control of expenditure and in the examination thereof. There have been quite a number of matters raised here which I think very specifically are matters which relate to the Comptroller of the Treasury rather than the Auditor General. I think if we had a considered statement on record it would be useful in our examination this year and in subsequent years.

The CHAIRMAN: Would you like to have a witness?

Mr. BELL (*Carleton*): I think the Auditor General might well prepare that.

Mr. MACDONNELL: Is the status of the financial representative of the treasury so clear that nothing further needs to be said about that, or might something be said about it? It may be his status is so clearly outlined that nothing further need be said. I do not like to think that he is the man whose job is purely to see that the documents are in order.

Mr. HENDERSON: I do not think so. His men handle the cash in the departments and make the disbursements on the approval of the executive officers. At the same time the comptroller of the treasury has a very important branch which is carrying out the function of the internal auditing, particularly of contracts. The program of work he follows, as I have mentioned in this memorandum, is of particular importance to us because the extent to which he covers work and how he covers it enables us to dovetail our test checks.

Mr. MACDONNELL: If you are satisfied, I am sure I am satisfied.

Mr. BELL (*Carleton*): Can we go back to a paragraph by paragraph examination?

The CHAIRMAN: Yes, unless you wish to take them in groups.

Mr. BELL (*Carleton*): We might take the whole group up to 25.

The CHAIRMAN: We are at paragraph 10. This refers to special warrants. Some years ago it was a hot issue.

Mr. MORTON: I think we went through that successfully in the past.

Mr. STEVENSON: Might I say that the reason for including paragraph 10 in the report is simply that it is laid down in section 70 of the Financial Administration Act that the Auditor General draw to the attention of parliament any case where a special warrant has been issued during the year. It is in order to meet that requirement that this paragraph is included.

The CHAIRMAN: Gentlemen, may we take paragraphs 11 to 25 inclusive as a group? If you will refer to page 3 of the memorandum we have reference to paragraphs 26 to 45 and there is the following observation:

> As noted above, these paragraphs contain audit observations on expenditure and revenue transactions.

We will now take paragraph 26.

> 26. *Repairs to privately-owned wharf.* In 1955 an inspection made by the Department of Public Works of a wharf at Morinus, Ontario, indicated that necessary repairs would cost approximately $3,600. After considering representations from various interested parties, the department reached the conclusion that the expenditure would not be warranted because of the absence of a commercial need for the wharf. The structure, along with the two water lots and the land lot on which it stood, was there-upon reported as surplus under the Surplus Crown Assets Act, and sold by Crown Assets Disposal Corporation. During 1957 the department received several requests that the wharf be put into a reasonable state of repair and it was decided to do this (on the understanding, however, that no responsibility would be assumed for future maintenance). An item of $3,600 for 'Morinus—Wharf repairs' was included in Vote 350 and the amount thus provided was subsequently increased to $8,000 by a transfer from another item listed in the details of the vote. Actual expenditure during the 1958-59 fiscal year amounted to $2,823, with the remainder of the work being completed in 1959-60 at a cost of approximately $2,400. The appropriations for 'acquisition, construction and improvements of harbour and river works' are ordinarily regarded as providing for expenditure only with respect to works owned or to be acquired by Her Majesty in right of Canada. The use of one of these appropriations to meet the cost of repairs to property to which the crown had surrendered title invites comment.

The CHAIRMAN: In the memorandum the observation in respect of paragraph 26 is as follows:

> Repairs costing $2,823 in 1958-1959 and approximately $2,400 in 1959-1960, were made to a privately-owned wharf, with the cost charged to an appropriation for "acquisition, construction and improvements of harbour and river works".

I have a question on this. For how much and to whom was the property sold in 1955?

Mr. STEVENSON: I think it was an amount of about $250.

Mr. HENDERSON: Crown Assets Disposal Corporation sold the property for $250.

The CHAIRMAN: Had a commercial need for the wharf developed between 1955, when it was decided to sell the property, and in 1957, when it was decided to do the repair work?

Mr. STEVENSON: The department having decided it would assume no responsibility for future maintenance, a reasonable inference might be that there still was no commercial need for the wharf. So far as we know this was the case.

Mr. HENDERSON: Mr. Chairman, in respect of your inquiry as to the name of the purchaser in 1955, we do not have this here. It raises a question as to the inclusion and release of such names. Apparently the Auditor General never has set forth the names of the persons or contracting firms in his annual report. If that information is required then it would have to be obtained from the department.

The CHAIRMAN: With their consent?

Mr. MORTON: Surely not.

Mr. MCGEE: If that is so, how did we obtain the names of the furniture mover last year?

Mr. BELL (*Carleton*): I think the practice is not to include the name in the report, but when the committee asks for it it is furnished.

Mr. HENDERSON: Yes.

Mr. MCGEE: Where is Morinus?

Mr. MACDONNELL: Up in Muskoka.

Mr. STEVENSON: On lake Rosseau.

Mr. BROOME: Mr. Macdonnell said he was satisfied with the answer given by the Auditor General that everything was in safe hands because of the activity of the treasury officials. Where would the treasury officer come in on this if there is this continuing close check going on all the time?

Mr. HENDERSON: I think Mr. Smith might make a short statement.

Mr. D. A. SMITH (*Audit Supervisor, office of the Auditor General*): I am sorry, gentlemen, but we do not have the information available as to the reason why this particular account was passed without question by the treasury office.

Mr. BELL (*Carleton*): Perhaps we might have a brief statement on this at the next meeting and reserve this paragraph until later.

The CHAIRMAN: Paragraph 26 will stand.

We will take paragraph 27.

> 27. Additional building costs due to nature of site selected. A payment of $49,085 was made during the year, as a charge to the appropriation for 'Newfoundland—acquisition, construction and improvements of public buildings' (Vote 329), to a contractor who had constructed a public building at Bonavista in 1953 at a cost of $258,573. Included in the additional payment were amounts totalling $41,058 in settlement of claims by the contractor for extra costs incurred when the excavation for the basement of the building revealed that it was located in an impermeable depression, and the water table was half the height of the proposed basement. This condition necessitated the construction of a major drainage system and obliged the contractor to maintain continuous pumping operations during a period of about a year, with the result that completion of the work was delayed by six months. Departmental records do not indicate that the examination of the site, prior to its selection, was as thorough as is customarily the case. It is the financial consequence of the selection that is of concern, rather than the question of the propriety of the additional payment to the contractor.

The CHAIRMAN: What is meant by the statement that the departmental records do not indicate that the examination of the site prior to its selection was as thorough as is customarily the case?

Mr. STEVENSON: The procedure which customarily is followed by the department before acquiring a site for a new building is to have a field office official inspect and report on all available sites which might be suitable in the city or town in which the building is going to be constructed. Ordinarily the soil conditions would be known to the inspecting officer who would be resident in that area, but where he considered it advisable he would arrange for test borings to be made. The relative merits of the several sites, as reported by the

inspecting official, would then be considered before the selection finally would be made at headquarters. This was not done in this case. That is what is meant by the comment in this paragraph.

Mr. BELL (*Carleton*): Do you suppose Mr. Pickersgill did any test borings on this?

The CHAIRMAN: In the absence of the expert I would not hazard a guess. That is without prejudice.

Paragraph 28.

> 28. *Temporary heating facilities.* An instance was observed where, with different planning, emergency expenditures might have been avoided. In September 1956 a contract was awarded by the Department of Public Works for the construction of an addition to the agriculture science service laboratory in Ottawa, expected to be ready for occupancy around 1 November 1958. The plans did not provide for the installation of a heating plant, it having been decided that the most economical way to heat the building addition would be from a central plant designed to service various government buildings in the area and expected to be in operation by 1 October 1958. When the building addition was nearing completion in mid-1958, the construction of the central heating plant was approximately a year behind schedule and not expected to be in operation until late in 1959, mainly because of delays which had occurred in the preparation of plans and specifications. A contract was entered into for the provision of temporary heating facilities in the building addition for a twelve month period commencing November 1958 at a rate of $4,440 per month (exclusive of fuel cost) and $22,200 was charged to the appropriation for 'maintenance and operation of public buildings' (Vote 342).

The CHAIRMAN: I have one question. Did the contract for the central heating plant include a penalty clause under which a penalty would be payable by the contractor in the event the work was not completed by a specified date.

Mr. STEVENSON: No. It did not include that clause, which is the usual one; but it did include a clause providing that in case the contractor made default or delay in commencing, or in diligently executing, any of the work, the department could take all the work out of the contractor's hands and could employ such means as it might see fit to complete the work with the contractor then being responsible for the loss.

Mr. BROOME: I would like to ask a general question along these same lines. There are many contracts which have been let on the basis that one of the conditions be that the contract shall be performed during winter months. These contracts are contracts let by the Department of Public Works. The reputable contractor includes the extra cost which he will incur because of winter work operation. Other contractors may not do so and they will have a lower price. Is there any check made by the Auditor General's department of the contracts which are let for winter work and which are not proceeded with to any considerable extent whatever during the winter months? In other words, the contract is taken as a winter work project but actually is completed in the spring and summer.

Mr. D. A. SMITH: I cannot recall any case.

Mr. BROOME: Do you want me to give you the names of half a dozen contracts that have been worked that way?

Mr. D. A. SMITH: Would these be contracts which have been placed by the Department of Public Works?

Mr. BROOME: On the basis of a winter works program, yes. A contractor is required to do that work in the winter. I was wondering whether some check might be made—you could easily tell by the completion date of the contract—in regard to those contracts which were let for winter works.

I was wondering if it might be possible to have a rough check made on contracts in the last year which included that clause, to see whether they were completed in the winter.

Mr. HENDERSON: I think that is something we should bear in mind, Mr. Broome, and see if we can bring some of these cases up. I do not know that in the normal course of doing the auditing work one would necessarily watch for that feature.

Mr. BROOME: No, you would not.

Mr. HENDERSON: But in view of what you say, we will take note of it and embody it in our program.

Mr. BROOME: I would like some checks made on that, because I know of some contracts taken on that basis that were not proceeded with in the winter.

Mr. MACDONNELL: In such a case, would it be some kind of an escalator clause, if that is the right word to use, because the cost of the work would be very different if it were done in the winter?

Mr. BROOME: That is the point I am making, that the contractor who intends to proceed in the winter must include means for heating in his cost, artificial means of thawing the ground, and so on. The man who takes the contract and has no intention of completing the contract is evading the purpose of the contract, and he also has an unfair advantage over his competition.

Mr. MACDONNELL: I understand your point. I was just wondering whether, in fact, an attempt had been made in the letting of contracts to legislate, so to speak, for that point; and, if not, whether it could not be done.

Mr. BROOME: I think the deputy minister of public works could give you information on that.

Mr. CHOWN: It would also increase his profit handsomely.

Mr. BROOME: Oh, yes.

The CHAIRMAN: May I interrupt a moment, gentlemen. I have a pressing engagement. That is subject to all sorts of interpretations.

Mr. BROOME: You will be back in five minutes, eh?

The CHAIRMAN: I was going to ask your permission, gentlemen, to have Mr. Morton take over the balance of the meeting.

Agreed.

(Mr. Morton assumed the chair).

The ACTING CHAIRMAN: We are still on paragraph 28. Are there any further observations? Carried?

Mr. BROOME: It is not only the Department of Public Works, but Transport—the two departments.

Mr. HENDERSON: Yes, indeed.

The ACTING CHAIRMAN: Carried?

Agreed.

The ACTING CHAIRMAN: Paragraph 29, Unused plans for building extension. Are there any comments?

> 29. *Unused plans for building extension.* In the latter part of 1958 the Department of Transport planned an extension to a terminal building, which was then nearing completion at the Ottawa Airport. The

Department requested the architects who had designed the terminal building to prepare plans for the desired extension and, in due course, plans were produced. The contractor who had erected the terminal building was invited to make an offer to construct the extension as an extra to the main contract. When Executive approval for acceptance of the contractor's offer was sought, the Department's proposal was declined on the grounds that the Department of Public Works has the responsibility for providing departments with office accommodation in Ottawa (the extension was expected to be used for administrative space for several years). Subsequently an $18,608 account presented to the Department of Transport by the architects was paid, and charged to the Appropriation for 'Airways and Airports—Construction or Acquisition of Buildings, Works, Land and Equipment...' (Vote 462). Funds for the construction of an extension to the terminal building have not been provided in the 1959-60 appropriations for the Department of Public Works, and whether use will eventually be made of the plans produced at the instance of the Department of Transport is a matter of conjecture.

Mr. BELL (*Carleton*): I suppose it would be normal to pay such an account. the only comment would be whether the account should not really have been incurred.

Mr. HENDERSON: That is right.

Mr. BELL (*Carleton*): Once the architects had done the work, they were entitled to be paid.

Mr. STEVENSON: Indeed, yes, sir.

Mr. CHOWN: It is also notable that it is not included in this year's appropriation.

Mr. STEVENSON: Nor is it included in the 1960-61 estimates.

Mr. CHOWN: There you are left up in the air as to whether it will ever come into existence at all.

Mr. STEVENSON: That is so, sir.

The ACTING CHAIRMAN: Is there anything further in that paragraph?

Agreed.

The ACTING CHAIRMAN: Paragraph 30, structural changes and repairs to vessel.

30. *Structural changes and repairs to vessel.* In December 1958 a shipbuilding firm was asked by the Department of Transport to tender on a contract for structural changes and repairs to the C.G.S. *Safeguarder,* but other tenders were not invited by public advertisement as is generally required under section 36 of the Public Works Act. The work was largely concerned with the removal of wooden deckhouses and their replacement with others of steel construction. A departmental memorandum noted that "this vessel is due to return to commission early in April and it is of the utmost importance that this work be started without delay in order that the contract will be completed before that time". In justification for not inviting tenders by public advertisement, the Department advised the Treasury Board, when seeking its approval of the contract, that "the work is considered of pressing emergency in which delay would be injurious to the public interest". The amount of the contract thereupon approved was for $198,870 (the probable cost had been estimated by the Department at $150,000). The nature of the structural changes and repairs was such that, in normal

circumstances, the decision to proceed with the work could have been taken earlier, in which case there would have been sufficient time to have invited tenders by public advertisement in the ordinary way, and still have had the vessel returned to commission by the beginning of the 1959 navigation season. However, the Department has advised that the decision to proceed was taken as part of certain autumn decisions with regard to winter employment.

Mr. CHOWN: Is that in contravention of a specific, printed government regulation which directs that all such projects should be undertaken only after there has been a call for public tenders?

Mr. STEVENSON: It is section 36 of the Public Works Act, which—

Mr. CHOWN: Oh, yes; I see.

Mr. BELL (*Carleton*): To what firm was this contract let?

Mr. STEVENSON: Marine Industries Limited.

The ACTING CHAIRMAN: Is there anything further? Carried?

Agreed.

The ACTING CHAIRMAN: Paragraph 31, catering contracts.

31. *Catering contracts.* Contracts are entered into by the Department of Defence Production with catering firms for the provision of managerial, cooking and serving staff at some defence establishments, with the Department of National Defence supplying equipment and food. Prospective contractors were invited to tender for the required services, on the basis of a daily per capita rate for a stated number of personnel expected to be served, but with alternative rates to apply should the actual number be lower or greater than that forecast. Ordinarily, as would be expected, tenders were submitted and contracts awarded on a basis whereby the per capita rate gradually increased as the daily messing strength decreased below the forecast level. However, a case was observed where sharply, rather than gradually increased per capita rates were quoted for daily messing strengths lower than had been forecast. This resulted in the anomalous situation where the contractor was paid $168,000 during the year for serving an average of 1,085 persons per day, whereas had he been required to serve 1,400—which had been the estimated daily messing strength on the basis of which the contract was awarded—he would have been entitled to receive only $143,000. It seems apparent that the contractor was in effect gambling that, after obtaining the contract on the basis of an unreasonably low bid at the forecast daily messing strength, the number to be served would prove to be considerably lower. In such circumstances, the benefits to be expected from calling for competitive bids may not materialize. The Department has advised that remedial action has been taken by adopting a new basis of contracting with catering firms.

Mr. HALES: Mr. Chairman, I should like some particulars on this. It appears that the Department of Defence Production asked the contractor to be prepared to serve 1,400 meals a day, and they only had 1,085. They underestimated the meals by about 315 per day. It seems pretty poor estimating.

Are there any particulars you could give, to enlighten us on that?

Mr. STEVENSON: It was anticipated that the strength would be 1,400, and it was at that level that the contract was let. However, associated with the contract was an understanding that if, in fact, the number of persons to be served fell below the 1,500, other rates would apply.

Naturally, the caterer would require a larger per capita allowance to serve a lesser number. But in the case of the successful contractor, the alternative rates, instead of increasing gradually, as was the case with the other three firms who made tenders, the per capita rates increased sharply as the numbers of persons to be served fell. In the case of the other catering contractors who submitted bids, the per capita rates increased only gradually, as would have been the normal expectation.

The situation was that the bids by the successful bidder increased from a rate of 27 cents per person for serving 1,500 persons, up to 46 cents per person for serving 1,000 persons. In other words, a very sharp increase—a spread of 70 per cent.

By comparison, the average of the bids for the three other bidders increased from a rate of 34 cents per person for serving 1,500, up to 39 cents for serving 1,000 persons—a spread of only 15 per cent.

In other words, the bidder who received the contract had a spread of 70 per cent, compared with an average spread for the others of only 15 per cent.

However, perhaps I should say that following our discussion with the department on the matter, they agreed that this was an illogical basis for letting catering contracts, and so they have now revised their method of awarding contracts of this sort. Essentially, they take into consideration the rates offered by the bidders at various levels, rather than pinpointing it at one particular level.

Mr. HALES: So it would appear that the Department of Defence Production picked out what they thought was the cheapest contract, but which turned out to be the much more expensive one. And, secondly, they overestimated their meals per day: they estimated 1,400, and there were 1,085—so they made a mistake in two parts there, which cost the government how much money?

Mr. STEVENSON: It is rather difficult to say exactly. It is pointed out here in the paragraph that this resulted in the anomalous situation where the contractor was paid $168,000 during the year for serving an average of 1,085 persons per day, whereas had he been required to serve the 1,400 which had been the anticipated personnel strength, he would have been entitled to have received only $143,000.

Mr. BROOME: Could they not have forced him to have put another 300 servings on the table, and then dumped them in the garbage and saved $25,000?

Mr. STEVENSON: They could have, in theory.

Mr. BROOME: Sure, they could have. This is rather stupid.

Mr. CHOWN: Is this a contract on a continuing basis? Can you tell us what the terms are?

Mr. STEVENSON: No, this was a contract for just one year. As I mentioned, this situation has been corrected by the department. The basis of awarding the contract has now been changed so as to take into consideration the per capita rates at various messing strengths.

Mr. HALES: We could be told, could we, the camp at which this was, and the caterer's name?

Mr. HENDERSON: H.M.C.S. *Cornwallis.*

The ACTING CHAIRMAN: Carried?

Agreed.

The ACTING CHAIRMAN: Paragraph 32, reimbursement to contractor for state tax.

> 32. *Reimbursement to contractor for state tax.* In April 1957 two 'price to be negotiated' contracts, estimated to involve a cost of about $12 million, were entered into by the Department of Defence Production with an aircraft manufacturing company in California. Each contract provided that title to materials and work in process would vest in the Government of Canada as and when progress payments were received by the contractor. Under the heading 'allowable cost' in each contract was a provision that the contractor would be reimbursed for any tax that "may be collected from or paid by it whether during or after the term of this agreement". In June 1958 the company notified the Department that a 4% California state tax applied on materials and work in process for which payments had been received. The company advised, however, that if the contracts were amended to provide for title to pass to the Government of Canada at the time of delivery for export, rather than upon the receipt of progress payments, the state tax would not be exigible subsequent to the date of the amendment—and the contracts were amended accordingly in August 1958. The contractor's claim in the amount of $187,200, for the tax previously applicable, was paid in the following month. Since liability for the tax could have been avoided had the original contracts carried the appropriate provision, the matter was discussed with the Department. It has advised that the contractor is preparing a special submission to the California State Board of Equalization with a view to obtaining a refund.

Mr. CHOWN: Is there anything to report on whether or not they have been successful with their submission to the California State Board of Equalization?

Mr. STEVENSON: We have no information as yet regarding the outcome of that submission. However, we understand that the State Tax Department has recently made a tax audit. This was in April, 1960. We understand, also, that this tax audit indicated that there might be a refund of tax of the order of approximately $30,000.

Mr. MACDONNELL (*Greenwood*): Are we satisfied that this case is being presented and pushed with the greatest possible ability and vigour?

Mr. STEVENSON: Yes.

Mr. MACDONNELL (*Greenwood*): Or are we just relying on the contractor to do it?

Mr. STEVENSON: After the contract had been worded in this way, and after the payment had been made in accordance with the contract, we feel that all has been done that could be done to seek recovery of all portion of the amount paid.

Mr. BELL (*Carleton*): There is virtually no incentive to the contractor at all.

Mr. MACDONNELL (*Greenwood*): That is my point.

Mr. BELL (*Carleton*): The contractor has been paid; it is the government of Canada that wants the $187,200 back.

Mr. STEVENSON: There have, of course, been consultations with the contractor and visits made by officers of the Department of Defence Production.

Mr. B. A. MILLAR (*Audit Supervisor, Office of the Auditor General*): The legal officer of D.D.P.

Mr. STEVENSON: The legal officer of the Department of Defence Production has visited the plant of the contractor and gone into this matter.

Mr. BELL (*Carleton*): I think it should be indicated by the Auditor General to them that the consensus, I think, of this committee is that they should really press this as vigorously as possible.

Mr. HENDERSON: We will take note of that, Mr. Bell, and convey that to them.

Mr. BROOME: The only point I should like to make on this is that the government was very prompt in paying this bill. Can the Auditor General say that the government is equally prompt in paying bills they owe to Canadian firms?

Mr. MACDONNELL: I think all the auxiliaries we have, including the officials, should be drawn into this, if they are available. We should not assume that the mere fact the contractor has an interest there is going to be enough pressure.

Mr. MCGEE: I was wondering if it would be a proper function for our consulate general in California to cooperate on?

The ACTING CHAIRMAN: I am wondering if we could not make a notation to the effect that the Auditor General report back to the committee next year on how successful the operation has been in the meantime.

Mr. MCGEE: Perhaps we could have a report at the next meeting or so.

Mr. HENDERSON: We could make a report on Monday, in regard to its status. I could ask Mr. Millar to speak to the deputy minister, and arrange that for you. We could learn where it stands at the present time, and what has been done.

Agreed.

33. Works project commenced in advance of Parliamentary sanction. Section 13 of the Public Works Act reads:

> 13. 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.

The use of the word 'cause' instead of 'incur' in this wording is of significance in the case to which attention is now drawn. In June 1958 a grain company requested financial assistance from the Government in dredging channels to service facilities which the company planned to construct at Baie Comeau, P.Q. It was agreed by the Department of Public Works that the dredging costs would be shared equally with the company, and that the Department would call for tenders and let a contract on the understanding that the company would advance funds to the extent required to meet expenditures incurred in 1958-1959, pending provision of an item in the 1959-60 Main Estimates. The company advanced $80,679 under this arrangement and the amount was placed to the credit of a suspense account, to which were charged expenditure of $71,823 made in 1958-59 under the contract. The details relating to the 1959-60 Appropriation for 'Acquisition, Construction and Improvements of Harbour and River Works—Quebec' (Vote 339) include an item of $320,000 for 'Baie Comeau (Little English Bay)—Dredging—Federal Government's share of cost'. Thus, although no expenditure was 'incurred' in 1958-59, a project expected ultimately to involve the Crown in expenditure of up to $320,000 was commenced, and expenditures of $71,823 were 'caused', without being previously sanctioned by Parliament.

Mr. STEVENSON: Section 13 of the Public Works Act is quoted in the paragraph, and it seemed to us that the incurring of these expenditures was contrary to that section.

Mr. MACDONNELL: Well, is it, in effect, a technical situation? Has any loss been incurred? Has the position of the government been worsened?

Mr. STEVENSON: No. It is simply that an expenditure was caused in advance of parliamentary sanction having been given, as seem required by section 13 of the Public Works Act. However, the matter became regularized, of course, in 1959-60, when there was a parliamentary appropriation provided to absorb the expenditure. It is simply that the expenditure was commenced before parliamentary sanction had been given and so, to a certain extent, you might fell that parliament had to approve a fait accompli.

Mr. MACDONNELL: You are going back to that word, "regularize".

Agreed.

> 34. *Transfers of Armed Forces personnel.* A few cases were observed where these transfers resulted in outlays which, it would seem, could have been avoided with the exercise of reasonable prudence and foresight, and two cases are cited. In one, a non-commissioned officer and his dependents (wife and eight children) were transferred to a location which had been classified by the Service concerned as one with an "extreme shortage of suitable housing". When over seven weeks passed before the man was able to find accommodation, the Department paid $1,500 towards the living expenses that he had incurred. In the second case, a non-commissioned officer and his dependents (wife and three children) were transferred from one station to another, and when no suitable accommodation or school facilities could be located by the man he was posted within a few days to a third station, at an additional cost of $500.

The Acting CHAIRMAN: Perhaps, on this section, I could ask if the Department of National Defence has taken any action to avoid such further occurrences of this type of thing?

Mr. STEVENSON: Yes. After having brought the matter to the attention of the responsible administrative officer, we were informed by him that he had received assurances from the responsible service officer that prospective transfers involving the moving of families to areas where housing accommodation was limited, would be carefully investigated in the future.

Mr. BELL (*Carleton*): Well, I think this is plain incompetence, that any department of government would transfer ten people to an area that is classified as one of extreme shortage of suitable housing; and I think we want it on the record that this committee considers that the officers who were responsible for that type of thing are incompetent.

Mr. MACDONNELL: I think there is a question of wording there. They may have done a lot of other good things. Could you confine the criticism to this particular act.

Agreed.

> 35. *Non-resident school fees.* In cases where the Department of National Defence does not provide school facilities for children of service personnel or civilian employees who reside at defence establishments, Executive authority exists for the payment of non-resident school fees to school boards. Such payments are required to be reported to the Department of Finance so that an adjustment can be effected in the event that a municipality is entitled to a grant in lieu of taxes

pursuant to the Municipal Grants Act. On making an audit enquiry regarding amounts totalling $11,729 paid to one school board during the year under review (with respect to the calendar year 1957) it was learned that the municipality in which the children resided had been paid a grant in lieu of taxes without any offsetting deduction having been made. When attention was drawn to the matter, arrangements were made to recover the overpayment by means of a deduction from a future grant to the municipality.

Mr. CHOWN: Well, $11,729 is recoverable in item 35, and I think that can be carried.

Mr. STEVENSON: Yes. It is noted in the paragraph that when attention was drawn to the matter, arrangements were made to recover the overpayment by means of a deduction from a future grant to the municipality and, in fact, the amount has now been recovered.

Agreed.

36. *Special charge to National Defence expenditure, for cloth inventories.* A large stockpile of cloth, acquired mainly in anticipation of defence needs arising from the Korean crisis, formed part of the inventories carried in the Defence Production Revolving Fund over the years, and had a recorded value of $14,252,000 at 31 March 1959. A year-end bookkeeping entry transferred $13,699,000 of this amount out of the revolving fund as a charge to the main appropriation under the Department of National Defence (Vote 220). The problem of how best to utilize or dispose of this stockpile has been under consideration by the Departments of Defence Production and National Defence since the latter part of 1957, and a survey is currently being made by the Department of National Defence.

Mr. MCGEE: Mr. Chairman, I would like to know a little bit more about the composition of this.

There were three million yards of this cloth bought at the time of the Korean war, and I wonder if we could get some idea just what is involved here.

Mr. STEVENSON: There is a survey referred to at the close of the paragraph, sir, and that was as requested by treasury board, which had made this survey a condition for the giving of its approval to this transfer to the Department of National Defence. That survey was completed in September 1959. The result of the survey was that 11,162,000 yards, which represented an estimated five years' requirements, were to be retained in stock, and it was decided that the balance of 3,755,000 yards would be regarded as surplus to requirements, being beyond the anticipated five years' needs. Therefore, this was then available for declaration as surplus and, in February, 1960, treasury board approved the department's proposal to declare this 3,755,000 yards as surplus, through Crown Assets Disposal Corporation. However, the department has not yet made the formal declaration of surplus.

Mr. MCGEE: This confirms what Mr. Richard said in his statement the other day.

Mr. STEVENSON: Yes. He has not yet received official notification of this declaration.

Mr. HENDERSON: Yes, I think he so stated.

Mr. MACDONNELL: I am wondering if there is any danger that we are missing a market for this cloth; in other words, that we are losing an opportunity to sell it, by our delay. Is it believed that it is unsaleable?

Mr. STEVENSON: No; we have no reason to believe that it is unsaleable.

Mr. McGEE: Has any consideration been given to the impact that this quantity of cloth would have on the textile market? I was just wondering about this because, it seems to me, I have heard something about clothing requirements and other requirements in other parts of the world; for instance, in an area of disaster such as Chile. I wondered how much of this cloth would be tropical material, and suitable for assistance in an area such as that—or is that the type of assistance needed?

Mr. HENDERSON: We could ascertain that information for you, and report to the committee on Monday.

Mr. HALES: Could we also find out where it is being stored, and whether it is liable to be full of moths by now.

Mr. MILLAR: It is stored at Ville LaSalle naval depot in Montreal.

Mr. HALES: Is it being taken care of in so far as moths are concerned?

Mr. MILLAR: I think so, because their usual procedure in handling cloth is modern.

Mr. HALES: Do we pay storage on it there?

Mr. MILLAR: No; it is a naval depot, and no storage is paid.

Mr. McGEE: I am thinking of relief agencies, relief camps and so on, and whether any thought has been given to assessing the suitability of certain parts of this material in that regard.

Mr. BROOME: Surely that is not part of the Auditor General's job.

Mr. HENDERSON: Mr. Millar could cause some inquiries to be made and, if that information is available, it could be given to you at the next meeting, on Monday.

The ACTING CHAIRMAN: At the same time, could you find out how much this cloth represents in relation to the anticipated number of uniforms? How many personnel was it to supply?

Mr. HENDERSON: I do not know that we would have that information. I do not think we would know how many uniforms that yardage would produce. However, I imagine it could be estimated.

The ACTING CHAIRMAN: A rough estimate would do.

Mr. CHOWN: Mr. Millar, did you have something to add, by way of an answer? You indicated you had something to add by way of an answer to some of these questions. Would you like to put the information you have on record?

Mr. MILLAR: The only thing I have in mind concerned Mr. McGee's question, about the suitability of the cloth for distribution for charitable purposes, and things of that kind, but that is not a National Defence function.

Mr. McGEE: I just threw this thought out, because it is a serious problem, and involves a huge amount of cloth. I was looking for helpful suggestions.

The ACTING CHAIRMAN: Was there any reason this was transferred to the Department of National Defence?

Mr. HENDERSON: I would not know that reason. However, I see no reason why we cannot get a few more facts on this, and give them to you on Monday. We could confer with the deputy minister, and see what views he has on the end use.

37. *Prairie Farm Emergency Fund deficit.* In paragraphs 104 to 107 of last year's report reference was made to the basis upon which the Prairie Farm Emergency Fund had been accounted for over the years, with annual deficits being charged to Expenditure instead of being carried as advances, as contemplated by the Prairie Farm Assistance Act. The deficit for the year ended 31 March 1959 was $16,973,000 and, in accordance with established practice, the amount was entered as a charge

to Expenditure. While this may be realistic accounting treatment, it is nevertheless noted that no Parliamentary appropriation authorized the charge.

Mr. CHOWN: That is just more regularization.

Mr. MACDONNELL: There is one thing I do not understand about paragraph 37. The paragraph reads in part:

> While this may be realistic accounting treatment, it is nevertheless noted that no parliamentary appropriation authorized the charge.

Now, is that a question of regularization as well?

Mr. STEVENSON: Well, the prairie farm emergency fund has been operating on a deficit almost every year.

Mr. MACDONNELL: Well, what is the point of saying that no parliamentary appropriation authorized the charge. If it is covered clearly by legislation, do we need a special appropriation? I thought that was part of the routine.

Mr. STEVENSON: The act itself provides that advances be made to the fund and, from the accounting point of view, carried as an asset in the government accounts. That is what is to be inferred from the wording of the act.

Agreed.

> 38. *Unpaid accounts charged to new fiscal year.* A case was observed in the audit where a department had failed to live within the amount of an appropriation, when accounts remaining unpaid at the year-end were taken into consideration. Invoices totalling about $105,000, relating to goods delivered and services rendered up to 31 March 1959, were not charged against the Appropriation for 'Sick Mariners Treatment Services' (Vote 235) but were, instead, paid in 1959-60 as charges against the corresponding appropriation for that year. The carry-over represented approximately 11% of the 1958-59 appropriation. The Department had not requested the inclusion of an item in the Supplementary Estimates for 1958-59, to cover expenditure anticipated beyond what had been provided for on the basis of the Main Estimates.

Mr. HALES: What is the department involved?

Mr. BROOME: Health and Welfare.

Mr. STEVENSON: Yes, Health and Welfare.

Mr. BROOME: Is there not a very important principle involved in this? I would like to hear Mr. Bell to comment on this. It seems to me that if this became general, we might as well wash out the Auditor General's department.

Mr. BELL (*Carleton*): And you might as well wash out parliamentary control.

Mr. BROOME: And, everything else.

Mr. STEVENSON: It is an important principle.

Mr. BROOME: It is very important.

Mr. STEVENSON: In 1950, the United Kingdom public accounts committee affirmed that payments which come within the provision made by parliament, and which are due and fully matured, must not be postponed, even for the purpose of avoiding an excess. The Canadian system is different from that. However, in our view, a department should not incur commitments that have not been reported to the comptroller of the treasury, and found by him to be within the balance available for expenditure.

Mr. BROOME: If it had been reported, there would have been a supplementary estimate.

Mr. STEVENSON: Yes.

Mr. BROOME: And it would have been covered legally in the proper year.

Mr. STEVENSON: Yes.

Mr. BROOME: But this way is fooling everybody.

Mr. HALES: May I ask Mr. Henderson if the system that he proposes—his new system; this monthly check-up—will take care of this very thing?

Mr. HENDERSON: It will certainly cause transactions like this to stand up, be seen and be questioned.

Mr. BROOME: This gentleman made the statement that that statement is invoked, and every month the treasury office do this in the various departments. Obviously, it did not do it in this case.

Mr. HENDERSON: But the statements to which I referred are from the chief accounting officer of the department. It could be the treasury officer, but most of them have someone else looking after their affairs, who is laying their statements down within two weeks of the close of each month, in front of the executive so we can see the purpose during the month for which the money was being expended.

Mr. BROOME: This statement may not be to accurate.

Mr. CHOWN: It is noted in paragraph 38 that no supplementary estimate was asked for in 1958-59. Presumably, this has now been covered by an appropriation for 1959-60—or, a supplementary estimate.

Mr. STEVENSON: The commitments that were carried forward presumably have been charged against the appropriation for 1959-60.

Mr. BELL (*Carleton*): But how did this happen? How did a commitment happen to be made without the comptroller of the treasury being informed?

Mr. STEVENSON: This, of course, is the point.

Mr. BELL (*Carleton*): Well, this just goes straigth across the whole principle of commitment control, and I certainly think this committee ought to adopt the principle that is laid down in the report of the public accounts committee of the United Kingdom. There is no doubt at all that parliament would have passed a supplementary estimate for this worthy object, but we must not let a worthy object put us completely out of our proper commitment control by the comptroller of the treasurer, or control by parliament.

Mr. MACDONNELL: I think we should have the details on this. Two things have been brought forward, which concern substantial amounts, and this sort of thing makes a joke of our system. I think we should know who did it, and how it is it slipped through.

Mr. BROOME: Mr. Bell, should your remark be applied here as well?

The ACTING CHAIRMAN: If I may ask a question at this time, was there any similar carry-forward of unpaid accounts at the close of the preceding year?

Mr. STEVENSON: No.

Mr. HALES: Would it be within the jurisdiction of this committee to have the comptroller of this department, who made this error, outline how it happened?

Mr. CHOWN: I think this involves a witness, and the examination of a witness, if we follow Mr. Macdonnell's suggestion. Pursuant to that, if you could obtain sufficient detail in order to give the chairman an idea who the appropriate witness would be, we could have him appear and be examined.

The ACTING CHAIRMAN: Is that the wish of the committee?

Mr. BROOME: Could you explain how the United Kingdom work on this? You say it is not the practice in the United Kingdom.

Mr. STEVENSON: I mentioned, sir, that the United Kingdom public accounts committee took a serious view regarding commitments of this sort, and felt they should be put in course of payment, even if in their case, it would mean an over-expenditure of an appropriation. Of course, in our case, we cannot have an over-expenditure, because the comptroller of the treasury will not make payment. So, the systems are slightly different.

Mr. BELL (*Carleton*): But our parliament is in session, almost always, during the end of the fiscal year—only once in recent years, it was not—and supplementary estimates could be secured.

Mr. STEVENSON: It could have been, yes.

Mr. BELL (*Carleton*): And I am sure that parliament would have passed a supplementary estimate, without a question, on this; but to ignore parliament, is another question.

Mr. BROOME: It seems to me that the only time parliament is not in session is around Christmas time.

The ACTING CHAIRMAN: Could we stay this item, and ask Mr. Henderson to arrange for a witness?

Mr. MACDONNELL: Someone remarked a few minutes ago that it would have been passed. How can we be sure that everyone would be in agreement on it?

Stands.

> 39. *Credits to annual appropriations for 'Treatment Services'.* It has been long-established practice for the Department of Veterans Affairs to credit to the annual appropriation for 'Treatment Services—Operation of Hospitals and Administration', revenue received from or on behalf of patients who are not the financial responsibility of the Department. The practice is based on the principle that the revenue received essentially offsets the additional expenses incurred, leaving the net amount provided by the appropriation available for the treatment of patients for whom the Department is financially responsible. However, the same reasoning cannot be applied to a new type of revenue which was credited to the appropriation in 1958-59 (Vote 476) and which amounted to approximately $2,500,000 in the year. This arose through collections being received from those Provinces which had entered into agreements with the Government of Canada under the Hospital Insurance and Diagnostic Services Act. The collections were in respect of services provided by Veterans Hospitals to recipients of War Veterans Allowances, such recipients having been insured by the Department under plans operated by the participating provinces. Since such collections were in respect of services which had been provided for by the appropriation, they would have been more correctly credited to Revenue instead of to the appropriation.

Mr. STEVENSON: Of course, the committee has given consideration to the question of whether appropriations might be voted on a net basis, with receipts for services rendered being recorded to the credit of the vote. Consideration was given to this item in an earlier meeting of the committee, and paragraph 39 gives an example of the few cases where this practice has already been followed; that is to say, where the appropriation is voted on a net basis. However, the reason for this paragraph is that an excess of receipts beyond what had been estimated, and which arose from collections in respect of services which had been provided for in the appropriations, was not credited to revenue. In calculating the net amount to be deducted, no amount was included in the anticipated recoveries for what might be expected to be

recovered from the provinces in respect of treatment given under hospitalization insurance schemes. Therefore, in our view, when it turned out that $2,500,000 approximately was received from the provinces—being you might call a windfall—it should have been credited to revenue rather than to the appropriation.

Mr. HENDERSON: If I may say so, I think this problem falls under the heading of the discussion we had earlier regarding the proper application of revenues, which is under study by the Department of Finance, I believe, right now. Am I correct in that, Mr. Bell?

Mr. BELL (*Carleton*): I believe so.

The ACTING CHAIRMAN: Any further comment?

We will proceed to paragraph 40.

40. *Interest on temporary investment of university grants funds.* Votes 127 and 669 of 1958-59 authorized payments to the national conference of Canadian universities in accordance with an agreement entered into between the Minister of Finance and the conference, to enable the latter to make grants to universities, with the conference authorized to deduct from the grants made, a fee or service charge to cover costs incurred in carrying out its functions under the agreement. The agreement provides that if a university does not accept a grant from the conference in a fiscal year, the 'delayed grant' is to be held by the conference until an application for payment is received, or until parliament provides otherwise for the disposal of the grant. The conference is authorized to invest the amounts representing delayed grants in securities of the government of Canada maturing within three years from the date of purchase. The financial statements of the conference for the year ended 31 March 1959 show that, in addition to the investment income arising from the holding of delayed grants (and which income was appropriately recorded to the credit of the universities concerned), a further income of $86,874 was earned on funds invested by the conference during the short interval between the receipt of payment from the government of Canada and the making of grants to the universities. Since the agreement between the minister and the conference makes no provision for the disposition of such investment income, a question arises as to whether it should have been returned by the conference to the Receiver General, instead of being treated as available for the operations of the conference.

The ACTING CHAIRMAN: This paragraph is in respect of interest on temporary investment of university grant funds. It is under votes 127 and 669 of 1958-59.

Mr. STEVENSON: I might say on that, that in a letter to the Canadian Universities Foundation, which now handles these grants, the department stated that commencing with the grant for 1959-60 a payment would be made to the foundation only upon certification to the effect that complete information on a provincial basis had been compiled by the foundation and that distribution would be made immediately upon receipt of the monies, so that this matter will not arise again.

Mr. MACDONNELL: Does that mean that this interest will be used by the conference of universities for its own purposes?

Mr. STEVENSON: Yes sir.

Mr. MACDONNELL: Is that not an extraordinary result? The money was put up for certain purposes and the amount to be received by the university was fixed by parliament.

Mr. STEVENSON: By an agreement.

Mr. MACDONNELL: There was a delay in the payment and interest accumulated. Now surely you can argue that that money should come back to parliament or go to the universities, but I do not see how you can argue that the conference of universities should get it.

Mr. STEVENSON: The situation is that the agreement did not specify whether or not the foundation would be permitted to retain this income or whether it would be returned to the receiver general.

Mr. MACDONNELL: That is why I am making the argument. I cannot see how the conference of universities has anything to do with it. They were merely a custodian.

Mr. HENDERSON: I think the Department of Finance advanced the money a little more promptly than the conference needed it, and accordingly the conference invested it and made $86,000 in the interim.

Mr. MACDONNELL: That is all right. I am ready to have my argument disproved, but on the face of it I should think it is very clear.

Mr. HENDERSON: The point I am making is that the error here was in the money being advanced too soon to this body by the Department of Finance.

Mr. MACDONNELL: Suppose it was; it surely did not affect the status of the money.

Mr. SMITH (*Simcoe*): It was not a voluntary advance; it was requested by the federation?

Mr. STEVENSON: Yes.

Mr. SMITH (*Simcoe*): Had all the requirements of the government been fulfilled at the time it was requested? Had the ultimate recipient university complied with all the requirements at the time it was requested? In other words, ought it to have been turned over the next day by the federation to the ultimate university? Did the federation request it before the recipient university had complied with all the requirements?

Mr. STEVENSON: I think it would appear that the request had been made at a somewhat earlier date than it turned out that they were able to make the payments, but perhaps they had expected to be able to pass the funds on to the university without delay. I am afraid we do not have that information.

Mr. MACDONNELL: Might I suggest that we have a report on this from the Department of Justice. I do not believe we should think that money belongs to the conference of universities.

Mr. SMITH (*Simcoe*): Should we get a little further information as to the sequence of events in order to ascertain who is delinquent.

Mr. HENDERSON: Yes.

The ACTING CHAIRMAN: This paragraph will stand.

Stands.

We will take paragraph 41.

41. *Recoverable outlays on Canso Causeway.* In 1953 an agreement was entered into by Canada, the province of Nova Scotia and the Canadian National Railway Company for the construction, operation and maintenance of a causeway across the Strait of Canso, to provide for railway, vehicular and pedestrian traffic. Under the agreement Canada undertook to finance the construction, with the province agreeing to share the cost, the pertinent clause reading:

The Province shall, following the date of completion, pay to the Receiver General of Canada the sum of five million five hundred thousand

dollars ($5,500,000) as being the province's share of the capital cost to Her Majesty (excluding interest) of the said causeway and which payment shall be additional to the cost of highway construction referred to in clause 19 hereof, provided, however, that if the cost to Her Majesty of constructing the said causeway and the works connected therewith be less than twenty-two million seven hundred sixty thousand dollars ($22,760,000) the payment by the province under this clause shall be reduced proportionately.

The term 'date of completion' is defined in the agreement as the date determined by the Minister of Transport. In April 1957 the province was advised by the Department of Transport that the date of completion had been determined as 1 April 1957. However, it was not until October 1958 that the department submitted a billing to the province in the amount of $4,856,941, based on expenditures of $20,098,904 to 31 March 1958—it being indicated that a supplementary billing would be submitted later to cover the province's share of a relatively minor total of obligations remaining unsettled. No payment has yet been received.

Mr. HENDERSON: So far as we know now, payment still is not received. As I understand it the money has not yet been paid.

Mr. BROOME: It says here that the department submitted a bill to the province in the amount of $4,856,941. The agreement says that if the cost is less than $22,760,000 that the province's share will be reduced by the amount that it is less. Further on it says that the total cost was a little over $20 million. If you do a little bit of arithmetic here they should have paid $3,940,000 instead of $4,850,000.

Mr. STEVENSON: I have not made the calculation, but I would think, proportionately as $20 million is to $22,760,000, it would be something the same as—

Mr. BROOME: No. It says it is to be as much as it is less. If it is $20 million and they anticipated $22 million you have $2,600 odd thousand, or $700 odd thousand that should come off the $5 million.

Mr. BELL (*Carleton*): Is there any dispute as to this amount being owing?

Mr. STEVENSON: We have not heard of any dispute.

Mr. BELL (*Carleton*): If the government of Nova Scotia owes this money they ought to pay it.

Mr. HENDERSON: There is an item in our notes to the effect that on April 16, 1959, the province offered to pay the Department of Transport a substantial portion of the money due in Canada conversion bonds, provided they were accepted at their par value of $4,100,000 although they had market value of $3,875,000. After consulting with the Department of Finance on April 28, 1959, the department advised that the offer could not be considered and requested payment in cash. Up to March 31, 1960 there has been no further action taken. Unfortunately my notes do not show the prices of these bonds, but at the time of the offer there would have been a loss of $225,000.

Mr. BELL (*Carleton*): It is an offer that obviously could not have been accepted. I am surprised that a government would make such a proposal.

Mr. MACDONNELL: Are these two parties continuing to negotiate with each other?

Mr. BELL (*Carleton*): Do we just give in to the fact that the Government of Canada has billed for almost $5,000,000 but has not been paid?

Mr. MACDONNELL: They have a course to resort to if they desire.

Mr. CHOWN: Is interest being charged on the unpaid balance at the usual rate?

Mr. HENDERSON: The agreement does not provide for that, Mr. Chown, and I therefore assume that that would not be done, although there would seem to be a case in favour of it.

The ACTING CHAIRMAN: Would this not be another subject for report the next time the Auditor General makes his report?

Mr. HENDERSON: We would be happy to do that.

Mr. BROOME: Are there tolls on this causeway?

Mr. HENDERSON: I cannot say.

Mr. BROOME: I think there are.

Mr. HENDERSON: Yes, there are tolls here.

Mr. BROOME: Who receives the revenue from the tolls?

Mr. HENDERSON: The owners of the causeway, I should imagine, receive the revenue.

Mr. BROOME: Who are the owners of the causeway? Do the Canadian National Railways receive the revenue?

Mr. HENDERSON: The province of Nova Scotia is the owner of this bridge and they collect the revenue, I am informed.

Mr. MCGEE: I have consulted with a lawyer and he tells me that if an individual did this there is a good chance he would end up in jail.

Mr. MACDONNELL: This money does not belong to them.

The ACTING CHAIRMAN: This item was brought to our attention, but we could ask the Auditor General to make a report either at this time or next year when the item comes up again. Carried?

Agreed.

The ACTING CHAIRMAN: Item 42, recoverable outlays on Montreal's Atwater Avenue tunnel.

42. *Recoverable outlays on Montreal's Atwater Avenue Tunnel.* In 1951 an agreement was entered into with the City of Montreal respecting the construction of a tunnel for vehicular and pedestrian traffic under the Lachine Canal. The Crown, as represented by the Minister of Transport, agreed to acquire the land necessary for the tunnel and its approaches, to undertake construction and, upon completion, to convey the property to the City. For its part, the City agreed to reimburse the Crown for one-third of the cost, with interest at $3\frac{1}{8}\%$ per annum from the date of the conveyance of the property, with the proviso that the total amount to be reimbursed by it would not exceed $2,000,000, plus interest. The agreement provides for the reimbursement to be made in thirty equal annual instalments of principal and interest, the first to become payable twelve months from the date of the conveyance of the property by the Crown. The tunnel was officially opened on 1 June 1954, and the main construction was completed by the end of that year at a cost of approximately $7,000,000. However, the Department has been unable to convey the property in its entirety to the City owing to a legal technicality respecting title to a parcel of expropriated land, and payments by the City have therefore not yet fallen due under the terms of the agreement.

Mr. STEVENSON: According to information recently found on file the department was able to convey, and it did convey, the property in its entirety to the city of Montreal on October 21, 1959 and the first instalment under the agreement will therefore fall due for payment one year from that date; so this difficulty has now been overcome.

Mr. SPENCER: It took five years in order to clear it up?

Mr. STEVENSON: That is right, sir.

Carried.

The ACTING CHAIRMAN: On item 43, recovery of debt due to the crown by diversion of part of pension.

> 43. *Recovery of debt due to the Crown by diversion of part of pension.* Section 38 of the Pension Act provides for awards to the parents of deceased members of the Armed Forces. However, the Canadian Pension Commission may make an award under section 38 only where a need is demonstrated, and the section provides that the pensions shall be "in accordance with the amount deemed necessary...to provide a maintenance". Instances were observed where amounts were being withheld from current pension payments and were applied in reduction of debts due to the Crown arising from previous pension overpayments. If it be assumed that the net amount of a pension payment remaining after withholding an amount applied in reduction of the pensioner's indebtedness to the Crown is, in fact, sufficient to provide maintenance, it follows that the amount of the pension awarded was larger than was necessary to provide maintenance, and therefore in excess of what is permissive under the Act. On the other hand, if it be assumed that the pension awarded was just sufficient to provide maintenance, the recovery of the debt due to the Crown would have to be regarded as reducing the pension to less than what is contemplated by the Act.

Mr. BROOME: Does this have regard to the M.P.'s pensions?

Mr. STEVENSON: We feel that in cases where there is no possibility of recovery of an overpayment of pension the department should be prepared to report the balances that were due, through the overpayments, to the governor in council for the normal write-off action under section 23 of the Financial Administration Act. The way it may seem to be being done here, is that the pension is being increased and then a portion of it is being taken away to be recorded as a recovery of the overpayment that had been made.

Mr. CHOWN: I think I would agree with that solution. I have had several cases of this nature in my own constituency and it has worked a hardship. The amounts have often been very small.

Mr. BROOME: Those two statements are contradictory.

Mr. CHOWN: Perhaps I should read the record and make my comment tomorrow.

The ACTING CHAIRMAN: Is there any recommendation to be made by the committee in this regard?

Mr. BELL (*Carleton*): What recommendation does the assistant Auditor General make in relation to this that will not work a hardship on the individual pensioner?

Mr. STEVENSON: As I mentioned, Mr. Bell, instead of taking away from a pension an amount in order to credit it to the balance owing as a result of an overpayment that had been made previously, it appeared to us that it would be more appropriate for the department to report the overpayment that had been made to the governor in council and let the governor in council consider it for

write-off under section 23 of the Financial Administration Act. This would not cause any hardship, of course, as it would not be a reduction in the pension.

Mr. HENDERSON: This is a bad debt, just like any other bad debt, and should be handled with the same scrutiny and action.

Mr. CHOWN: That is what I have suggested.

Mr. STEVENSON: Yes, that is quite right, Mr. Chown.

The ACTING CHAIRMAN: Does the committee wish to adopt that recommendation?

Carried.

Mr. CHOWN: May I just interject in regard to item 43 for a minute. If we concur with your suggestion, what can be done to execute this under section 23 of the Financial Administration Act?

Mr. HENDERSON: If that is the position of the committee, and in this case I take it it is, then it will be noted in your report to parliament.

Mr. CHOWN: Fine, that is what I wanted to know.

Mr. HENDERSON: And that usually leads to the adoption of this practice.

Mr. CHOWN: That is fine.

The ACTING CHAIRMAN: Item 44, compromise settlement of claim for overpayment of allowance.

> 44. *Compromise settlement of claim for overpayment of allowance.* A case was observed during the audit where the recipient of a war veteran's allowance, through failure to reveal his earnings, received more than $3,000 in excess of the allowable income under the War Veteran's Allowance Act during the period from August 1953 to February 1956. Without having taken all courses of collection action that seemed available in the circumstances, the Department decided to seek Executive authority for acceptance of a compromise settlement of $1,000. Authority was in due course received to accept this sum in full settlement of the amount of $3,196 owing to the Crown as a result of the overpayment, and to take no action to enforce collection of the balance.

Mr. HENDERSON: Item 44 has to do with the case observed where the recipient of a war pension allowance, because he did not reveal his earnings properly, received more than $3,000 in excess of the allowable income under the War Veterans Allowance Act, and the department did not appear to us to have taken any course of collection action, but instead turned around and endeavoured to compromise at the figure of $1,000.

Mr. CHOWN: They have gone to the opposite extreme as they did with regard to item 43. That is the implication of your comment, is it not?

Mr. HENDERSON: Yes.

The ACTING CHAIRMAN: What course of action would they take in this regard?

Mr. HENDERSON: There are certain courses that were available. One course of action would have been to garnishee the man's salary. He was in receipt of a salary of $238 a month, in addition to which he owned a farm and a pick-up truck.

Mr. BROOME: He was drawing war veterans allowance as well.

Mr. HENDERSON: In May of 1946 he had a bank balance of over $1,500.

Mr. SMITH (*Simcoe North*): I have had to deal with a similar situation as this at home and I arrived at a solution which seemed to be very satisfactory. This woman had received a fairly substantial amount of overpaid money in

pension. The result was that the department took a judgment against her by consent and filed an execution. She has no liquid assets; but when she dies, there being no near relatives to get her property, and the execution being kept alive, the department will be able to recover the money out of the property without causing her any substantial reduction in pension now, which would create a hardship. This seems to me to be a very satisfactory way of dealing with this situation.

The ACTING CHAIRMAN: There would seem to be a balance here. Was this balance written off?

Mr. STEVENSON: Yes, Mr. Chairman. This balance, we understand, has been written off now as a charge against vote 654 in 1959-60.

Mr. BROOME: As a matter of record, is that man still drawing war veterans allowance?

Mr. STEVENSON: No, no, sir.

The ACTING CHAIRMAN: Is this item carried?

Carried.

The ACTING CHAIRMAN: On item 45, losses reported in the public accounts.

45. *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 listing prepared for inclusion in the Public Accounts for 1958-59 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 supplementary statement is also included in the Public Accounts, listing those losses suffered by the Post Office Department, mainly in prior years, which has been charged to the Post Office Guarantee Fund during the year ended 31 March 1959.

Mr. BELL (*Carleton*): Where does this item appear in the public accounts?

Mr. STEVENSON: It appears just before the Auditor General's report, Mr. Bell. You will find several statements there that are headed "statements required by Financial Administration Act".

Mr. HENDERSON: They must be published under that act, and this is the reference to it.

Mr. STEVENSON: The statement summarizing the losses is to be found at page 20. The details follow on pages 22 to 25.

Carried.

The ACTING CHAIRMAN: Now we come to the next group.

Mr. CHOWN: This might be a good time to adjourn, Mr. Chairman. It is 5 o'clock now. I think we have made good progress this afternoon.

The ACTING CHAIRMAN: Do the rest of the committee members agree with this suggestion?

Mr. BELL (*Carleton*): We should be able to complete this report during our next meeting. We will set that as our objective in any event.

The ACTING CHAIRMAN: Our next meeting will be at 2 o'clock Monday, June 13, in this room.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

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MONDAY, JUNE 13, 1960

WITNESSES:

Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; Mr. B. A. Millar, Supervisor of Audit Branch; and Miss O. J. Waters, Departmental Secretary, Department of National Health and Welfare.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23330-4—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Wininpeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

MONDAY, June 13, 1960.
(13)

The Standing Committee on Public Accounts met at 2.15 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Bell (*Carleton*), Broome, Chown, Coates, Drysdale, Fisher, Macdonald (*Kings*), Macdonnell (*Greenwood*), Macnaughton, McGee, McGrath, Regier, Robichaud, Smith (*Simcoe North*), Stefanson, Villeneuve and Wratten—18.

In attendance: From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; Messrs. G. Long, B.A. Millar, D. A. Smith, and J. R. Douglas, Supervisors of Audits; and Mr. E. Cooke, Administrative Officer.

From the Department of National Health and Welfare: Miss O. J. Waters, Departmental Secretary; and Dr. L. R. Hirtle, Principal Medical Officer, Quarantine and Sick Mariners Services.

Agreed,—That the meeting of the Committee scheduled for Tuesday, June 14, *re: Crown Assets Disposal Corporation,* be postponed until the Committee's Proceedings No. 10 is available in printed form.

The Committee resumed its consideration of the Auditor General's Report.

Mr. Henderson read a prepared statement respecting the duties of the Controller of the Treasury and of the Auditor General.

On Paragraph 26: Mr. Henderson read a brief explanation. Following further questioning, the paragraph was allowed to stand until a suitable witness can appear from the Public Works Department.

On Paragraphs 32, 36, 40: Further information was supplied by the Auditor General.

On Paragraph 38: Miss Waters was called, made a brief statement and was questioned.

The abovementioned paragraphs 32, 36, 38 and 40 were adopted.

Paragraphs 46 to 76 inclusive were adopted, the Auditor General and his associates supplying information thereon.

During the latter part of the meeting, Mr. Heber Smith (*Simcoe North*) presided as Acting Chairman.

At 4.10 p.m. the Committee adjourned to the call of the Chair.

E. W. Innes,
Clerk of the Committee.

23330-4—1½

EVIDENCE

MONDAY, June 13, 1960.

The CHAIRMAN: Gentlemen, I would ask the committee to come to order.

I have to announce that the minutes of proceedings and evidence of the meeting in regard to Crown Assets Disposal Corporation were sent to the printer on Thursday. However, distribution of same is going to be delayed somewhat. There is a volume of committee work under way at the present time. As we have a meeting scheduled for tomorrow, I was going to ask—if we did not finish with the Auditor General's report today—could we proceed with it tomorrow?

Would you like the chair to call the next meeting, in regard to Crown Assets Disposal Corporation? I do not think there is any sense in calling a meeting until you have had an opportunity to read the evidence.

Some HON. MEMBERS: Agreed.

Mr. BROOME: Is there any chance of that taking place?

The CHAIRMAN: Within twenty-four hours?

Mr. SMITH (*Simcoe North*): No.

The CHAIRMAN: The secretary informs me that it is doubtful.

Mr. BROOME: Do we really need the evidence?

The CHAIRMAN: Well, it was the report in extenso.

Mr. BROOME: You could get a copy from *The Journal*. They had it typed out.

Mr. SMITH (*Simcoe North*): I think we should wait for the evidence to be printed.

Mr. BROOME: The only reason for making these comments is that I will be out of town for three or four days, and I want to read into the minutes a statement from the general manager of the Canadian Manufacturers Association, which deals with the subject under review.

Mr. SMITH (*Simcoe North*): I will undertake to read it into the record for you.

Mr. BROOME: Could I file it?

The CHAIRMAN: Certainly. It could be read for you. Mr. Smith has offered to do that.

Mr. FISHER: You have a volunteer.

The CHAIRMAN: When will you be away?

Mr. BROOME: I am leaving on Thursday, with Mr. Hees.

The CHAIRMAN: Could we do it this way; if it is possible to call the meeting, with the evidence in the hands of the committee, we will do so; if not, then perhaps not until the following week.

Will you be back by the twenty-second?

Mr. BROOME: I may be; I am not sure.

The CHAIRMAN: Well, surely we can work that out. Is that agreeable?

Agreed.

Mr. BROOME: If possible, we will hold the meeting as scheduled.

The CHAIRMAN: Yes, if possible.

Gentlemen, we were considering the Auditor General's report, and a lot of questions were raised at the last meeting.

I understand the Auditor General has a statement he would like to bring to your attention.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman and gentlemen, at Thursday afternoon's meeting, Mr. Bell asked me to prepare a statement for today's meeting regarding the respective roles of the treasury board, the Comptroller of the Treasury and the Auditor General in the control and examination of expenditure.

Treasury Board

The treasury-board acts, of course, as a committee of the cabinet for all matters relating to finance. The board is authorized to make regulations generally for the efficient administration of the public service—those relating to expenditures including, for example, the travel regulations and the removal expense regulations.

The staff of the board acts in liaison with the various departments and other agencies at estimates' time, advising them of the board expenditure policies decided upon by the board and assisting them in the preparation of their estimates which are, in due course, approved or revised by the board and ultimately included in the estimates book tabled in the House of Commons, thereby providing the basis for parliamentary appropriations granted under appropriation acts.

Throughout the year, the board's staff processes transfers between allotments within appropriations and gives consideration to submissions made to the board by the various departments seeking its approval of proposed expenditures where this is required, for example, under the government contracts regulations. In addition, advice is provided to departmental officers regarding the application of the various regulations made by the board to particular transactions as they arise, and regarding the board's views of special departmental proposals.

Comptroller of the Treasury

The Comptroller of the Treasury is a special officer of the Department of Finance, who is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties. He is authorized to station his officers in the various departments, where they pass accounts for payment on the basis of requisitions prepared and approved by authorized departmental officers and maintain accounts recording the expenditure charged to the several appropriations for the departments concerned.

Under the Financial Administration Act, the comptroller is required to maintain a record of all commitments chargeable to each appropriation, and no contract may be entered into unless the comptroller certifies that there is a sufficient unencumbered balance available out of an appropriation to discharge any commitments that would come in course of payment during the fiscal year in which the contract was entered into. By these means assurance is obtained that there should be no over-commitment—and therefore no over-expenditure —of an appropriation.

In the course of passing accounts submitted by departmental officers for payment, the comptroller's representatives, in addition to checking their mathematical accuracy, satisfy themselves that the items are proper charges

to the appropriations concerned and that the voucher documentation is complete in each case, including the certificate required by the Financial Administration Act to be given by the departmental officers with respect to the receipt of goods or services. In addition, the comptroller's representatives satisfy themselves that there has been due observance of the requirements of any regulations made by the treasury board with regard to any of the classes of expenditure involved in the accounts presented for payment.

The comptroller has authority to reject a departmental requisition for a payment, and he may also disallow an item in a departmental expense account, subject only to overruling by the treasury board.

Where, in respect of any contract under which a cost audit is required to be made, the comptroller reports that any costs or charges claimed by the contractor should not be allowed, such costs or charges may not be allowed to the contractor unless the treasury board otherwise directs. The Financial Administration Act requires the Minister of Finance to maintain accounts summarizing the expenditures and revenues and the assets and liabilities of Canada, and these summary accounts are maintained on the minister's behalf by the Comptroller of the Treasury. Following the close of the financial year, a statement of expenditure and revenue and a statement of assets and liabilities is prepared from these accounts by the comptroller and is included in the public accounts, which also includes the detailed statements of expenditure for the several departments compiled by the comptroller.

Auditor General

The Auditor General is an officer of parliament. Like the Comptroller of the Treasury, he is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and is entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties. He is authorized to station in any department any member of his staff to enable him more effectively to carry out his duties.

Section 67 of the Financial Administration Act requires the Auditor General to examine, in such manner as he may deem necessary, the accounts relating to the consolidated revenue fund and to public property, and to ascertain whether in his opinion, among other things, money has been expended for the purposes for which it was appropriated by parliament, and the expenditures have been made as authorized. The Auditor General does not participate in the preparation or make any advance examination of the financial forecasting making up the departmental estimates which are the basis for the parliamentary appropriations under appropriation acts. As already explained, this is the responsibility of the treasury board staff. The Auditor General should, in my opinion, be prepared, however, to express views on the format of the material in the estimates book if the presentation is not made in the manner best calculated to inform parliament of the nature of the proposed estimated expenditure and non-tax revenue forecasts. The secretary of the treasury board has indicated his desire to cooperate fully with me in this regard.

The extent of the internal auditing carried out by departmental internal auditing staffs including the Office of the Comptroller of the Treasury is of particular importance to the auditor general in determining the extent of his own audit program.

It is impractical for him to examine every transaction in a large departmental operation, therefore he must adopt a test-check method designed to provide as wide a verification as possible without unnecessarily duplicating the work of the internal auditing staff. For this reason, the scope of the internal auditing being carried out together with an examination of the internal audit reports is of particular importance to the auditor general in planning his approach.

Under the Financial Administration Act, the auditor general is required to examine and certify the statement of expenditure and revenue and the statement of assets and liabilities prepared for inclusion in the Public Accounts as well as any other statement that the Minister of Finance may present for audit certificate. The comptroller of the treasury, acting on behalf of the Minister of Finance, is responsible for the preparation of these financial statements.

It is the auditor general's responsibility to conduct his examination of these financial statements in much the same way as is followed in commercial practice, and the certificate he gives is based on the results of that examination. If he considers that the presentation of the figures can be improved in the interests of better disclosure for the information of Parliament, he should state his view.

Unlike the comptroller of the treasury, the auditor general has no power of disallowance. He merely examines and reports, being required to report annually to the House of Commons the results of his examinations. Among the matters upon which he is specifically required to report in relation to expenditures is any case where any appropriation has been exceeded or was applied in a manner not authorized by Parliament and any case where an expenditure was not authorized or was not properly vouched or certified. In addition, however, he is required to report any other case that he "considers should be brought to the notice of the House of Commons".

In addition to the assurances of cooperation I have received from the Secretary of the Treasury Board, the Comptroller of the Treasury has gone out of his way to assure me of his desire to cooperate with me. We are colleagues of several years standing, and I am confident that there will be few matters we cannot resolve happily and successfully in the discharge of our respective responsibilities. That completes the statement.

Mr. BELL (*Carleton*): I think this is a very useful statement to have, because it sets forth very clearly the respective responsibilities of the officers who are officially working on this audit.

The CHAIRMAN: Are there any questions? If not, at the last meeting there were several questions raised, and I believe Mr. Henderson now has some answers.

Mr. HENDERSON: The first of these relates to paragraph 26, regarding the privately owned wharf at Morinus. Mr. Broome and Mr. Bell wondered how the matter of the payment for repairs on the privately-owned wharf at Morinus would have been made without question by the treasury officer.

In reply it might be said that the treasury officer would quite understandably have accepted the expenditure as a proper charge against the allotment established for the item "Morinus—wharf repairs" which appeared in the estimates details. The inclusion of the item in the estimates details presumably indicated to him that ownership of the wharf vested in the Crown.

Paragraph 32 had to do with the California state tax rebate.

Mr. MACDONNELL: Are you leaving the Morinus wharf matter?

Mr. HENDERSON: I did not know which way you wanted to proceed, and whether you would like to have a discussion on each of the paragraphs. There are four or five paragraphs on which we undertook to report.

The CHAIRMAN: It is my mistake. I thought the witness was going to stop reading while the bell was going. I think it would be better to take them up as we go along. Do you not think so?

Mr. MACDONNELL: When I heard of it I was surprised. I thought it was a private wharf. However, perhaps I am wrong. It got in somehow or other, but now it is apparently admitted that it was.

Mr. HENDERSON: That is my understanding.

The CHAIRMAN: It is paragraph No. 26 of the auditor general's report.

Mr. BROOME: May we ask questions on this?

The CHAIRMAN: Yes.

Mr. BROOME: There must be in the records an inventory of what is owned or not owned. This wharf must have been turned over by some document to Crown Assets, and some inventory must have been made relative to this wharf.

Mr. HENDERSON: As I understand it the full details as to the transfer of the wharf to surplus crown assets were contained in the departmental file; and it is only presumption on our part that the treasury officer, not being aware of that, did not proceed any further. But had he done so, and called for the departmental file, he would have realized that the government never owned the warf in the first instance, or at the present time anyway.

Mr. DRYSDALE: Was any attempt made to get the money back, or is there any such intention?

Mr. HENDERSON: I do not think there is any such intention.

Mr. DRYSDALE: Why would it be abandoned under those circumstances?

Mr. HENDERSON: Perhaps Mr. Stevenson might say a word about this.

Mr. IAN STEVENSON (*Assistant Auditor General*): Crown Assets Disposal Corporation, as paragraph 26 of the report indicates, sold the property in 1955, and, as I mentioned at the last meeting, the price was $250. Since 1955 the title has not been with the crown.

Mr. DRYSDALE: I realized that, but I wondered if any attempt was made to get the money back from the private owner, in view of the fact that there has been a mistake.

Mr. STEVENSON: This was not done through mistake; it would be the responsibility of the department that this item was included in the estimates. It was realized that the title had been abandoned by the crown and that it was now a privately owned wharf; but nevertheless the department proposed that this item be included in the estimates, and it was included in the estimates.

The point we made in the paragraph was not to state that this had been an illegal payment. We just drew attention to the fact that it was an unusual transaction to make a charge for repairs in a case where the crown did not have title. But the item was included in the estimates and the payment was therefore legally made.

Mr. ROBICHAUD: Was there an explanation why the item was included in the estimates?

Mr. STEVENSON: That would be for the department to explain.

Mr. SMITH (*Simcoe North*): Where is this wharf situated?

Mr. STEVENSON: It is on lake Rosseau.

Mr. DRYSDALE: May we assume that if you get an item into the estimates by mistake or otherwise, there apparently is no action to be taken in such a case against a private owner to recover the money?

Is that the principle that I would derive?

Mr. STEVENSON: I would think that would be the case. If an item were included in the estimates and a payment therefore made in conformity with that, it would be regarded as a legal payment.

Mr. MACDONNELL: I suppose the private owner may have gone into it in good faith.

Mr. DRYSDALE: But it is a mistake in law.

Mr. MACDONNELL: Is it?

Mr. STEVENSON: I do not think it is a question of mistake in fact. As we understood, it was intended that this expense be incurred.

Mr. SMITH (*Simcoe*): The Department of Public Works knew they did not own the property at the time they proposed the expenditure.

Mr. DRYSDALE: I have several things which I would like to have put right in my mind.

Mr. HENDERSON: I do not know whether or not there is anybody here from the Department of Public Works who could speak to this, but I am sure they would have the answer.

Mr. ROBICHAUD: It was mentioned that there was an item in the estimates to cover this. Was it a specific item?

Mr. STEVENSON: It was a specific item. It is mentioned in paragraph 26. When it was decided to incur this expenditure to repair the wharf it was on the understanding that no responsibility would be assumed for further maintenance. It is at the top of page 9.

Mr. MCGRATH: Why would an item that small be included as a specific item in the departmental estimates. Is that not unusual? I thought it was usually an item of $25,000 or over.

Mr. HENDERSON: We cannot answer that. We do not assist in the preparation of departmental estimates.

Mr. STEVENSON: It is the case that small items are listed in the estimates details.

Mr. SMITH (*Simcoe*): I think we could get someone from the Department of Public Works to appear here, but I do not think there is anything nefarious about this. You will find there was a lot of objection to this dock having been transferred to private ownership in the first place. It is used as a semi-public dock. We could get the man here who has the detail, but I do not think there is anything in it.

Mr. ROBICHAUD: If it was sold in 1955 for $250, is there any explanation as to why $2500 was spent on that wharf in 1959?

Mr. HENDERSON: I think you would have to address that question to the Department of Public Works, or we could obtain further information from them and table it.

Mr. BROOME: It was sold for $250?

Mr. STEVENSON: Yes.

Mr. BROOME: To whom?

Mr. HENDERSON: We do not have the name. I am informed it was sold to a religious organization.

Mr. BROOME: For a camp?

Mr. HENDERSON: Probably.

Mr. FISHER: Was this the wharf which was used by the Muskoka lake navigation company which pulled out their boats?

Mr. STEVENSON: We understand that is the case.

Mr. BROOME: That would be one of the reasons why the commercial need was no longer apparent.

Mr. HENDERSON: Yes.

Mr. MACDONNELL: Apparently the item in the amount of $3600 was increased to $8,000 by a transfer from another item listed in the details of the vote. I do not suggest we should go back and collect the money from other people because I think this was done with the knowledge of everybody; but if this was as easy a thing as it appears should we not somewhere register that we do not like it and, its having been done, we should know more about how it was done.

Mr. HENDERSON: I could obtain these details and bring them to the next meeting.

The CHAIRMAN: Or you might offer the name of a witness from the Department of Public Works.

Mr. BROOME: What bothers me is how accurate are the departmental estimates when a simple construction like this wharf would be estimated at $3,600 and then be increased to $8,000. That is a substantial percentage to be out in the estimates.

Mr. STEVENSON: As you will notice, what is said here in the paragraph is that the final cost did not closely approximate the $8,000. An additional $2,400 had to be spent in 1959-60, making a total of approximately $6,000 in the two years.

Mr. BROOME: $5,000.

Mr. FISHER: $5,233.

Mr. STEVENSON: Yes.

Mr. BROOME: They certainly asked for plenty. They were wrong twice. They were wrong in the first place, and then they were wrong in going for so much extra. It is poor estimating as to what the cost of a job shall be, and the cost of a job which one should be able to estimate fairly closely.

Mr. FISHER: Could I ask for a check on another situation which seems analogous to this; it is the situation at Nakusp in British Columbia. This was brought to my attention by the member from there. He asked me, if I had the opportunity, to question this. According to his information it seems to be an analogous situation.

Mr. MACDONNELL: The amounts are so small there is a disposition to say "Let it go"; but I believe if we went to the bottom of this and got the details it might be worth while in helping us to make sure that money is looked after carefully, whether it be in small or large amounts.

Mr. HENDERSON: We could obtain the information and have it for the next meeting. We will also get the information asked for by Mr. Fisher.

Mr. DRYSDALE: What bothers me most is not this particular case, but rather the principle behind it,—that if you can get something into the estimates and can get it through parliament you can relax. It seems to me, in the case of a private organization they would have to spend the money themselves to repair it; but if somehow or other they are able to have a government department put it through in the estimates, then they think it is a good idea. I do not think they can be that free with the taxpayers' money. I think under the circumstances the principle is that that money can be requested back. The gentleman said it was not a question of a mistake in fact; that is what they intended to do. It does not matter whether or not they intended to do it. I do not see how you can take the taxpayers' money like that and allocate it to a private interest.

Mr. SMITH (*Simcoe*): I think we should have an explanation.

Mr. DRYSDALE: I am not interested in the individual case; I am interested in the principle.

Mr. SMITH (*Simcoe*): This is not the first time, I believe, that government money was spent on private property.

Mr. DRYSDALE: Perhaps it was not challenged before.

Mr. SMITH (*Simcoe*): I do not think there is anything to challenge.

The CHAIRMAN: Let us suggest we call someone from the Department of Public Works.

Mr. FISHER: When we do could we also take up the Nakusp matter.

The CHAIRMAN: That is noted. Is this the wish of the members?

Agreed.

Mr. HENDERSON: The next item is item 32 regarding reimbursement to contractor for state tax. Following a question by Mr. Chown, comments were made by Messrs. Bell, Macdonnell and McGee regarding the importance of following up the question of recovery of the $187,200 reimbursed to a contractor for state tax.

A departmental memorandum dated June 10, 1960, outlining the progress made with regard to this matter indicates the present status to be:

> 1. The contractor has advised that as a result of an interim tax audit by the California state board of equalization, a refund of $30,000 is now due. This will reduce the refund claimed to $157,200. Of this amount, $52,614 will apparently be retained by California representing the 4 per cent state sales tax on that portion of the goods used within the State, including tooling. Collection of the balance of $104,586 must await completion of a final tax audit by the California authority which will determine the actual tax assessment.

The contractor has been requested also to furnish figures showing the alternative property tax—California has these two taxes which are exigible in this case—that would have been payable if title had not passed to the crown at the time progress payments had been made but had remained with the contractor.

We are informed that the department considers it advisable to work through the contractor so long as there remains a possibility of recovery through normal channels, before recommending action at the government level, perhaps through the Consulate General, as suggested by Mr. McGee.

That is the status of the collection efforts to date on that refund, Mr. Chairman, and I would suggest it is not an abnormal state of Affairs in dealing with a state tax equalization board; they take quite a long time doing their audits, finalizing their figures and that type of thing.

The CHAIRMAN: Any other questions on that answer, gentlemen?

Mr. HENDERSON: Item 36 was the next one, and it had to do with cloth inventory—a special charge to national defence expenditure, for cloth inventories.

Mr. McGee asked how much of the 3,755,000 yards of surplus cloth would be tropical material, and the acting chairman asked how many uniforms might be manufactured from the cloth.

On the first question we are informed that, in an emergency, approximately 1,600,000 yards could be utilized in the manufacture of light-weight clothing, underwear, etc., suitable for wear in a warm climate.

On the second question, we are informed that the surplus cloth includes material sufficient to manufacture approximately 43,000 winter uniforms and 53,300 summer uniforms. This is the material that is being declared surplus to crown assets, you will recall. That was your question, Mr. McGee, I think?

Mr. MCGEE: As I recall it, there was a suggestion made that appropriate relief agencies be approached concerning their possible need of this. Were any inquiries made along those lines?

The CHAIRMAN: The suggestion was that this material could be given or sold to relief agencies, was it not? Did you answer that question?

Mr. HENDERSON: I am afraid I did not hear you, Mr. McGee.

Mr. MCGEE: Was there not some question about the possibility of certain relief agencies being approached?

Mr. HENDERSON: We have no information on that, Mr. McGee. I think it is being declared surplus to crown assets, and possibly that is something we might address to those officials at our next meeting.

Mr. DRYSDALE: What was the result of that survey? You say in your report:

> and a survey is currently being made by the Department of National Defence.

Mr. STEVENSON: I think reference was made to the survey at the last meeting, and it was mentioned it had been completed in September of 1959. The result was that 11,162,000 yards, representing an estimated five years' requirement, is to be retained in stock, and that the balance of 3,755,000 yards is to be regarded as surplus to requirements.

In December, 1959 treasury board was requested to give approval that this material be declared surplus, and it has given its approval; but the formality of declaring it surplus to Crown Assets Disposal Corporation has not yet been completed.

Mr. DRYSDALE: What is the dollar value of that surplus, have you any idea?

Mr. STEVENSON: The figure, I think, is mentioned in paragraph 36 of the report, $13,699,000 altogether. If you notice, that corresponds fairly closely to the total number of yards. I would say the value of this 3,755,000 yards would be of the order of $3,600,000.

The CHAIRMAN: Any other questions?

The next paragraph?

Mr. HENDERSON: Paragraph 40 had to do with the interest on temporary investment of univeristy grants funds.

Mr. Smith asked if the National Conference of Canadian Universities was in a position, at the time it received the payment from the Receiver General, immediately to pay over the grants to the universities.

The answer is that it was able at once to pay over a part but not all of the individual grants. The grants are distributed in each province according to the enrolment of the various universities, as of December 1 in each year, usually known by the end of December. In 1958 the conference authorized an interim payment of approximately two-thirds the amount which it was estimated each university would ultimately be entitled to receive for the year. Payment of the full amount was requested from the Department of Finance and following its receipt, on November 19, 1958, we understand that cheques representing the interim payments were mailed to the universities on the following day. The interest of $86,874 was earned on the balance of the funds between that time and the date on which the final payments were made by the conference.

Mr. Macdonnell suggested that a report on the status of the interest amount be obtained from the Department of Justice. I intend to place the facts before the deputy minister with the suggestion that he write to the chairman on this point at an early date.

The CHAIRMAN: Any questions, gentlemen?

Then I will call your attention to paragraph 38.

Mr. McGEE: Just before we do that item, could we go further and perhaps suggest concerning the apparent absence of any specific agreement covering the disposition of such funds, that the deputy minister's attention might be directed to the regulations concerning trustees?

Mr. MACDONNELL: Is that not telling the Department of Justice their business?

Mr. McGEE: It is just a suggestion.

The CHAIRMAN: It is a free country.

Mr. MACDONNELL: Yes, Yes.

The CHAIRMAN: Paragraph 38, unpaid accounts charged to new fiscal year. There was a question about this raised at the last meeting, and the committee requested the attendance of witnesses. I have a note here which states that Dr. G. D. W. Cameron, deputy minister of national health, regrets that due to his absence on official business in western Canada he cannot appear before the committee.

However, he has asked Miss Olive Waters, departmental secretary, and Dr. L. R. Hirtle, principal medical officer, quarantine and sick mariners services, to present him. So now we have our two witnesses here, there might be some questions.

Did you want to make a statement or answer questions, Miss Waters?

Miss OLIVE WATERS (*Departmental Secretary, Department of National Health and Welfare*): Whichever you prefer, Mr. Chairman.

The CHAIRMAN: Have you a statement?

Miss WATERS: I have not a prepared statement, but I am prepared to speak on this.

The CHAIRMAN: Would you come up and join our table? Have you read this paragraph in the Auditor General's report?

Miss WATERS: Yes.

The CHAIRMAN: Would you like to tell the committee what it means to you and your department?

Miss WATERS: Yes.

Mr. Chairman, in February of 1958, when the department was considering the final supplementary estimates, it was known that the unexpended balance in the vote for sick mariners would not be sufficient to meet all our year-end accounts. Under normal circumstances we would certainly have asked for a final supplementary estimate, of course. But we found ourselves faced with a very unusual situation at that time, in that even before the new fiscal year started, we knew that we would have more funds than we needed in primary IV, professional and special services, because of the very sudden flattening out of our medical work for the Hungarian refugee group.

Therefore, it seemed sensible and logical, rather than asking Parliament to vote us an additional $100,000, to pay these year-end accounts, that we meet them from the funds which we knew we would not spend in the new year. This is all that was involved.

The CHAIRMAN: Of course, in principle it involves quite a bit, as I am sure you realize now.

Miss WATERS: Yes.

Mr. ROBICHAUD: May I ask a question on this point, Mr. Chairman: was it a practice in the department to transfer funds from one appropriation to another?

Miss WATERS: No, indeed. This was quite an unique situation. We had never done this before.

Mr. ROBICHAUD: There was no precedent?

Miss WATERS: Not that I can remember, in the 15 years that I have been doing this work.

The CHAIRMAN: Will you do it again?

Miss WATERS: No, I do not think we will.

Mr. SMITH: (*Simcoe North*): It shows that our sense of logic is not always part of the democratic process of government.

Miss WATERS: The fact that we did recognize this principle is proved, I think, by the other item we have here in our supplementary estimates for the other vote.

The CHAIRMAN: Are there any other questions? It is too bad that you are such a charming witness, otherwise we would continue this examination. Thank you very much.

Miss WATERS: Thank you, sir.

The CHAIRMAN: We are now at paragraph 46, summary of assets and liabilities. If you agree to this, gentlemen, paragraphs 46 to 66 can be considered as a group.

Mr. CHOWN: I will so move, Mr. Chairman.

Summary of Assets and Liabilities

46. 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".

47. As noted in previous reports, the annual Statement of Assets and Liabilities does not include the following among the assets:

(i) accounts receivable (except in special cases, such as balances receivable under agreements of sale of Crown assets);
(ii) interest receivable and accrued (except where the offsetting credits were to the Deferred Credits item on the liabilities side);
(iii) inventories of materials and supplies (except where acquired through statutory revolving funds); and
(iv) capital assets, such as land, buildings and works (except to the extent that such assets are represented by loans to or investments in Crown corporations).

However, generally speaking, all liabilities are reflected on the liabilities side of the Statement, including interest accrued on the Public Debt and accounts payable for materials supplied or work performed up to the fiscal year-end.

Assets

48. The following table lists the assets as at 31 March 1959, by main headings in the Statement of Assets and Liabilities, together with the corresponding amounts at the close of the two previous fiscal years:

	31 March 1957	31 March 1958	31 March 1959
Current assets	$ 947,057,000	$ 696,832,000	$ 907,786,000
Advances to the Exchange Fund Account	2,021,000,000	1,975,000,000	1,995,000,000
Sinking fund and other investments held for retirement of unmatured debt	210,805,000	211,741,000	83,214,000
Loans to and investments in Crown corporations	2,250,676,000	2,554,409,000	3,271,061,000
Loans to national governments	1,478,559,000	1,487,985,000	1,448,960,000
Other loans and investments	655,019,000	662,648,000	683,056,000
Securities held in trust	9,607,000	22,646,000	20,742,000
Deferred charges—Unamortized loan flotatation costs	63,920,000	77,535,000	147,431,000
Unamortized portion of actuarial deficiencies	139,000,000	139,000,000	465,300,000
Suspense accounts	9,432,000	2,000	2,000
Inactive loans and investments	89,455,000	90,854,000	92,216,000
Total Assets	7,874,530,000	7,918,652,000	9,114,768,000
Less: Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net Assets	$ 7,328,146,000	$ 7,372,268,000	$ 8,568,384,000

49. *Current assets.* The balances included under this heading at 31 March 1959 and at the close of the two previous fiscal years were:

	31 March 1957	31 March 1958	31 March 1959
Cash	$ 604,215,000	$ 468,013,000	$ 640,459,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account	20,715,000	26,524,000	67,078,000
Defence production revolving fund	56,352,000	54,576,000	30,161,000
Other	46,872,000	49,010,000	54,559,000
	123,939,000	*130,110,000*	*151,798,000*
Securities investment account	204,254,000	79,846,000	98,031,000
Other current assets	14,649,000	18,863,000	17,498,000
	$ 947,057,000	$ 696,832,000	$ 907,786,000

The increase of $40,554,000 in the Agricultural Commodities Stabilization Account during the year ended 31 March 1959 was largely accounted for by the increase of $17,230,000 or 114% in the inventory of creamery butter, and by the $20,836,000 inventory of pork accumulated during the year. The decrease of $24,415,000 in the Defence Production Revolving Fund during the year was in large part the result of an entry transferring cloth inventories with a book value of $13,699,000 as a charge to National Defence expenditure (see paragraph 36).

50. *Advances to the Exchange Fund Account.* This Account is operated on behalf of the Minister of Finance by the Bank of Canada, earnings from investments being transferred annually to the Receiver General. Profits or losses realized on sales of gold, securities and foreign currencies, together with profits or losses resulting from their revaluation on the basis of ruling exchange rates, are accumulated in the Account. The financial period of the Exchange Fund Account is the calendar year, and the 31 December 1958 balance of $2,010 million represented $1,040 million of gold, $736 million of U.S. securities and $30 million of U.S. currency—together with the deficit of $204 million which had accumulated from the sale and revaluation of gold, securities and foreign currencies to that date.

51. *Sinking fund and other investments held for retirement of unmatured debt.* The decrease of $128,527,000 in this asset item at the close of the fiscal year under review, in comparison with the position at the close of the preceding year, resulted from the encashment of holdings of Government of Canada 1948-56/63, 3% bonds, the issue having been called for redemption during the year.

52. *Loans to and investments in Crown corporations.* The following were the loans and investments at 31 March 1959 and at the close of the two previous fiscal years:

	31 March 1957	31 March 1958	31 March 1959
Canadian National Railways	$ 1,276,931,000	$ 1,266,227,000	$ 1,468,179,000
Central Mortgage and Housing Corporation	560,508,000	668,017,000	1,003,576,000
The St. Lawrence Seaway Authority	77,500,000	176,743,000	282,819,000
National Harbours Board	114,267,000	125,431,000	145,632,000
Northern Ontario Pipe Line Crown Corporation	250,000	70,750,000	113,500,000
Canadian Farm Loan Board	50,900,000	65,172,000	87,219,000
Atomic Energy of Canada Limited	52,830,000	56,044,000	58,789,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Other balances	87,490,000	96,025,000	81,347,000
	$ 2,250,676,000	$ 2,554,409,000	$ 3,271,061,000

The $81,347,000 shown for 'other balances' at 31 March 1959 included loans to or investments in: Northern Canada Power Commission, $21,639,000; Canadian Overseas Telecommunication Corporation, $12,979,000; Export Credits Insurance Corporation, $10,000,000; Eldorado Mining and Refining Limited, $8,247,000; Canadian Arsenals Limited, $7,500,000; National Capital Commission, $7,100,000; and Bank of Canada, $5,920,000.

53. *Loans to national governments.* The standing of these loans at the close of the 1958-59 fiscal year, compared with the corresponding amounts at the close of the two previous years, was:

	31 March 1957	31 March 1958	31 March 1959
Belgium	$ 46,140,000	$ 43,833,000	$ 41,526,000
France	177,986,000	169,000,000	160,550,000
India		16,173,000	33,000,000
Netherlands	94,667,000	89,504,000	84,340,000
United Kingdom	1,149,126,000	1,163,397,000	1,124,703,000
Other countries	10,640,000	6,078,000	4,841,000
	$ 1,478,559,000	$ 1,487,985,000	$ 1,448,960,000

The increase of $16,827,000 in loans to India during the year ended 31 March 1959 was for the purchase of wheat and flour from Canada, to supplement economic assistance given under the Colombo Plan.

54. *Other loans and investments.* The balances making up this asset item at 31 March 1959 and at the close of the two previous fiscal years were:

	31 March 1957	31 March 1958	31 March 1959
Subscriptions to capital of, and working capital advances and loans to international organizations	$ 367,821,000	$ 372,561,000	$ 369,916,000
Veterans' Land Act advances	215,266,000	201,733,000	192,857,000
Less: Reserve for conditional benefits	58,073,000	47,760,000	41,857,000
	157,193,000	*153,973,000*	*151,000,000*
Loans to provincial governments	69,746,000	70,828,000	96,339,000
Other balances	60,259,000	65,286,000	65,801,000
	$ 655,019,000	$ 662,648,000	$ 683,056,000

The $369,916,000 shown for the first of these classes of balances at 31 March 1959 consisted almost entirely of the $293,285,000 subscription to the International Monetary Fund and the $70,864,000 subscription to the International Bank for Reconstruction and Development. The reserve for condition benefits shown as a deduction from Veterans' Land Act advances adjusts the asset value of the advances to the amounts estimated to be repayable by veterans provided they fulfill their term agreements and thereby become entitled to the grants provided for by the Act. The increase of $25,511,000 in loans to provincial governments during 1958-59 was more than accounted for by loans of $29,500,000 to the Government of New Brunswick during the year, in respect of expenditures for the development of hydro-electric power at Beechwood. The $65,801,000 shown for 'other balances' at 31 March 1959 included $19,105,000 for balances receivable through the Department of Defence Production, under agreements of sale of Crown property, and $6,199,000 for the equity in the Agency Account of Crown Assets Disposal Corporation (largely represented by balances receivable under long-term sales agreements).

55. *Securities held in trust.* The principal holdings at the close of the fiscal year under review were for: contractors' deposits, $13,609,000; war claims fund, $4,427,000; and pilots' pension funds, $2,400,000. There was no significant change in any of these holdings during the year.

56. *Deferred charges—Unamortized loan flotation costs.* The increase of $69,896,000 in this account during 1958-59 was due to charges of $111,790,000 for further loan flotation costs, less credits of $41,894,000 for amortization amounts included in 1958-59 expenditure.

57. *Unamortized portions of actuarial deficiencies.* The increase of $326,300,000 in the amount appearing under this caption in the Statement of Assets and Liabilities resulted when, by means of a bookkeeping entry in 1958-59, a balance was set up to record the actuarial deficiency in the Permanent Services Pension Account (see paragraphs 62 and 71).

58. *Inactive loans and investments.* The $92,216,000 shown for this item in the Statement comprised the following balances at 31 March 1959:

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 inplementation 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)	11,862,000
Loan to Province of Saskatchewan in 1908, for the purchase of seed grain	74,000
	$ 92,216,000

The amount shown for the third item in the above listing is $1,361,000 greater than the corresponding amount as at 31 March 1958 by reason of a payment, covering $1,275,000 of principal and $86,000 of interest, during 1958-59 under the terms of the guarantee. A contingent liability remains to meet similar payments in the 1959-60 and 1960-61 fiscal years.

Liabilities

59. The following table lists the liabilities as at 31 March 1959, by main headings in the Statement of Assets and Liabilities, in comparison with the corresponding balances as at the close of the two previous fiscal years:

	31 March 1957	31 March 1958	31 March 1959
Current and demand liabilities	$ 1,002,909,000	$ 874,873,000	$ 949,428,000
Deposit and trust accounts	175,318,000	187,018,000	237,891,000
Annuity, insurance and pension accounts	2,429,021,000	2,712,813,000	3,301,861,000
Undisbursed balances of appropriations to special accounts	312,556,000	285,367,000	83,387,000
Deferred credits	33,459,000	76,813,000	81,429,000
Suspense accounts	14,120,000	36,551,000	18,664,000
Unmatured debt	14,368,415,000	14,245,107,000	15,574,114,000
	$ 18,335,798,000	$ 18,418,542,000	$ 20,246,774,000

60. *Current and demand liabilities.* Among the items listed under this heading at 31 March 1959 were: $247,305,000 for outstanding Treasury cheques, $256,402,000 for accounts payable, $205,828,000 for non-interest bearing notes payable to the International Monetary Fund and the International Bank for Reconstruction and Development, and $124,893,000 for interest accrued. There was no significant change in any of these items during the fiscal year under review.

61. *Deposit and trust accounts.* The largest balances included in this item at the close of the year were: advances received with respect to United States Strategic Air Command bases, $42,205,000; Post Office Savings Bank, $34,156,000; contractors' security deposits, $33,481,000; Indian trust funds, $28,651,000; contractors' holdbacks, $18,160,000; and deposits by Crown corporations, $15,330,000. The only important change in any of these balances was in the first, net additional advances of $41,706,000 having been received on account of the Strategic Air Command bases during the year.

62. *Annuity, insurance and pension accounts.* The following balances made up this item at 31 March 1959 and at the close of the two previous fiscal years:

	31 March 1957	31 March 1958	31 March 1959
Government annuities	$ 989,286,000	$1,047,641,000	$1,105,825,000
Superannuation account	918,944,000	1,045,760,000	1,136,022,000
Permanent services pension account	426,306,000	513,869,000	942,315,000
Unemployment insurance fund	885,676,000	754,803,000	509,864,000
Less: Investment in bonds	−875,078,000	−739,753,000	−488,891,000
Other balances	83,887,000	90,493,000	96,726,000
	$ 2,429,021,000	$ 2,712,813,000	$ 3,301,861,000

The increase of $428,446,000 in the Permanent Services Pension Account was largely the result of a bookkeeping credit of $326,300,000 which was effected by establishing an offsetting item on the assets side of the Statement, for 'Unamortized portion of actuarial deficiency in the Permanent Services Pension Account' (see paragraph 71).

63. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances making up this item on the liabilities side of the Statement at 31 March 1959, compared with the corresponding balances at the close of the two previous fiscal years:

	31 March 1957	31 March 1958	31 March 1959
National Defence equipment account	$ 236,075,000	$ 211,739,000	
Colombo Plan fund	65,923,000	60,368,000	$ 59,878,000
Railway grade crossing fund	9,526,000	12,648,000	22,560,000
Other	1,032,000	612,000	949,000
	$ 312,556,000	$ 285,367,000	$ 83,387,000

The $211,739,000 balance of the National Defence Equipment Account at 31 March 1958 was utilized during the year under review (see paragraph 15).

64. *Deferred credits.* The larger balances included in this item at 31 March 1959 were: deferred interest under the United Kingdom Financial Agreement Act, 1946, $44,174,000; credits arising from the recording of agreements of sale of Crown Assets, $16,387,000; and accrued interest on loans to The St. Lawrence Seaway Authority, $12,819,000. The only significant change during the fiscal year was in the last of these balances, which increased by $8,076,000.

65. *Suspense accounts.* The only large balance included in this item on the liabilities side of the Statement at 31 March 1959 was that of $13,845,000 at the credit of the Replacement of Material Account maintained pursuant to section 11 of the National Defence Act. The section

provides that proceeds of sales to other countries, of materiel not immediately required, be paid into a special account in the Consolidated Revenue Fund and used for the procurement of materiel. There was a decrease of $4,436,000 in the balance in the Account during the year under review.

Net Debt

66. The Liabilities amounting to $20,246,774,000 and the Assets to $8,568,384,000 at 31 March 1959, the Net Debt was $11,678,390,000 at that date. The following is an analysis of the Net Debt Account for the year under review:

Balance, 31 March 1958		$ 11,046,274,000
Add: Write-off of balance of loans to the Canadian Broadcasting Corporation as at 10 November 1958, pursuant to section 39 of the Broadcasting Act, c. 22, 1958		22,799,000
		11,069,073,000
Add: Deficit for the fiscal year 1958-59—		
Expenditure	$ 5,364,040,000	
Revenue	4,754,723,000	
		609,317,000
Balance, 31 March 1959		$ 11,678,390,000

Reference is made in paragraph 90 to the accounting actions taken by the Canadian Broadcasting Corporation to give effect to the requirements of section 39 of the Broadcasting Act.

The CHAIRMAN: We might take a little time to examine these paragraphs, 46, 47, 48 on to 66, dealing with summary of assets and liabilities.

Were there any special questions the members wanted to ask, having read the paragraphs in detail, I know, and having studied them?

Mr. BROOME: How far are we going—from where to where?

The CHAIRMAN: Paragraphs 46 and 66.

Mr. MACDONNELL: Not being an accountant, Mr. Chairman, I am always a little nervous when I see book-keeping entries. I think they are very puzzling to non-accountants.

I would like to refer to paragraph 57; there is a large item there. Would the Auditor General say a word about that? Also, I might just add that later on, when we come to paragraphs 70 and 71, as I read the comments it seemed to me that the Auditor General was telling us he was not quite happy with what had taken place.

We will come to that later. But, coming back now to paragraph 57, would the Auditor General just say a word about this book-keeping entry and whether, in his opinion, it accords not only with the dictates of accountancy, but with the dictates of common sense, from the point of view of the ordinary person who tries to understand it?

Mr. HENDERSON: Do you wish to have that discussed now, Mr. Macdonnell? It includes paragraphs 62 and 71.

Mr. MACDONNELL: Yes—well, whatever the chairman thinks.

Mr. HENDERSON: Or would you rather wait until we reach that?

Mr. MACDONNELL: In other words, when we come to paragraph 71?

Mr. HENDERSON: Paragraphs 70 and 71.

Mr. MACDONNELL: I have just noted those. All right, we will wait till then.

The CHAIRMAN: With regard to paragraph 50, Mr. Henderson, I have a note here: it is to be inferred from the information given regarding the balances

comprising the exchange fund that the amount shown for the advances to the fund in the government's balance sheet is overstated to the extent of over $200 million, by reason of the accumulated deficit since the fund's inception?

Mr. HENDERSON: Mr. Chairman, as I understand that treatment, our thought was that the committee might feel that consideration should be given by the Department of Finance to adjusting the balance of the account to the end that the asset item in the statement of assets and liabilities would in fact reflect the true value of the fund.

The fund in its present size includes a $200 million deficit arising from past transactions.

This could be done by writing off the accumulated deficit against net debt account, provided appropriate parliamentary authority were given, and providing in future for annual losses or gains due to exchange fluctuations to be transferred to the Department of Finance to be recorded as charges to expenditure or credits to revenue, or handled through a suspense account, or in some related way.

The point is, it is shown as an asset, but in fact the $200 million figure is a deficit arising from past transactions.

Mr. MACDONNELL: That is one of the things that puzzles us laymen.

Mr. HENDERSON: It has seemed to me that possibly in future it would call for some footnote on the financial statement.

The CHAIRMAN: Referring to paragraph 52, loans to and investments in crown corporations—

Mr. BROOME: Before you go on to that, Mr. Chairman: in paragraph 50 it says:

> profits or losses realized on sales of gold, securities and foreign currencies . . . are accumulated in the account.

With regard to this $204 million deficit, did they have any profit?

Mr. HENDERSON: It is a net figure over the years, and goes way back.

Mr. BROOME: For how long a period?

Mr. HENDERSON: Perhaps Mr. Stevenson could give us some information on that.

Mr. STEVENSON: The exchange fund account was established in 1935 under the Exchange Fund Act, the account at that time being credited with the profit resulting from the gold held by the Bank of Canada being revalued at the then current market price, in place of the previous statutory price. That was the origin of the account.

Mr. BROOME: And has it never been adjusted since that time?

Mr. STEVENSON: The account has been continued since that time, under different acts. Currently it is under the Currency Mint and Exchange Fund Act. Throughout the period there have been profits and losses, due to the revaluations, partly, and due to sales of gold and securities.

Mr. SMITH (*Simcoe North*): This $204 million are the accumulated losses since 1935 that we have had in our various governments dealing with foreign securities, in order to maintain a degree of stability; is that it?

Mr. HENDERSON: That is as I understand it.

Mr. BROOME: It is operated by the Bank of Canada, and has been since the bank was set up?

Mr. STEVENSON: It is operated by the Bank of Canada, on behalf of the Minister of Finance.

Mr. SMITH (*Simcoe North*): I suppose if there were a great jump in the price of gold, the value of our gold holdings might wipe out a part of that; is that the idea behind it—if the gold were sold?

Mr. STEVENSON: Yes, that is true. So that, of course, if the price of gold increased, that would be a windfall to the account. Similarly, if the value of United States currency rises in relation to the Canadian dollar, then, again, there is a benefit to the account.

Mr. DRYSDALE: Mr. Henderson, do you feel it should be carried on as it is at present, or what would you recommend?

Mr. HENDERSON: I am not familiar enough with the background of this to make any categorical statement. But in connection with signing the accounts of this exchange fund this year for the minister, shortly after taking office, I noted the presence of this deficit and I thought it might be useful to have a discussion with the governor of the Bank of Canada regarding steps which might be taken—although he was not responsible for it; but he does maintain it.

I have not been able to have that discussion yet, but I do intend to consider it during the course of the next few months.

Mr. DRYSDALE: Perhaps you could discuss it next year. I am sure it will still be with us at that time.

Mr. SMITH (*Simcoe North*): Mr. Chairman, to pursue that one step further: assuming that the accumulated deficits were written off, would there be a record showing what the costs of our exchange transactions were annually? Would that appear?

Mr. HENDERSON: Yes, I think so.

The CHAIRMAN: Paragraph 52.

Mr. MACDONNELL: One figure there that arouses my curiosity and that is the one covering the loan to the Bank of Canada, the last item in the list. What would be the nature of that transaction whereby we make a loan or investment to the Bank of Canada?

Mr. HENDERSON: Is that in item 52?

Mr. MACDONNELL: Yes, the last figure appearing at the top of the next page.

Mr. DRYSDALE: It appears at page 18.

Mr. BROOME: It is included in the other balance.

Mr. HENDERSON: This represents the capital stock of the bank which is held solely by the government and which was acquired under the authority of the Bank of Canada Amendment Act, 1938.

Mr. MACDONNELL: That was not a very sensible question. I should have known that.

The CHAIRMAN: There are other fairly large increases listed under the column headed 31 March 1959. The item in regard to the Central Mortagge and Housing Corporation is up considerably. I suppose you appreciate the reason for that.

Mr. HENDERSON: These are further loans made under section 22 of the Central Mortgage and Housing Act to permit that corporation to make loans pursuant to the National Housing Act, 1954.

The CHAIRMAN: The item in regard to the St. Lawrence seaway is up substantially.

Mr. HENDERSON: A further loan of $98,000,000 was made to that corporation under section 25 of the St. Lawrence Seaway Authority Act, and the balance of $8,000,000 is an increase in the deferred interest on the loan.

Mr. MACDONNELL: Was that an anticipated increase?

Mr. SMITH (*Simcoe North*): Are these loans actually advances in the case of the St. Lawrence seaway and the other projects of the Northern Ontario gas?

Mr. HENDERSON: Pretty well.

Mr. DRYSDALE: Could you make a comment in regard to the Canadian National Railways figure?

Mr. HENDERSON: This is a $202,000,000 increase. There was an increase of $136,000,000 in advances made under the Financing and Guarantee Acts for the purposes of capital expenditure. There was another increase of $45,000,000 representing an advance made under the Refunding Act of 1955 for the purpose of retiring maturing debt. The government purchased $21 million of preferred stock of the company issued under the authority of the Capital Revision Act of 1952 to assist the company in financing further capital expenditures.

Mr. DRYSDALE: This has been steadily increasing over the years and on projection it looks like it is going to continue to go upwards.

Mr. HENDERSON: On the basis of the current financial results, I think that would be a correct statement.

The CHAIRMAN: Paragraph 53.

Are these loans collectible?

Mr. HENDERSON: As far as we know they are collectible. If they were not I think we would have said so. These have decreased slightly, as compared to the 1958 figures. I have particulars here which I will read to you if any member is interested. These items are down $39,000,000.

The CHAIRMAN: Under the heading "Other countries" could you give us an explanation of that?

Mr. HENDERSON: I am informed that the repayment of principal and interest is proceeding in accordance with the terms of the loans.

The CHAIRMAN: Could you give us an explanation of the 'other countries' item in the amount of $4,841,000?

Mr. HENDERSON: I do not seem to have a note of the other countries item in my papers, Mr. Chairman. I could obtain that for you.

Mr. MCGEE: It seems to me there was some question last session or the session before about the audit of some portion of the Colombo plan fund in India. Do you recall this question? Perhaps the discussion took place in some other committee. My recollection was it occurred last year or the year before. There was some problem which occurred and Mr. Sellar at the time indicated that this was being looked into and, if I recall correctly, the subject was left on the understanding that he would report back to the committee at a later date. I am speaking purely from memory but it might be worth while perhaps to look into this.

Mr. HENDERSON: I think Mr. Stevenson could give you some information in that regard.

Mr. STEVENSON: I could commence with the explanation and perhaps Mr. Long could add to what I might say.

Over the years it has been our feeling that the accounting for the counterpart funds has not been satisfactory. The agreements that were entered into with the various Colombo Plan countries provided that in cases where shipments were made of materials which were not calculated at once to assist in the economic development of the countries—as, for example, in two cases of shipments of wheat which were made, and referred to in an earlier audit report—it was agreed that counterpart funds would be set up by the countries concerned which, in due course, would be utilized in carrying out expenditures on projects which were directly for the economic development of the countries.

It was provided that accounts would be maintained by the countries of these counterpart funds, and that statements with respect to the balances would be provided to our Department of External Affairs.

In addition, certificates would be given by the Auditors General of the various countries. Our feeling, as I mentioned a little while ago, over the years has been that there had been considerable delay in the accounting for these funds and in getting certificates from the Auditors General. Last year we made an inquiry into the situation and found that there had been a distinct improvement, and we understand that the Department of Finance and the Department of External Affairs have in mind at the present time making inquiries on this subject to further improve the accounting for the counterpart funds.

The CHAIRMAN: Is there anything else, gentlemen?

Mr. DRYSDALE: I was interested, Mr. Chairman, in this increase and decrease in the United Kingdom item. What would cause that in regard to 1957, 1958, and 1959?

Mr. HENDERSON: The advances were made between May 1946 and June 1950. The total loan was $1,185,000,000 and was made under the authority of the United Kingdom Financial Agreement Act, 1946, as amended. The interest rate is 2 per cent. Repayment is being made in 50 annual instalments with the last instalment due January 1, in the year 2001. No more than seven of such annual instalments may be deferred. The first of any such deferred instalment would be due December 31 of the year 2001 with the others annually thereafter.

Mr. MCGEE: In what years were those instalments deferred?

Mr. HENDERSON: I do not have that information, Mr. McGee. We could find out for you.

Mr. DRYSDALE: Was this liquidated in 1959 through the deferred payments? I see that they decrease again.

Mr. HENDERSON: No, I do not think they will be paid until the year 2001 according to that formula.

Mr. DRYSDALE: What caused the reduction in the amount from 1958 to 1959?

Mr. HENDERSON: It is the result of the principal payment they have made, as I follow it.

The CHAIRMAN: Item 62, Permanent Services Pension Account. This shows a large increase which is referred to again later on in paragraph 71.

Mr. HENDERSON: That is correct.

Section 70 and 71 concern the same treatment, if you want to deal with those two together.

The CHAIRMAN: I suppose we can treat them that way, when we come to them, but I just wanted to draw this to the attention of the members at this time.

May we move on, gentlemen, to paragraph 67.

Mr. SMITH (*Simcoe North*): In connection with paragraph 58, what is the purpose of carrying those old indebtednesses, particularly the 1919 loans to Roumania and Greece.

Mr. HENDERSON: Well, Mr. Smith, I have the same question, but I do not have the answer.

Mr. SMITH (*Simcoe North*): It seems to me rather ineffectual and, particularly having regard to the fact that Greece is our friend and ally, why should we keep reminding her of a bad debt every year since 1919. To me, it would seem to be more logical to forget about it, and give them a clean sheet.

Mr. STEVENSON: Well, it would require parliamentary approval to write off the balance, and I imagine that would be regarded as an irrevocable step as at the present time, there is always the feeling there is a possibility of recovering something.

Mr. SMITH (*Simcoe North*): I notice it is for the purchase of excess goods produced in Canada. It is probably for excess army uniforms from World War I.

The CHAIRMAN: The same applies in the case of the Ming Sung Industrial Company.

Mr. SMITH (*Simcoe North*): But we have a better reason for keeping that open.

The CHAIRMAN: Paragraph 66 concerns net debt, and I trust it is decreasing?

Mr. HENDERSON: That shows you, in summary form, the size of the public debt.

The CHAIRMAN: Are there any questions, gentlemen?

Mr. DRYSDALE: Do you think it is such that we will never be able to get it paid back?

Mr. HENDERSON: I do not think I am in a position to indicate that at the moment.

Observations on Asset and Liability Items

67. *Loans to the Town of Oromocto.* The Public Accounts schedule supporting the asset item 'Other Loans and Investments' includes an amount of $2,943,000 repayable by the Town of Oromocto, being the total of the balances outstanding at 31 March 1959 of loans of $1,500,000 made in 1957-58 and $1,500,000 in 1958-59. The loans are repayable, with interest at 5½% and 5%, respectively, in 40 equal semi-annual instalments of principal and interest. However, the repayments are being made by the Town out of grants made to its from annual appropriations for the Department of National Defence (Votes 222 and 578 in 1958-59). The Town's operational costs for 1959, estimated at $1,460,000, were to be met by revenue estimated at $26,000 and by federal grants for the balance of $1,434,000. In these circumstances, it seems unrealistic to treat the loans to the Town as an asset item for purposes of the Statement of Assets and Liabilities.

Mr. MCGEE: Where is that?

Mr. STEVENSON: It is close to Fredericton. It is about 20 miles from Fredericton.

Mr. SMITH (*Simcoe North*): Is it a townsite in connection with Camp Gagetown?

Mr. STEVENSON: Yes.

Mr. SMITH (*Simcoe North*): Does it house civilian or military personnel?

Mr. HENDERSON: Military, but I think it is available for both.

Mr. MACDONNELL: If I read the last sentence correctly, it is a direct criticism of the practice of putting that in as a statement of assets. Is that correct?

Mr. HENDERSON: That is the way I read it.

Mr. MACDONNELL: Then, to save time, I will proceed, and will refer to the last sentence of paragraphs 70 and 71. In both of these, as I read them, there was a direct criticism of the present practice. What do we do about that? Have you any comment? Is it just passed on?

The CHAIRMAN: We will refer to them, if you so desire, in the report.

Mr. SMITH (*Simcoe North*): In regard to paragraph 67, are the loans to the town of Oromocto, in a sense, unrecoverable loans? Presumably, they are for sewage, streets, and so on. Is that so?

Mr. STEVENSON: Yes. It seems unrealistic to treat these as an asset item, because the government is having to make outright grants to the corporation, out of which the corporation pays the amounts due on the loans.

Mr. SMITH (*Simcoe North*): In other words, the town of Oromocto gets a grant in lieu of taxes, and repays it under this item?

Mr. BROOME: The government owns most of the town. In other words, they put up housing there for troops—married quarters and everything else, and they would have to pay taxes, so they pay it by grants, is that correct?

Mr. DRYSDALE: Where is this revenue of $26,000 coming from?

Mr. BROOME: Oh, government stuff, I guess.

Mr. STEVENSON: Sundry revenues of the municipality—or the town.

Mr. DRYSDALE: For example, what do you mean?

Mr. HENDERSON: Well, there would be some operations other than government there. However, it would be only to a small degree, and they can be counted on to raise $26,000 of revenue. The rest comes from the government.

Mr. STEVENSON: It provides sundry taxes, licenses and fees, and the rest of the revenue came from the outright grant made by the government to the town—and out of this combined revenue, a repayment was made by the town in connection with the loan it had received from the government. Funds which had been provided previously in 1955-56, in the amount of $1,500,000, had been to start these municipal works. At that time those funds had been provided by means of an outright grant, and the suggestion inherent in this paragraph is that it would seem more logical to consider this further $1,500,000 paid over 1957-58 as an outright grant, in the same way as the earlier amount, rather than record it as a loan.

Mr. DRYSDALE: Bookkeeping-wise, you are lending them the money to repay the government

Mr. STEVENSON: We are giving them the money, by another grant, to enable them to repay this loan.

Mr. ROBICHAUD: But, those grants are voted from year to year, while this loan already has been taken care of.

Mr. HENDERSON: That would be the reason for this.

Mr. SMITH (*Simcoe North*): Is the townsite crown-owned, or is it privately-owned?

Mr. B. A. MILLAR (*Audit Supervisor, Auditor General's office*): It is privately-owned by the Oromocto town commission.

Mr. MACDONALD (*Kings*): There are other than army personnel within the town.

Mr. SMITH (*Simcoe North*): You say it is owned by the commission. I do not quite understand what you mean by the commission.

Mr. MILLAR: I do not have the details of the commission. However, fundamentally, it is a commission formed of representatives of National Defence, the province of New Brunswick, and the local people.

Mr. SMITH (*Simcoe North*): But is the town owned by a government agency, or private individuals? Could we get an answer to that?

Mr. HENDERSON: I think Mr. Stevenson may have the answer to that.

Mr. STEVENSON: We have an outline in our notes which might be of interest in this connection. In fact, an outline regarding the town of Oromocto was given in paragraph 60 of the report for 1955-56. It was there noted that

early in 1956 the legislature of New Brunswick incorporated this town to take the place of the Oromocto local improvement district. The town is near the Gagetown army camp, and has a population of approximately 15,000, with married quarters for service personnel located therein. The act of incorporation provides that the town's affairs be administered by a board of commissioners, four of whom, including the chairman, are "during pleasure" appointments of the government of Canada and the remaining three of the province. The municipality has power to levy taxes in accordance with the towns act of the province and the act of incorporation states that except where otherwise provided all other acts of the province apply subject to such exceptions, adaptations and modifications as the lieutenant governor in council may prescribe. The act gives the board of commissioners a power to enter into agreements with the government of Canada or the province "for the purchase by the town of land, improvements, services or utilities".

Mr. McGEE: Are there any elected people involved in this group?

Mr. STEVENSON: No.

Mr. McGEE: You mentioned representatives of the town.

Mr. STEVENSON: No, none are elected.

Mr. SMITH (*Simcoe North*): Would it be possible to find out if any of the land within the townsite is owned by any party other than the commission?

The CHAIRMAN: Is there anything else, gentlemen? If not, paragraph 68.

> 68. *Share of loans to fishermen.* Also included in the asset item 'Other Loans and Investments' are amounts of $121,978 and $69,353 shown as due from the Provinces of Nova Scotia and Prince Edward Island, respectively, representing Canada's share of loans to fishermen. The loans had been made by the two Provinces to lobster fishermen who had suffered abnormal losses of equipment due to severe weather conditions, shortly before the federal scheme of insuring lobster traps was instituted in 1953. A total of $223,000, being 75% of the loans made by the Provinces, was advanced to them under Votes 631 and 765 of 1953-54 and 627 of 1954-55, with the provincial governments being responsible for the collection of the loans made to the fishermen. The loans were to have been repaid over periods of three years, expiring on 1 January 1957 in the case of the loans made by Nova Scotia and on 1 June 1957 in the case of those made by Prince Edward Island. The balances outstanding at 31 March 1959 are accordingly long overdue. The Department of Fisheries understands that the provincial governments concerned are of the opinion that the cost of further collection efforts would not be warranted by the results likely to be achieved.

My I call your attention to paragraph 68, Mr. Robichaud?

Mr. ROBICHAUD: In view of the remarks made here, that further recoveries in respect to loans are unlikely, and it seems to me that there was another statement made not so long ago, would it not be better to recommend that these loans be cancelled? I know they were made years ago; it says prior to 1955, I think it was much before that time, when lobster fishermen suffered heavy losses and the loans were made in such cases.

Mr. HENDERSON: If this committee should see fit to make a recommendation and to include it in its report, I suppose that is the procedure we would follow.

Mr. ROBICHAUD: If it is in order, then I move that we include it in our report.

The CHAIRMAN: Is there anything else, gentlemen? If not, paragraph 69. Post Office Account.

In the Public Accounts schedule which supports the liability item 'Other Current Liabilities' at 31 March 1959, a balance of $29,299,000 is listed for 'Post Office Account'. This balance represents the $32,431,000 liability for postal money orders outstanding, less asset balances of $3,132,000 (net) comprising the working capital of the Post Office Department. It would seem preferable were issues and redemptions of postal money orders recorded through a separate liability account (as is done in the case of Post Office Savings Bank transactions), leaving the 'Post Office Account' to represent simply the departmental working capital.

I understand they are in the process of revising their general setup in the post office, accountancy-wise; at least they told us that two years ago.

Mr. STEVENSON: This matter has been dealt with by the Department of Finance. An explanation of the action taken was given on page 71 of the budget papers for 1960-61, and the point to which attention was drawn in paragraph 69 has been appropriately cleared.

The CHAIRMAN: Paragraph 70 and 71, Superannuation account and permanent services pension account.

70. *Superannuation Account.* The balance at the credit of this account, included in the liability item 'Annuity, Insurance and Pension Accounts', was $1,136,022,000 at 31 March 1959. Previous reports have advanced the Audit Office view that the balance of the account is inflated to the extent of the $139,000,000 amount shown for 'Unamortized portion of actuarial deficiency in the Superannuation Account' on the assets side of the Statement. As at 31 March 1952, an amount of $214,000,000 was placed to the credit of the Superannuation Account by means of a bookkeeping entry, to increase the balance of the account to an amount equivalent to the estimated actuarial liability—an offsetting charge being made to the deficiency account. Special Government contributions of $25,000,000 in 1952-53, and 50,000,000 in 1956-57 (which otherwise might have been credited directly to the Superannuation Account) were subsequently provided for by Parliamentary appropriations to reduce the debit balance in the deficiency account to the amount of $139,000,000, at which it remained through to 31 March 1959. To this extent, then, the balance of the Superannuation Account did not arise from credits provided for by statute or by annual Parliamentary appropriations.

71. *Permanent Services Pension Account.* A bookkeeping entry similar to that made in relation to the Superannuation Account, as described in the preceding paragraph, was made during the year under review crediting the Permanent Services Pension Account with $326,300,000. The purpose of the entry was to increase the balance in the account to an amount equivalent to the estimated actuarial liability. It would seem desirable for credits to the Account to be limited to amounts provided by statute or by annual Parliamentary appropriations.

Mr. MACDONNELL: I want to draw attention to the statement made at the close of each of these, when you speak about bookkeeping entries that are used to balance the accounts. And then at the end of paragraph 70 where you say:

To this extent, then, the balance of the superannuation account did not arise from credits provided for by statute or by annual parliamentary appropriations.

Can it be made clear to us just exactly how that amount was done?

Mr. HENDERSON: Mr. Macdonnell, we have further details on these two points here; but speaking very generally, the approach was to increase the superannuation account by $139 million, and to increase the permanent services pension account by $326 million; these two sums were placed to their credit in order to bring the total of these accounts up to the level where they would adequately safeguard liability; that is to say, whatever the result was of the actuarial work and so on, as you know.

The corresponding debit was in fact made to what you might call, in an ordinary balance sheet, a deferred charge,—not to operations, not to income; so, to that extent, it is a sort of bookkeeping entry on your balance sheet. They call it a deficiency account.

Mr. MACDONNELL: In other words?

Mr. HENDERSON: They have brought your liability up to what seemed to be the appropriate level required, following actuarial examination, by a charge right on the balance sheet; and if you look at the statement you will see there what is called a deficiency account. In other words, it is a bookkeeping entry on the statement.

Mr. MACDONNELL: It does not represent the actual transfer of any money at all.

Mr. HENDERSON: No sir, nor a charge to expenditures.

Mr. MACDONNELL: Suppose you did this in the business of an ordinary company; would you not get yourself into very serious trouble?

Mr. HENDERSON: Yes, I think you would.

Mr. MACDONNELL: How would you explain it in the business of an ordinary company? Where is it possible to have a transaction in business such as this, in an ordinary company?

Mr. HENDERSON: These entries were not made with any parliamentary approval.

Mr. STEVENSON: There is a distinction which can be made between the government annuities account on the one hand, and the superannuation account on the other hand.

In the case of the government annuities account, it is provided by statute that the balance in the account would be brought into adjustment to represent the actuarial liability.

Mr. MACDONNELL: Then you have full statutory justification for what you have done?

Mr. STEVENSON: That is right. In the case of the superannuation account, on the contrary, it is specified what items shall be credited to the account. The act provides, for example, that there shall be credited to the account an amount representing interest on the balance at the credit of the account; and it also provides that there shall be credited to the account an amount matching the total amount estimated by the minister to have been paid into the account during the preceding year by way of contributions.

Thirdly, it is provided that there shall be credited to the account an amount in relation to the total amount paid into the account during the preceding year by way of contributions in respect of past service; and there is also another provision that when there is a general salary increase in the public service, that there would then also be a credit to the account. These credits are specifically provided for in the statute.

Mr. HENDERSON: We have taken the view that no additional amounts to the ones Mr. Stevenson has listed should be credited to this account, unless they are provided through annual appropriation acts, or through other statutory authority passed by parliament. That is the reason for these remarks.

Mr. MACDONNELL: Nevertheless what you have here is due to the statute to which you refer, and now you have statutory liability; and the government says that when the time is judged to be convenient, that is, when the most convenient time arrives, the money will be paid. Is that put correctly?

Mr. HENDERSON: If I understand you to say that the liability has been adjusted to what seems a proper level.

Mr. MACDONNELL: The liability is there.

Mr. HENDERSON: Of course; but it is how you put it there which has to be met one day.

Mr. DRYSDALE: In other words you think the amount should be voted rather than put in as a bookkeeping entry and you would have the money there.

Mr. HENDERSON: Yes.

The CHAIRMAN: That is another thing to keep in mind when we consider the final report.

Is there anything else before we go on to the crown corporations?

We will take the crown corporations now.

72. Crown corporations are classified in the Financial Administration Act as departmental, agency and proprietary corporations. The expenditures and revenues of departmental corporations are detailed in the public accounts in the same manner as if they were branches of the responsible departments. The agency and proprietary corporations are subject to section 80 of the act, which requires that "for each corporation the appropriate minister shall annually lay before parliament the capital budget for its financial year approved by the governor in council on the recommendation of the appropriate minister and the Minister of Finance". In addition, each agency corporation is required by the section to submit annually to the responsible minister, an operating budget for the next following financial year of the corporation for the approval of that minister and the Minister of Finance. Each agency and proprietary corporation is required, by section 85 of the act, to prepare in respect of each year, financial statements "containing such information as, in the case of a company incorporated under the Companies Act, is required to be laid before the company by the directors at an annual meeting".

73. Section 87 of the Financial Administration Act requires that the auditor of each agency or proprietary corporation report annually to the appropriate minister the result of his examination of the accounts and financial statements of the 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.

74. Section 87 of the Act also requires that the 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.

75. Under the Financial Administration Act the Auditor General is eligible to be appointed the auditor of a crown corporation, and 22 of the 27 agency and proprietary corporations were audited by the audit office for the year under review, as follows:

Corporation	*Responsible 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	Prime Minister of Canada
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 Farm Loan Board	Finance
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
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

Audit officers were given full opportunity to examine vouchers, records and files pertaining to the accounts of these corporations, and supplementary explanations were readily provided by the administrative and accounting officers concerned.

76. The following paragraphs summarize the operating results for the financial year of each of the larger corporations audited by the audit office, and include comments regarding the extent of the crown's equity in each at the year-end.

Agency Corporations

77. *Atomic Energy of Canada Limited.* The 1958-59 research program of this company, financed mainly from parliamentary appropriations, involved expenditures totalling $29,144,000, of which $19,003,000 was for operating costs and $10,141,000 for the portion of capital outlays regarded as associated with the program. These expenditures exceeded available appropriations and special income by $1,861,000, and the excess was charged against retained earnings account. Income from the operation of the company's commercial products division amounted to $2,346,000 and expenses to $2,631,000, resulting in an excess of expense over income of $285,000 for the year, which was also charged against retained earnings account.

78. The crown financial interest in the company at 31 March 1959, as reflected in the year-end balance sheet, amounted to $60,664,000, comprising $5,887,000 for loans to provide employees' housing, $52,902,000 for capital stock and $1,875,000 for retained earnings. In addition, the portion of the capital assets cost which had been treated as part of the cost of the research program had a cumulative total of $76,972,000 at the year-end.

79. *Canadian Arsenals Limited.* Sales by this company totalled $31,725,000 for the year ended 31 March 1959, while cost of sales amounted to $27,724,000 and administrative expenses to $843,000. The resultant excess of income over expense for the year was $4,072,000, after including $406,000 for refunds from suppliers, etc., and $508,000 for miscellaneous income. 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. This not having been the case, there were unabsorbed overhead expenses which amounted to $5,872,000 for the year. The net result of operations was therefore a deficit of $1,800,000, which was recovered from a parliamentary appropriation provided for the purpose (Vote 83).

80. As at 31 March 1959 the company was financed by $10,318,000 of advances from the Department of National Defence in respect of orders placed, $15,000,000 of advances from the defence production revolving fund, and $7,500,000 of working capital advances. The company has under its administration, nine crown-owned plants which had cost over $103 million.

81. *Canadian Commercial Corporation.* The income of this corporation for the year ended 31 March 1959 totalled $194,000 while administrative expenses amounted to $290,000, giving an excess of expense over income of $96,000 which was charged to surplus account. At the year-end the corporation's agency account showed $7,818,000 for obligations to principals, representing advances from various governments and international bodies. The crown equity in the corporation at the year-end consisted of $4,000,000 of working capital advances and a Surplus Account balance of $966,000.

82. *Crown Assets Disposal Corporation.* The proceeds from sales of surplus crown assets by this corporation during the year ended 31 March 1959 amounted to $9,711,000. Of this $8,282,000 was for sales on behalf of the government of Canada and $1,429,000 on behalf of the United States government and others, and the amounts were credited to agency account. Commission calculated at 10 per cent of the net proceeds of these sales and of interest earned on long-term sales agreements, amounted to $986,000. Deposit interest amounted to $9,000, bringing the corporate income for the year to $995,000. Administrative expenses amounted to $539,000, leaving an excess of income over expense for the year of $456,000 which was credited to surplus account. During the year the corporation remitted $650,000 to the Receiver General, leaving a balance in the surplus account of $382,000 at the year-end.

83. *Defence Construction (1951) Limited.* The expenses incurred by this Company during the year ended 31 March 1959 in supervising construction and maintenance projects for the Department of National Defence and others totalled $3,001,000. After taking into consideration the $177,000 of fees earned for various engineering and administrative services, etc., there remained $2,824,000 to be met from the parliamentary appropriation provided for the purpose (Vote 82).

84. *National Capital Commission.* During the year ended 31 March 1959, this commission (formerly the federal district commission) received the annual statutory grant of $300,000 for "construction, improvements and operation of the parks, parkway system and other works". This was supplemented by funds provided through a Parliamentary appropriation of $600,000 (Vote 314) and by miscellaneous income of $123,000, giving total receipts of $1,023,000. Expenditures amounted to $1,010,000, leaving an unexpended balance of $13,000 available for refund to the Receiver General in relation to this activity. Expenditures on maintenance and improvement of grounds adjoining government buildings, amounting to $553,000, were paid to the extent of $500,000 from funds provided through a parliamentary appropriation (Vote 316), with $53,000 being met from an allocation of miscellaneous income.

85. Amounts totalling $3,000,000 were drawn during the year from the national capital fund, which was established in 1948 to provide the commission with funds for the "construction, operation and maintenance of works or projects within the national capital district". A balance of $860,000 remained at the credit of the fund at 31 March 1959 available for release, with the approval of the governor in council, for future financing of capital and other outlays by the commission. Loans made by the government of Canada to the commission for the acquisition of property in the national capital region totalled $7,100,000 to 31 March 1959, and $6,459,000 of the amount had been spent by that date. As at 31 March 1959 the accumulated cost of capital assets under the administration of the commission amounted to $38,533,000.

86. *National Harbours Board.* The board's operating income for its financial year ended 31 December 1958 amounted to $24,076,000 and its operating expenses to $14,787,000, leaving a net operating income of $9,289,000. After adding income from investments, etc., of $2,159,000 and deducting $6,970,000 for interest on loans and advances, $3,267,000 for provision for replacement of capital assets and $139,000 for other special charges, net income for the year was $1,072,000. This was applied

in reduction of the accumulated deficit brought forward from previous years. In addition to the financial statements given in the public accounts, the board's annual report includes 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 for the grain elevators at Prescott and Port Colborne and the Jacques Cartier Bridge at Montreal.

87. The proprietary equity of the government of Canada at 31 December 1958, as shown in the board's over-all balance sheet, was $374,479,000, comprising: value of assets transferred to the board, $56,172,000; loans and advances, $249,200,000; interest in arrears on loans and advances, $49,315,000; and reserve for replacement of capital assets and other reserves, $85,536,000—less an accumulated deficit of $65,744,000.

88. *Northern Canada Power Commission.* The income of this commission amounted to $1,482,000 for the year ended 31 March 1959. Expenses totalled $1,203,000 comprising $516,000 for operating, maintenance and administrative expenses, $230,000 for interest on advances from the government of Canada and $457,000 for depreciation (provided for in amounts equivalent to annual repayments of advances). The resulting net income for the year of $279,000 was carried to surplus account, which then stood at $364,000. In addition, there was a balance of $677,000 at the credit of the reserve for contingencies at the year-end. To 31 March 1959, the commission had received advances from the government of Canada for capital purposes to a total of $20,906,000 under sections 14 and 15 of the Northern Canada Power Commission Act. Funds totalling $1,080,000 had also been received for the purpose of making advances to the New Brunswick electric power commission, pursuant to an Agreement entered into with the province of New Brunswick under the Atlantic Provinces Power Development Act.

Proprietary Corporations

89. *Canadian Broadcasting Corporation.* This corporation's total operating expenses for the year ended 31 March 1959 amounted to $87,315,000. Commercial revenue amounted to $32,094,000 and income from broadcasting licence fees, interest on investments and miscellaneous income to $1,101,000, making a total income of $33,195,000. The excess of expenses over income of $54,120,000 is shown in the corporation's statement of operations for the year as recovered or recoverable as follows:

Parliamentary Grant towards the net operating requirements of the Radio and Television Services	$ 41,790,117
Parliamentary Grant provided under section 14(4) of the Canadian Broadcasting Act	9,806,448
	51,596,565
Proprietor's Equity Account—re depreciation	2,523,466
	$ 54,120,031

The $2,523,466 described as 'proprietor's equity account—re depreciation' arose as a result of the inclusion in operating expenses, for cost ascertainment purposes only, of an offsetting bookkeeping charge for depreciation of capital assets.

90. In order to meet the requirements of section 39 of the Broadcasting Act, c. 22, 1958, the following accounting actions were taken by the corporation as at 31 March 1959:

(a) an amount of $4,080,000—being the amount by which the working capital exceeded $6,000,000—was recorded as currently due to the Receiver General, a corresponding reduction being made in the corporation's loan indebtedness to the crown; and
(b) the $22,799,000 remainder of the loan indebtedness was extinguished by transfer of that amount to the credit of 'proprietor's equity account'.

The corporation's financial statements for the year include a statement of proprietor's equity account which shows a balance of $31,671,000 at the credit of the account at 31 March 1959, representing working capital of $6,000,000 and capital assets of $25,671,000.

91. The international broadcasting service facilities, which are operated by the corporation on behalf of the government of Canada, are shown on the corporation's balance sheet at a cost figure of $6,250,000. These facilities had been acquired over the years through expenditures charged to annual parliamentary appropriations for 'international short-wave broadcasting service—construction or acquisition of buildings, works, land and equipment, including supervision' (Vote 56, 1958-59).

92. *Canadian Farm Loan Board.* Loans made to farmers by this board (now the farm credit corporation) amounted to $28,368,000 and repayments to $6,177,000 during the year ended 31 March 1959. Loans outstanding at that date, including accrued interest, totalled $91,298,000. Interest earned on loans to farmers during the year amounted to $3,795,000. After adding miscellaneous income of $114,000 and deducting interest of $2,550,000 on loans from the government of Canada, an amount of $1,359,000 was available to meet administrative expenses. After charging $1,049,000 for such expenses and providing $32,000 for income tax, net earnings of $278,000 remained, and this amount was credited to the statutory reserve for losses. Apart from this reserve, which amounted to $3,486,000, the investment by the government of Canada in the corporation consisted of $82,219,000 of loans and $5,000,000 of capital stock.

93. *Canadian Overseas Telecommunication Corporation.* The income of this corporation for the year ended 31 March 1959 amounted to $4,773,000 while operating, administrative, traffic solicitation and publicity expenses totalled $3,582,000. After providing $565,000 for income tax there was a net profit for the year of $626,000, which was credited to surplus account. The government of Canada's equity at the year-end was $14,639,000, represented by $12,979,000 advanced under section 14 of the Canadian Overseas Telecommunication Corporation Act and by the $1,660,000 balance at the credit of surplus account.

94. *Eldorado Mining and Refining Limited.* This company's statement of income and expense shows sales income of $39,552,000 and miscellaneous income of $265,000, giving a total income of $39,817,000 for its financial year ended 31 December 1958. Cost of sales amounted to $29,469,000 and scientific research costs and administrative expenses to $1,056,000. After providing $4,643,000 for income tax there remained a net profit for the year of $4,649,000, which was carried to the credit of surplus account. Dividends of $3,525,000 were paid to the Receiver

General during the year. A footnote to the statement of income and expense explains that in addition to the sales shown in the statement, amounts totalling $246,904,000 were derived from the sale of uranium concentrates purchased from other producers, on which no profit was earned by the company. The government of Canada's equity in the company at 31 December 1958 was $53,401,000 represented by capital stock of $6,586,000 and surplus of $46,815,000.

95. *Export Credits Insurance Corporation.* The income of this corporation for its financial year ended 31 December 1958 amounted to $1,197,000, including $89,000 for a portion of premiums received with respect to contracts of insurance entered into under section 21 of the Export Credits Insurance Act and $485,000 for interest earned on investments in government of Canada bonds. The administrative expenses of the corporation amounted to $226,000. Policyholders' claims were paid to a total of $186,000 while recoveries of claims previously paid amounted to $518,000. The net result of the operations for the year was a surplus of $1,303,000, which was carried to the credit of underwriting reserve as required by section 11A(2) of the Act. The government's equity in the corporation at 31 December 1958 was $10,000,000, consisting of share capital of $5,000,000 and capital surplus of $5,000,000. This equity was entirely invested in government of Canada bonds, as was also the underwriting reserve which amounted to $3,741,000 at the year-end. Contracts of insurance issued and outstanding at 31 December 1958 totalled $119,935,000, including $51,186,000 of contracts entered into under section 21 of the act. This section 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.

96. *Northern Transportation Company Limited.* The income of this company, a wholly-owned subsidiary of Eldorado Mining and Refining Limited, amounted to $4,266,000 for its financial year ended 31 December 1958, while operating and administrative expenses and provisions for depreciation totalled $3,544,000. After providing $474,000 for income tax, the net profit for the year was $248,000, and this was carried to the credit of surplus account. Prior to 1958 the company followed the practice of bearing its own insurance risks, and at 31 December 1957 had built up a reserve for marine insurance of $783,000. During 1958 the policy was adopted of insuring boats and barges with commercial insurers against risk of losses in excess of $100,000 in any one year, and the reserve for marine insurance, being regarded as no longer required, was transferred to surplus account. The parent company's equity in the company at 31 December 1958 was $5,629,000, consisting of $152,000 of capital stock and $5,477,000 of surplus.

97. *Polymer Corporation Limited.* During its financial year ended 31 December 1958 net sales of the products and services of this Company totalled $75,075,000 and other income amounted to $465,000, giving a total of $75,540,000. Cost of sales amounted to $60,062,000 and other expenses totalled $3,033,000. After providing $6,068,000 for income tax, there was a net income for the year of $6,377,000, which was carried to the credit of surplus account. Dividends of $4,000,000 were paid to the Receiver General during the year. The government of Canada's equity in the company at 31 December 1958 was $57,060,000, represented by $30,000,000 of capital stock and $27,060,000 of surplus.

98. *The St. Lawrence Seaway Authority.* Capital expenses incured by this Authority to 31 December 1958 totalled $282,013,000, including: acquisition of right of way, $6,360,000; acquisition and construction of and alterations to bridges, $41,157,000; channel excavation and construction of dykes, $99,810,000; relocation of roads, etc., $6,076,000; and construction and equipment of canal locks, $95,392,000. The capital expenditures were financed out of loans received from the government of Canada under section 25 of The St. Lawrence Seaway Authority Act, and include $12,828,000 of interest capitalized during the construction period.

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99. *Northern Ontario Pipe Line Crown Corporation.* Expenditures incurred by this corporation on the construction of the northern Ontario section of the all-Canadian natural gas pipe line totalled $113,998,000 up to 31 December 1958, paid out of loans received from the government of Canada under section 6 of the Northern Ontario Pipe Line Crown Corporation Act. The total is made up of $105,618,000 for assets acquired or in course of construction and $8,380,000 for engineering, administrative and financing expenses.

The CHAIRMAN: May I call your attention to the fact that the Auditor General has put in considerably more detail this year than was the custom in previous years.

Mr. HENDERSON: Yes. The salient points surrounding the operations of the corporations are set out beginning at paragraph 77.

The CHAIRMAN: Paragraph 72 to 76 are explanatory.

Mr. HENDERSON: That lists the crown corporations which the Auditor General examines.

Mr. ROBICHAUD: Are not all crown corporations examined by the Auditor General?

Mr. HENDERSON: No sir.

Mr. ROBICHAUD: Which ones are not.

Mr. HENDERSON: The Bank of Canada—if you can describe that as a crown corporation; I do not know whether or not we do. The Industrial Development Bank, Central Mortgage and Housing Corporation, the Canadian National Railways and Trans Canada Airlines. I think that is the complete list.

Mr. MACDONNELL: On what basis are they left out? Is it because they come before special committees of parliament.

Mr. HENDERSON: I do not think that is the reason. The Auditor General is as eligible as any other auditor to be appointed under the act. Some years ago, however, they made other appointments and I think that the practice is continued.

Mr. MACDONNELL: At one time the Auditor General did this.

Mr. HENDERSON: I beg your pardon.

Mr. MACDONNELL: Did the Auditor General at one time audit these companies which are no longer audited by him?

Mr. HENDERSON: I think Mr. Stevenson might explain the background of that. I believe in one or two cases he did.

Mr. STEVENSON: No sir. We never audited any of these five corporations.

The CHAIRMAN: At the time they were set up they were allocated to a particular firm of auditors, were they not?

Mr. STEVENSON: The audit arrangements were provided for by the statutes which govern the operations of these several corporations' affairs. In the case of Central Mortgage and Housing Corporation it was section 31 of the Central Mortgage and Housing Corporation Act which provided that the responsible minister, with the approval of the governor in council, would appoint two auditors for a term not exceeding two years to audit the affairs of the corporation. In the case of the Bank of Canada, section 29 of the Bank of Canada Act provides that the governor in council annually appoint, as auditors, two auditors eligible to be appointed as auditors of a chartered bank.

There is a provision in the Financial Administration Act that the auditor general is eligible to be appointed auditor or joint auditor of any crown corporation.

The CHAIRMAN: In practice it is customary to have an outside auditor for the corporations.

Mr. HENDERSON: That is so.

Mr. DRYSDALE: I was interested in your own summary and the fact that your office staff has been decreasing over the years while the number of government departments and crown corporations has been increasing. This is rather a phenomenal situation in government activity. Could you describe how you could effect an increase in efficiency despite the obvious increase of departmental work.

Mr. HENDERSON: The increasing efficiency?

Mr. DRYSDALE: The number of government departments and crown corporations which you are auditing has been increasing since 1950 but the size of the audit staff has been decreasing. What is the answer? It is automation?

Mr. HENDERSON: No; I think not. Unfortunately, I do not think you were here at the last meeting when this was discussed. I stated that we do need some additional staff. Our staff is heavily overworked as you can see from the size of our responsibility over the past ten years.

Mr. DRYSDALE: Was there a breakdown given as to the number of professional people or auditors you have?

Mr. HENDERSON: No. We did not furnish a breakdown of that. We, of course, have that information.

Mr. DRYSDALE: Could we have that information?

Mr. HENDERSON: I am not just clear what information you wish.

Mr. DRYSDALE: The number of professional people, chartered accountants or auditors on your present staff, as a matter of interest.

The CHAIRMAN: It seems to me that was given.

Mr. HENDERSON: We did not furnish particulars of the staff in terms of the qualified men as distinct from those not qualified.

Mr. BROOME: I would like to return to the matter of the crown corporations.

Mr. DRYSDALE: First of all I would like to obtain this information.

Mr. HENDERSON: Mr. Stevenson tells me there are about 14 members of the staff who are qualified chartered accountants or have a comparable degree. As you know the office is broken down into a number of branches, each of which is headed by an audit supervisor. With the exception of Mr. Stokes these gentlemen are all here and were introduced at the last meeting. In each of these branches additional staff is required at the moment. We are in the process of assessing the adequacy in respect of the scope of our audit programs in order to determine what additional staff is required. In addition to our ordinary work we are going into the field of the long form reports which I mentioned at the previous meeting.

Mr. BROOME: In regard to the Canadian National Railways, they have a commercial auditor who audits their books; but your audit covers a broader field, because you audit in relation to acts of parliament and the expenditure of funds according to the way those funds are voted and so on. There is a difference in your audit and an audit of a commercial or industrial business. My question is, since the C.N.R. operates through the voting of public funds by parliament and the expenditure of those funds would your opinion be that your audit well could complement the audit of the assigned auditor of the C.N.R. in regard to the parliamentary phases of the audit.

Mr. HENDERSON: The auditor of the Canadian National Railways is required to conform to the provisions of the statutes under which he is appointed. He makes a report addressed to the Minister of Transport and I believe that is tabled in the House of Commons. In this report he refers to the scope of his work and states that he has verified that the money has been expended pursuant to the basis on which it was received.

Mr. BROOME: His report to the parliamentary committee simply is a paragraph at the end of the financial statement saying that he has reviewed the accounts and books of the corporation in accordance with the general accounting procedure and that he finds these statements are true.

Mr. HENDERSON: His certificate is not rendered in the same form as are the certificates from this office, because we conform to the provisions of the Financial Administration Act. His certificate is more of a commercial type.

Mr. BROOME: That is what I am getting at.

Mr. HENDERSON: Yes sir.

Mr. BROOME: This well could apply also to Central Mortgage and Housing. I am coming back to the point where there is provision that you can be appointed a joint auditor with these outside auditing firms. Considering the parliamentary relationship in there, and the fact certain things are of interest to Parliament, it may have no bearing on the actual way the business is handled, but whether it was handled in the way Parliament said it should be handled in the use of these monies?

Mr. SMITH (*Simcoe North*): On point of order, Mr. Chairman, I think we are trying to involve Mr. Henderson—

Mr. BROOME:—in a question of policy? If so, I am sorry.

Mr. SMITH (*Simcoe North*): —on a policy question, because as to how this is done in regard to the C.N.R. is a matter of government policy really, and I do not think it is fair at all to ask Mr. Henderson to express an opinion as to whether he is a fair auditor.

Mr. BROOME: That was not the point.

Mr. DRYSDALE: Speaking on the same point—

The CHAIRMAN: I was going to ask Mr. Smith to give his own ruling, if he would not mind taking the chair for a time. I have just received a message I have to attend to. I warn you ahead of time, Mr. Smith, if you are out of order, look for a rough time.

Mr. DRYSDALE: I knew there were going to be sacrifices, but I did not think it was going this far.

The CHAIRMAN: If, by any chance, we do finish with the Auditor General's report today, would you leave the calling of the next meeting to the discretion of the chairman, which will depend, in turn, on getting the evidence of Crown Assets?

Mr. DRYSDALE: Speaking to the point of order which was raised by one of the members, Mr. Smith, I think the question could be asked this way: Could

you indicate the difference between an audit of the C.N.R., say, carried on by a private auditor and one that would be carried on by yourself?

Mr. BROOME: My counsel!

Mr. HENDERSON: I would hope and I feel quite sure there would be and should be no difference. As a member of the Canadian Institute of Chartered Accountants we both have a similar approach, and would do a thorough job.

Mr. DRYSDALE: The items that would be reported on by you and acted upon by you, would they be exactly the same as carried on by the average competent auditor?

Mr. HENDERSON: Were I a co-auditor or auditor of any of these companies, it follows any comments we would have to make with respect to that company's accounts would, in my case, be included in my report to Parliament, and would be before us in this committee.

Mr. BROOME: A lot of the items you have brought out in your report. This lady, who gave us some information here today, her department, they were doing it in absolutely the way a business would have done it. That is one of the strongest points you made. It is in that regard I would like your comments.

Mr. HENDERSON: Yes, sir, we would consider it our duty to bring out those points.

Mr. BROOME: But a commercial auditor would not, and that would not matter two hoots to him—the money was spent and was properly accounted for?

Mr. HENDERSON: I am not as familiar, perhaps as I should be, with the basis on which he operates and carries on his work.

Mr. DRYSDALE: You said he would not have the same obligation you would have under the Financial Administration Act.

Mr. HENDERSON: Yes, that is my understanding.

Mr. DRYSDALE: Would that be the differentiation between the two methods of approach, perhaps?

Mr. HENDERSON: He makes his report, as I understand it, to Parliament, or to the Minister of Transport, and it is tabled in Parliament. Is that right Mr. Stevenson.

Mr. STEVENSON: Yes.

Mr. HENDERSON: Whether he touches on the matters with the same approach we bring, is something I am not prepared to say at the moment, because I have not studied it closely enough.

Mr. BROOME: As a member of the committee, I would say he would not.

The ACTING CHAIRMAN: I do not think that is fair. You do not know whether the auditor has found any. We do not know whether the auditor has found any irregularities that should be pointed out to Parliament. None have appeared in the reports, that is true.

Mr. HENDERSON: I am acquainted, and have been for many years, with Mr. de Lalanne. In my opinion, he is one of the most competent accountants we have in Canada, and I would have the utmost faith in the way he conducted it.

Mr. BROOME: There is no reflection of not having the very best of accounting services, but it is simply this differentiation between what a commercial job would be and what a job for Parliament would be.

Mr. HENDERSON: There is one difference between the auditing we do and auditing done in private business: where we do the audit we do not get a fee from our client; and, perhaps, if we did we could have a bit more staff. We do, however, remain independent in the sense that we report direct to Parliament.

I am not suggesting that if we got a fee there would be any difference in that. On the other hand, in private business the auditor is named by the shareholders and reports to the shareholders, but, quite naturally, his relationship, for the most part, is with the directors and officers of the corporation, for which he is paid. I would be glad to be submitting bills to government departments and crown corporations, and then see if we could raise a little more revenue.

The ACTING CHAIRMAN: Any other questions on the various crown corporations and audit notes, from paragraph 77 to 98?

Mr. DRYSDALE: You do not receive any monies for those companies you audit? There were some additional ones—Canada Council, etc., the army benevolent fund?

Mr. HENDERSON: All the government agencies come under our aegis. Benevolent funds are audited by us and have been for many years, as an appropriate function for us to carry out. I am the auditor of the international civil aviation organization, and in that connection receive reimbursement from them for the time and expense incurred.

Mr. BROOME: Do you think you might make your office a profit-making one, if you could do it this way?

Mr. DRYSDALE: Is that the only outside body you have?

Mr. HENDERSON: Yes, at the moment.

Mr. MACDONNELL: I want to read an extract from section 83. We are looking generally at this, are we not?

The ACTING CHAIRMAN: Yes.

Mr. MACDONNELL:

> The expenses incurred by this company during the year totalled $3,001,000. After taking into consideration the $177,000 of fees earned for various engineering and administrative services, etc., there remained $2 million (odd) to be met from the Parliamentary appropriation.....

At what point do we begin to ask ourselves, or who does begin to ask the question, whether some of these organizations are needed any longer? Here is defence construction, which works for, I suppose—which department does it report to, National Defence?

The ACTING CHAIRMAN: Defence Production, I believe.

Mr. STEVENSON: Yes, Defence Production.

Mr. MACDONNELL: During the wartime I am quite satisfied all these organizations were needed, but I am wondering whether we are getting to a stage now when some are not needed?

Mr. HENDERSON: I think that is a very valid question, but it is in the realm of government policy, which doubtless is being overhauled from time to time in this regard.

Mr. MACDONNELL: While that is true, nevertheless if you look back to No. 70, it seems to me you very clearly expressed an opinion there.

Mr. HENDERSON: It is an opinion, would you not think, based on the fact that an accounting entry is being made?

Mr. MACDONNELL: I submit it is substantially different, but I am wondering still whether the time may not come when this committee, for example, would look to your organization, in effect, to give us a lead. I may be on the wrong track there, and I am perfectly ready to be corrected, but as I look at this I am wondering whether the proliferation of companies which was justified in wartime is justified now; and whether, perhaps, the time may not come to

reduce them. I do not know this is the appropriate time to raise this, but it could perhaps be in your mind during the next year, and we could see where we go from here.

Mr. DRYSDALE: Mr. Chairman, would that not call for an examination of the corporation by the committee—of this particular company? Then we could be in a position to make a recommendation.

Mr. HENDERSON: You have that problem before you now, Mr. Drysdale in terms of the crown assets disposal corporation.

Mr. DRYSDALE: That is what I am thinking about.

Mr. BROOME: We are all agreed that should be washed out.

The ACTING CHAIRMAN: They are both corporations that come under the Department of Defence Production; that is a matter that the committee might note with interest. Are there any other questions?

Paragraphs 77 to 88; and proprietary corporations, paragraphs 89 to 98. Are there any questions?

Mr. MACDONNELL: I have a question on paragraph 87.

The ACTING CHAIRMAN: Paragraph 87 is all right. You have a question on that paragraph, Mr. Macdonnell?

Mr. MACDONNELL: I am not quite sure what that covers, "The proprietary equity of the government of Canada, as shown in the board's over-all balance sheet, was $347,479,000". Is that the national harbours board?

Mr. HENDERSON: That is right. It is like the capital stock picture on its balance sheet: it is the investment of the government in the organization. They call it proprietary equity: it is the capital and surplus section now on the balance sheet.

Mr. DRYSDALE: These various harbours boards—which, if any, have operated at a profit?

Mr. BROOME: Vancouver did.

Mr. HENDERSON: I do not know that we have that readily available at the moment. Mr. Stokes could not come today: he is the auditor for this section, and he could probably answer that question right off.

Mr. DRYSDALE: I am probably misleading you, Mr. Henderson; I believe that Vancouver was the only one.

Mr. BROOME: Mr. Chairman, I have a question on this: what is the policy of the national harbours board in regard to municipal taxation on their property?

Mr. HENDERSON: I am afraid you have picked the one here that I am least familiar with, on that point. I believe grants in lieu of taxes are generally the basis.

Mr. BROOME: Yes, there are grants in lieu of taxes; but they are not on the same basis as capital grants in lieu of taxes, which are based on the—

Mr. HENDERSON: I could give you a short statement on this at the next meeting, if you wish.

Mr. BROOME: I wonder if you could; and could you also point out what the payments would have been, if they had paid on the same basis as the—

The ACTING CHAIRMAN: I do not think that is a fair question for the Auditor General to have to work out.

Mr. BROOME: Why not?

The ACTING CHAIRMAN: Because there is a whole branch of the Department of Finance that worked months on these statements, and we are asking Mr. Henderson to prepare in the course of a week a statement of what a grant in lieu of taxes would have been. I do not think that is fair.

Mr. BROOME: I do not want to overload your staff, Mr. Henderson, into research of that kind.

Mr. HENDERSON: We could contact the national harbours board, and if it is readily available, give it; if not, give what we can find.

Mr. BROOME: I will put it this way: if it involves work for your staff, no; but if it is readily available, perhaps you would provide it.

Mr. HENDERSON: Thank you, Mr. Broome.

Mr. BEECH: Mr. Chairman, in view of the fact that they made a profit last year, why was it necessary to impose this recent $1 wharf tax—this nuisance tax—on Canadians entering and leaving ports on the eastern seaboard?

Mr. HENDERSON: We could reply to that question after a little bit of research on this, if you would leave it with me.

Mr. CHOWN: On paragraph 86, can you tell me what the net income of the national harbours board was for the last fiscal year—the previous fiscal year?

Mr. MACDONNELL: Mr. Chairman, somebody mentioned the words "another meeting". It seems to me there are some very important things in here. I personally have to leave at 4.30—the chairman has had to leave already—and I am wondering if it might be possible to conclude these matters later on.

Mr. BROOME: We will never conclude this now.

Mr. MACDONNELL: I do not think so. I think it is too important to be concluded now.

Mr. HENDERSON: Mr. Chairman, in answer to Mr. Chown's question, the net income for the year ended December 31, 1958, was $1,072,000.

Mr. CHOWN: The same?

Mr. HENDERSON: You asked for last year, did you not?

Mr. CHOWN: Well, that is in the paragraph.

Mr. HENDERSON: You wanted to know the 1959 figure?

Mr. CHOWN: Yes.

Mr. HENDERSON: I would have to bring that figure to next meeting, if I may, because we did not bring the 1959 accounts with us.

Mr. CHOWN: I was only interested in this additional revenue as a result of the change in the operation of the bridges, and so on. I was just wondering how it compared.

Mr. HENDERSON: We will have that at the next meeting.

Mr. BROOME: Mr. Chairman, there is one question I should like to ask the Auditor General to look into. The national harbours board in now in a profit-making position; but they did build up a very substantial deficit from preceding years.

You say here that the interest in arrears on loans and advances was $49 million. I wonder if there could be some of the background of the national harbours board included in this report, as to how they did get into this heavy loss position.

Mr. HENDERSON: I think we can give you that at the next meeting. The accumulated deficit is shown here, at December 31, 1958, as over $65 million.

Mr. BROOME: That is a very substantial deficit, is it not, when you consider that they are making a net profit of a million now? And their gross profit was about $9 million, was it not?

Mr. HENDERSON: That is right.

Mr. BROOME: How did this deficit come about?

Mr. HENDERSON: We can furnish that, along with the other information that you want on it.

The ACTING CHAIRMAN: Are there any other questions that can be answered today? Perhaps the members would like to look at the remaining sections and advise whether they have anything that might require further extended answers by Mr. Henderson, so that he could be prepared for them at the next meeting.

Mr. MACDONNELL: How far have we covered now?

The ACTING CHAIRMAN: We have been covering, generally, paragraphs 77 to 100—questions anywhere within those paragraphs.

Mr. VILLENEUVE: A great deal of this requires a little study. At least, I feel we should go into them more carefully.

Mr. BROOME: The next meeting is at the call of the chair, I believe.

The ACTING CHAIRMAN: Yes; but it would be helpful to Mr. Henderson, because presumably at the next meeting we will finish. It would be helpful now if he could be given warning of the questions.

Mr. MACDONNELL: Mr. Chairman, I was wondering if any questions arise with regard to the C.B.C., particularly with regard to the television licence which has been given to the C.B.C. in Edmonton. That, I presume, involves a very substantial capital expenditure, which I take it is not covered.

Mr. HENDERSON: This capital expenditure would be in the—

The ACTING CHAIRMAN: You are anticipating next year.

Mr. HENDERSON: —year ahead. Their accounts are now being finished with respect to the year ended March 31, 1960.

Mr. MACDONNELL: Yes, I take that back.

Mr. CHOWN: You are aware of the fact, Mr. Chairman, that there are eight standing committees meeting tomorrow?

The ACTING CHAIRMAN: We are not meeting tomorrow. I would ask, if you have any questions, to let Mr. Henderson have them, because—

Mr. CHOWN: We can always contact him independently of the meeting.

The ACTING CHAIRMAN: It is not likely that this committee will be meeting again this week. Have you any questions now that you want to ask before 4.30?

Mr. VILLENEUVE: I should like to ask a few questions, Mr. Chairman.

The ACTING CHAIRMAN: Do you want to ask them now?

Mr. VILLENEUVE: No, at the next meeting.

The ACTING CHAIRMAN: It will be a week. Have you any questions, Mr. Beech?

Mr. BEECH: No, not at the moment.

The ACTING CHAIRMAN: Mr. Macdonald?

Mr. MACDONALD (*Kings*): No.

The ACTING CHAIRMAN: Mr. Stefanson?

Mr. STEFANSON: No.

The ACTING CHAIRMAN: Mr. Broome?

Mr. BROOME: I never have any questions.

The ACTING CHAIRMAN: Mr. Drysdale?

Mr. DRYSDALE: Similar to Mr. Broome, Mr. Chairman. I would be interested in the C.B.C.; but I wondered, in view of the fact that the C.B.C. is going before a committee, what effect that would have on the scope of our examination.

The ACTING CHAIRMAN: I think we should keep in mind that the questions we might have on the C.B.C. must be related to the Auditor General's duties, rather than the general policy of the C.B.C. I think we might consider that in

relation to our questions on the national harbours board also, as Mr. Hees' estimates are not yet finished, and there may be some searching questions in the House on that phase of the matter.

Mr. BROOME: Oh, no!

The ACTING CHAIRMAN: We have a motion to adjourn?

Mr. BROOME: I move that we adjourn.

Mr. DRYSDALE: I second that.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

Public Accounts (1959), Volumes I and II and The Auditor General's Report Thereon

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WEDNESDAY, JUNE 22, 1960

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WITNESSES:

From the Auditor General's Office: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; Messrs. G. Long, B. A. Millar, and A. B. Stokes, Supervisors of Audit Branches.
From the Department of Public Works: Mr. L. V. McGurran, Financial Advisor.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23348-6—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, June 22, 1960.
(14)

The Standing Committee on Public Accounts met at 2.10 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Coates, Danforth, Hales, Macdonald (*Kings*), Macnaughton, McGee, McGrath, Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Stefanson, Stewart, Tucker and Villeneuve.—14

In attendance: From the Auditor General's office: Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; Messrs. G. Long, B. A. Millar, D. A. Smith, J. R. Douglas and A. B. Stokes, Supervisors of Audits, and Mr. E. Cooke, Administrative officer. *From the Department of Public Works:* Mr. L. V. McGurran, Financial Adviser.

The Committee resumed consideration of the Auditor General's Report, 1959.

On Paragraph 41: The Auditor General read a communication received by him from the Honourable Robert L. Stanfield, Premier of Nova Scotia, respecting the Canso Causeway. Mr. Henderson made a further statement.

On a question of Privilege, Mr. Bell (*Carleton*) explained certain of his observations made at the last meeting.

On Paragraph 26: Mr. McGurran was called and he submitted a prepared statement respecting 'Morinus' Wharf. Information was also supplied regarding a floating wharf at Nakusp, B.C.

On Paragraph 40: Mr. Henderson read into the Committee's record certain correspondence between himself and the Deputy Minister of Justice respecting *temporary investment of university grants funds.* The Auditor General was requested to follow up this matter.

On Paragraphs 53, 67 and 86: Certain additional information was supplied as requested at previous meetings.

Agreed,—That an *analysis of deficit account* of National Harbours Board be included in the Committee's record. (*See Appendix "A-8" to today's Proceedings*)

(*Note,*—On Paragraph 84—Information respecting landscaping on Sussex Drive, Ottawa, was supplied following the meeting of the committee. *See Appendix "B-8"*)

Paragraph 77 to 106 were adopted.

On Paragraph 107: The Committee indicated its appreciation of the service rendered to Parliament and to the public of Canada by Mr. Watson Sellar, the former Auditor General.

The representatives of the Auditor General's office were thanked for their attendance and assistance before this Committee.

At 3.15 p.m. the Committee adjourned until 2.00 p.m., Thursday, June 23, 1960.

E. W. Innes,
Clerk of the Committee.

23348-6—1½

EVIDENCE

WEDNESDAY, June 22, 1960.

The CHAIRMAN: Gentleman, we have a quorum. Will the meeting please come to order.

The Auditor General has a statement to make on the question of recoverable outlays on the Canso causeway, following receipt of a telegram from the honourable Robert L. Stanfield, premier of Nova Scotia.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, I received a telegram on June 15, from the honourable Robert L. Stanfield, premier of Nova Scotia. I quote:

> Have read press reports of your comments before public accounts committee concerning alleged default Nova Scotia under Canso causeway agreement. Under agreement the provincial share becomes due and payable when final cost of project is determined. Through no fault of province final cost has not yet been determined. Province is prepared to pay when notified of final cost. Province's position has been made clear to Department of Transport which had requested payment. See correspondence with department especially letter of March 4th, 1960 to which no reply has been received.

An examination of files of the Department of Transport, and discussions with officers of that department, have indicated that the following developments have taken place in recent months, with respect to the question of the Department's claim against the Province of Nova Scotia for the Province's share of the cost of constructing the Canso causeway:

1. On December 9, 1959, the Department of Transport requested the Department of Finance to seek recovery of the province's share of the cost by means of deductions from the tax-sharing payments that would otherwise be due to the Province over a 12-month period.

2. On January 20, 1960, the province advised the Department of Transport that the province was prepared to make settlement on either of two alternatives:

(*a*) to pay the sum of $4,856,941, based on expenditures of $20,098,904 to March 31, 1958, as full and final settlement; or

(*b*) to pay its share when the cost of construction had been finally determined.

3. On February 23, the Department of Transport advised the province that uncertainty as to final costs did not alter the fact that the provincial share of known costs to date was due and payable, and had been for some time. A revised billing of $4,870,987 was enclosed and a cheque requested on the understanding that a further bill would be sent after the final costs had been determined (after decision had been rendered by the Exchequer Court in a case involving the expropriation of a piece of property).

4. On March 4, the province informed the Department of Transport that its interpretation of the agreement between the two governments was that the Province's share becomes due and payable only

after the final cost of the project has been determined (this was the letter to which reference was made in the premier's telegram of June 15, quoted above).

5. On April 6, the Department of Transport asked the Department of Justice for an opinion of the interpretation placed on the agreement by the Province.

6. On April 7, the Department of Justice pointed out to the Department of Transport that as judgment had been rendered by the Exchequer Court in respect to the case referred to in 3, above ($44,704 plus interest and costs) it was possible that the Department was in a position to make determination of the final figure in respect of the province's share of the total cost and that, in consequence, an opinion of the Province's interpretation was unnecessary. It was recognized, however, that in the event of an appeal, the opinion would be required.

7. The judgment of the Exchequer Court having since been appealed by the former owner of the expropriated property, the Department of Transport, on June 9, again asked the Department of Justice to give an opinion on the Province's interpretation of the agreement, and this opinion is now being awaited by the department.

Mr. Chairman, that is the result of our investigation following receipt of the telegram received. With the concurrence of the committee, I propose to write to Premier Stanfield enclosing a copy of the statement I have just given.

Mr. BELL (*Carleton*): May I say a few words on a question of privilege. When the committee was discussing this paragraph 41 dealing with the sharing of the cost of the Canso causeway a brief interjection of mine apparently has been interpreted as involving some reflection upon or inference about the government of Nova Scotia. Certainly at no time had I any such intention and I would regret very deeply any such inference being drawn from any remarks which I might have made. Indeed, I think I could say I would be the last one to cast any reflection upon the province of Nova Scotia, its administration or its very distinguished premier.

The CHAIRMAN: Gentlemen, you heard the suggestion of Mr. Henderson that a copy of the statement he gave be sent to Premier Stanfield.

Agreed.

The CHAIRMAN: The next paragraph is 26. Mr. Drysdale and Mr. Macdonnell had questions in respect of the repairs to the wharf at Morinus, Ontario, and Mr. Fisher asked if information might be provided concerning a similar situation at Nakusp, British Columbia. It was agreed that a representative from the Department of Public Works would be asked to be in attendance at this meeting. Mr. L. V. McGurran, the department's financial advisor is in attendance today. He will give us information regarding these matters.

Mr. L. V. MCGURRAN (*Financial Advisor, Department of Public Works*): I have a statement.

In 1934-35 the department constructed a wharf at Morinus at a cost of $2,890. The land involved was provided free of charge to the department by the Roman Catholic Espiscopal Corporation of the Diocese of Peterborough, who had owned and maintained an old wharf on the same site. In 1950 an extension to the wharf was constructed at a cost of $3,870. Again the necessary land was donated by the church.

An inspection of the wharf in 1955 revealed the need for repairs which were estimated to cost $3,600. The question was raised as to whether the

federal interest was sufficient to warrant continued maintenance expenses of the structure. The conclusion reached at that time was that economic grounds appeared insufficient to justify significant expenditures towards continued maintenance and that therefore the wharf was surplus to requirements. Consequently the wharf was turned over to Crown Assets Disposal Corporation. The corporation sold it to the Roman Catholic Episcopal Corporation of the Diocese of Peterborough on December 12, 1955 for the sum of $250.

In 1957, the department was requested to review its action on this matter. The circumstances were investigated thoroughly and the factors upon which a subsequent decision was based were:—

1. On Sundays, during the summer months the dock was used by 1,350 to 1,500 church goers.

2. On week days during the summer months the dock was used by some 300 persons.

3. The dock serves several commercial lodges which provide accommodation for tourists.

4. The federal government acknowledges some responsibility in providing facilities which will assist in promotion of tourist traffic.

5. The wharf had been maintained for over 20 years and the nature of the use being made of the wharf had not changed.

6. Land lots for the wharf had been donated to the department by the church to permit the original construction and the subsequent extension.

In the light of these factors it was considered that the earlier decision might not have been entirely fair. Considering the beneficial effects of a wharf upon the tourist trade and the very long period during which the department had maintained the wharf it was decided that at least, the wharf should have been restored to a good condition before transferring the obligation for its future maintenance to the Church.

An alternative would have been to take title to the wharf again and assume responsibility for its future maintenance. It was felt that, all things considered, it would be more advantageous to put the wharf back in good condition without taking on any obligation for future expense.

Consequently the government approved the expenditure necessary to repair the wharf on the understanding that the department would bear no maintenance or repair expenditures in the future.

The above sets out the reasons for the government's approval of what is an unusual type of expenditure. In his note the Auditor General states that the appropriations for "Acquisition, Construction and Improvements of Harbour and River Works" are ordinarily regarded as providing for expenditures only with respect to works owned or to be acquired by Her Majesty in right of Canada. The title of the appropriation also includes the words "works listed in the details of the estimates." We regard this as providing parliamentary approval for the listed projects (for example, we may add no additional projects). We feel, therefore, that listing an item for Morinus in the details of our estimates obtained for it specifically the approval of parliament.

Had we buried this item in one of our general votes we might have been subject to the criticism offered by the Auditor General. Because, however, a non-government structure was involved we gave it prominance in the Estimates. The amount listed for the project, $3,600 draws particular attention to it we feel, because the minimum amount for other special item projects was $15,000. (it is now $25,000).

During consideration of this project the cost was estimated to be $3,600. This figure was based upon an inspection made in 1955. The decision to proceed with the work was taken in January, 1958 when, owing to winter conditions no detailed re-examination of the wharf was possible. An inspection was made in April, 1958 when it was evident that the condition of the wharf had deteriorated since 1955. A new estimate of $8,000 was made.

Public tenders were called. The lowest and successful bid was $5,200. The other bids were $5,895 and $9,839.

Construction was deferred until late in the year in order to cause the least interference with traffic over the wharf.

Work began in December, 1958 and was completed in May, 1959; thus expenditures in two fiscal years were involved. Total expenditures were $5,217.86.

The CHAIRMAN: Are there any questions on this? If not, thank you very much for the report and the explanation.

Mr. SPENCER: In 1957 the department was requested to review its actions. By whom was the request made?

Mr. MCGURRAN: Well, requests began to come in early in the year. This is in 1956; and in June, 1956 there was a letter from Captain Henry Wallace, who had sailed on the Muskoka lakes; and there were letters from Mr. Gerald Taylor, and a letter from the hon. W. J. Browne, and a letter from Mr. Aiken, the member of parliament.

Mr. SPENCER: That was in 1956?

Mr. MCGURRAN: These were in 1957. Captain Wallace wrote in 1956, and Mr. Taylor wrote in January, 1957, and Mr. Browne in August, 1957, and then Mr. Aiken.

Mr. SMITH (*Simcoe North*): In 1955 investigation was not sufficiently broad to realize the scope of the use of that dock by the public.

Mr. MCGURRAN: Yes. In the review made in 1957 it was then established as to the number of people who used this dock, and the number of commercial establishments.

Mr. SMITH (*Simcoe North*): I take it that if the same study had been made in 1955, it is possible that the dock would never have been transferred back to the private owners?

Mr. MCGURRAN: That is a possibility.

Mr. BELL (*Carleton*): I wonder if the Auditor General has any further comment to make on the subject.

Mr. A. MAXWELL HENDERSON (*Auditor General of Canada*): Mr. Bell, I believe that the title of the appropriation reference was discussed at a previous meeting on this subject, and I believe we did recognize that the title also includes the words "listed in the details of the Estimates"; but in regard to the next paragraph, I believe it indicates that the wharf was described as a non-government structure in the estimates. I do not believe it was so described, but I would like to ask Mr. Stevenson.

Mr. IAN STEVENSON (*Assistant Auditor General*): I do not think so, sir.

Mr. BELL (*Carleton*): You have some hesitation in respect to that part of the report we have been given?

Mr. STEVENSON: Yes, it was not indicated that the title was not with the crown in the words of the item in the details of the estimates.

Mr. BELL (*Carleton*): I think that is about the only point that is involved here, and I think the mere fact of its having been raised in this way will make it clear that it will be so described in the future, if anything of this sort should arise.

The CHAIRMAN: You have another report, Mr. McGurran.

Mr. MCGURRAN: Yes, this has to do with Nakusp, British Columbia, and it is as follows:

> A question has been raised as to whether a situation existed at Nakusp, B.C. similar to that at Morinus, Ont.
>
> There is no apparent similarity. All expenditures at Nakusp have been on Publicly-owned structures.
>
> In 1957-58 a public wharf was built to replace the old floating wharf. The cost of this wharf was $36,232. In 1959 a small L-shaped landing wharf for mooring was built at a cost of $1,407 at the end of the new public wharf.
>
> Also in 1959 five floats were renewed at the storesyard for the Department of Public Works dredge "Arrow Lakes" at a cost of $4,710.

The CHAIRMAN: Are there any questions?

Mr. MCGEE: What are the floats used for?

Mr. MCGURRAN: The first dock was on floats, and it was replaced by a dock on piles; and the dock in front of our dredge store had a passageway to the shore on floats.

The CHAIRMAN: Are there any questions, gentlemen?

Now, if you would turn to paragraph 40, I understand the Auditor General wrote to the Deputy Minister of Justice on June 14, relative to the question of interest on temporary investment of university grants funds.

Mr. HENDERSON: Yes. I believe it was suggested at the last committee meeting that a report should be obtained from the Deputy Minister of Justice. I wrote him on June 14, quoting the text of item 40 in the Auditor General's report, which you hav before you, and saying as follows—I am quoting from the copy of my letter:

> In the course of the discussion that took place on this paragraph when the Auditor General's report was under consideration by the public accounts committee on June 9, there was a feeling among the members that the $86,874 of interest earned should, in the absence of a governing provision in the agreement between the Minister of Finance and the conference, have been paid over to the Receiver General.
>
> Mr. Macdonnell stated that an opinion should be obtained from the Department of Justice regarding the ownership of the interest amount, and I undertook to inform you of the matter and suggest that you write the chairman of the public accounts committee advising him of your opinion. I am sure that he would appreciate hearing from you as soon as you may find it possible to deal with the matter. I might mention that the next meeting of the committee is on June 22.

Mr. Chairman, I do not know whether or not he has replied to you.

The CHAIRMAN: Up to the present time no letter has been received. In the circumstances, gentlemen, I do not know what we can do.

Mr. MCGEE: Did you enclose a copy of the minutes of that meeting, along with the letter you wrote to the department?

Mr. HENDERSON: Well, I think they should have been available. However, I did not enclose them. I made the straight reference to him. I wrote the day after the last meeting. We met on the thirteenth, and my letter was dated the fourteenth.

Mr. MCGEE: There was some question as to whether the suggestion I put forward was proper. You will recall I suggested that the university group

in question should be in the same position as a trustee in dealing with trustee funds, subject to the normal requirements of legislation covering the activities of trustees.

Mr. HENDERSON: In view of the fact that he has not written to the chairman yet, I would be happy to send a copy of what took place to him. This should facilitate his reply, and we might be able to get it back for the next meeting, so that we could dispose of it at that time. Would that be satisfactory?

Mr. MCGEE: Yes.

The CHAIRMAN: Gentlemen, I refer you to paragraphs 53, 67, and 86.

I understand the Auditor General has a statement with regard to certain questions asked at the last meeting.

Mr. HENDERSON: On paragraph 53, which had to do with loans to national governments, the chairman requested information regarding the figure of $4,841,000 as shown for loans to national governments under the heading "other countries".

The following balances make up the amount in question: Norway, $2,628,000; Ceylon $1,484,000; United States for sundry advances, $679,000; and other advances $50,000.

Under the same paragraph, Mr. McGee wished to know the years with respect to which interest payments on the United Kingdom loans had been deferred.

The deferment of interest was with respect to the years ended December 31, 1956, and December 31, 1957.

Is there any discussion on that?

The CHAIRMAN: Have you any question on that, Mr. McGee?

I do not imagine you will have, as this is an answer providing for information which you requested.

Paragraph 67 is next.

Mr. HENDERSON: Mr. Smith, Simcoe North, asked if it would be possible to find out if any of the land within the townsite is owned by any party other than the Oromocto board of commissioners.

We find that by far the greater part of the developed area is owned by the crown, but some is privately-owned. The town was developed around a small village comprising about 150 homes and, after adjacent land had been acquired for departmental purposes, some of the homeowners continued to hold title to their land, with freedom to sell to other private persons or business interests in accordance with zoning regulations under the Town of Oromocto Act. We are informed that the privately-owned land represents approximately 6 per cent of the town's developed area.

Mr. MACDONALD (*Kings*): Mr. Henderson, would you know whether or not taxes are being paid on that privately-owned property?

Mr. HENDERSON: No, I am afraid we do not know that.

The CHAIRMAN: Are there any further questions, gentlemen?

If not, we will proceed to paragraph 86.

Mr. HENDERSON: Paragraph 86 had to do with the National Harbours Board.

Mr. Broome inquired, first of all, about the policy of the National Harbours Board in regard to municipal taxation on their property, and also expressed a wish to be provided, if possible, with information as to what payments would have been made under the Municipal Grants Act.

On page 6 of the annual report of the National Harbours Board, covering the year ended December 31, 1958, it is noted that grants to municipalities for services rendered to board properties for 1958 amounted to $416,500, paid under arrangements effective for the five-year period ending in 1959. We have

been informed by the board that if payments had been made on the same basis as payments are made under the Municipal Grants Act, they would have totalled $2,888,324.

Mr. Beech asked why, in view of the fact that the board made a profit last year, it was necessary to impose the recent $1 wharf tax on Canadians entering and leaving ports on the eastern seaboard.

In regard to this, we have been informed by the board that this is not a tax on passengers, but a charge payable by ships for the use of the board's facilities in embarking and disembarking passengers—and that the charge was imposed with a view to increasing revenue because of the deficits suffered by the harbours in question in 1959, and anticipated deficits in 1960.

The third point had to do with a further question by Mr. Broome. He wondered why the board had built up such a substantial deficit from preceding years, and asked that some of the background of the board be given in order to explain how the deficit came about.

The size of the deficit in question is $65,743,768, and the explanation is that the adjusted deficits of former harbour commissions were assumed by the board on January 1, 1936, and charged to the deficit account to a total of about $25 million. Losses were incurred by the board each year during the period from 1936 to 1951, and resulted in charges totalling almost $55 million. There was also a special charge of $32 million to write off certain capital assets in 1952. On the other hand, there was a credit of $45 million for the cancellation, in 1947, of part of the accumulated unpaid interest—along with credits for annual net income amounts during the period from 1952 to 1958, to a total of $12 million. These debits and credits, together with others of lesser significance, are included in a statement we have prepared, giving an analysis of the deficit account from the board's inception on January 1, 1936 to December 31, 1958, when the deficit balance stood at $65,743,768.

If it meets with the wish of the committee, this could be published as an appendix; I have it here.

The CHAIRMAN: Is that agreeable?

Agreed to. (*See Appendix "A-8"*)

The CHAIRMAN: Does that finish the answers, Mr. Henderson?

Mr. HENDERSON: There are two more points.

Mr. Drysdale wished to be informed as to which of the harbours have been operating at a profit.

The only harbours which have been operating at a profit are those of Vancouver and Three Rivers.

Finally, Mr. Chown asked what the net income of the board was for 1959.

Actually, a loss was suffered in 1959, in the amount of $594,847.

The CHAIRMAN: Does that complete your information?

Mr. HENDERSON: That completes the information which the committee members requested at the last meeting.

The CHAIRMAN: Gentlemen, at the last meeting we had started an examination of crown corporations, beginning at paragraph 72, and, in fact, I understand, made a cursory examination up to and including paragraph 99.

As we only have to reach 107 before we finish our report, I was wondering if we could go through these various paragraphs now, in an endeavour to complete the Auditor General's report?

We will start at paragraph 77—agency corporations; the first one is Atomic Energy of Canada Limited.

Are there any questions on that? I might say that paragraphs 77 and 78 go together.

Agreed to.

The CHAIRMAN: Paragraphs 79 and 80 are next, and they should be read together. They concern Canadian Arsenals Limited. Are there any questions on that? I think, in due course, perhaps next year, Canadian Arsenals might be carefully gone into. However, that is next year.

Mr. MCGEE: They were up before the estimates committee in 1958, as I understand it.

The CHAIRMAN: One or two years ago.

Agreed to.

The CHAIRMAN: Paragraph 81 is next—Canadian Commercial Corporation. Are there any questions?

If not, we will proceed to paragraph 82—Crown Assets Disposal Corporation. That will be under consideration tomorrow.

Paragraph 83—Defence Construction (1951) Limited.

Agreed to.

The CHAIRMAN: Paragraph 84—National Capital Commission. Are there any questions?

Mr. BELL (*Carleton*): Mr. Chairman, attention is drawn to two miscellaneous items of income, one of $123,000 and another of $53,000. Does the Auditor General know what these particular items may be? I would not hold the committee up, if he does not. I am just wondering what the particular purpose was in drawing attention to these two items.

Mr. HENDERSON: Mr. Stokes will answer that question for you.

Mr. STOKES: I do not have the complete details, but it refers to equipment rentals, sales of supplies, nursery stocks, and supervisory charges.

Mr. BELL (*Carleton*): Does the National Capital Commission rent equipment and sell nursery stock?

Mr. STOKES: In small quantities, yes.

Mr. SMITH (*Simcoe North*): They sell it for the purpose of beautifying Ottawa.

Mr. STOKES: It concerns mostly surplus stock.

Mr. SMITH (*Simcoe North*): Which they sell to residents of the area?

Mr. STOKES: Yes.

Mr. SMITH (*Simcoe North*): For the purpose of helping to beautify the area?

Mr. STOKES: Yes.

Mr. BELL (*Carleton*): I find that very interesting.

The CHAIRMAN: You are in the green belt, Mr. Bell.

Mr. MCGEE: Does a crown corporation usually declare its surplus through Crown Assets Disposal, or are they exempt?

Mr. STOKES: Certain crown corporations are exempt from the act, and this is one of them.

Mr. MCGEE: I wonder if this is an appropriate time to bring up a question concerning the National Capital Commission? It involves expenditures made. I have reference particularly to the rather ratty appearance of the trees that have been transplanted along Sussex drive, in particular. I notice, over a number of years, that they have replaced an unusually large number of them, and I understand, further, that the outfit involved is Davie Tree Experts, Limited, who have a reputation in this field which, in my experience, far exceeded their performance. I am wondering if it would be appropriate here to determine if the terms of the contract which the Davie Tree Experts Limited has with the government is similar to the arrangements and undertakings they

make with private individuals. I understand they guarantee a tree; it is replaced if it dies, and if the second one dies then you start from scratch again, and the guarantee expires.

I am wondering if the commission has been satisfied with the replacements. As I say, over the past three years, I have noticed a large number of trees being replaced, and I am wondering if the National Capital Commission has to pay for these trees again, or do they have some special guarantee arrangement with the commission?

Mr. HENDERSON: We would have to obtain that information from the officials of the National Capital Commission, which we can readily do or, you might wish to have one called as a witness.

Mr. MCGEE: I am wondering if it is appropriate to ask this at this time or whether it would be better to ask when the estimates are before the house when, presumably, they will be guided through by the Minister of Public Works.

The CHAIRMAN: I think it is a matter of your own wish. If you want a witness tomorrow, we could have one.

Mr. MCGEE: Unfortunately, I cannot be here tomorrow.

The CHAIRMAN: Then, your second solution is the best.

Mr. BELL (*Carleton*): I think we should say, generally speaking, the landscaping of the National Capital Commission authority has been very, very good. My hon. friend may have in mind some individual incidents in connection with the landscaping, but the landscaping, generally, is of a very high calibre.

The CHAIRMAN: There is just one thing I would like to say—and I may be completely out of line. I must say, in motoring in to Ottawa from Montreal, on the Quebec side, after you leave the large paper mills—and I have forgotten the name of the town—there is more or less of a straight boulevard heading toward the parliament buildings. You can see the outline of the various spires and buildings of Ottawa. It occurred to me, with housing developments going up all over the place, that the commission should take steps to preserve that view—and they should do it very quickly. There is a beautiful view coming into Ottawa.

Mr. MCGEE: Mr. Bell is under the impression I am being unduly critical of this particular firm. I would like to broaden that criticism. I moved into a new suburban area in Toronto where, in general, there has been a pattern of knocking down all the trees in sight before anybody subdivides land and builds new houses. Mind you, a lot of that land was formerly farmland, and there were no trees there. However, the point of view of a great number of my constituents, and myself included, is that some have had bitter experiences with various companies in the business of selling trees, with various sorts of guarantees. Recently, in the Toronto press, reference was made to certain shady practices by extensive numbers of these landscapers, some of which have made extravagant promises, given guarantees, and directly go out of business.

As I say, there is likely to be this type of person in this business, to a certain extent, at all times. When I referred to the Davie Tree Experts people, it was because they have a very high reputation as far as the general field of landscaping and so on is concerned, and I wanted to be sure that the government of Canada has the proper guarantee from this as well as other firms. The reason I do not mention others is because I do not know the names of them. However, I want to be certain that the public moneys that are expended in this field are properly protected by effective guarantees. I would appreciate a witness from the National Capital Commission, in order to satisfy what I consider to be a most reasonable request, having regard to the general situation.

The CHAIRMAN: We certainly will try to get some sort of an answer, if it is humanly possible, by tomorrow.

Gentlemen, are there any further questions on paragraphs 84 and 85? If not, paragraph 86—National Harbours Board—is next.

Paragraphs 86 and 87 should be taken together. This was answered in part previously. Is there any further information you wish on paragraph 86? If not, we will move on to paragraph 88—Northern Canada Power Commission. Are there any questions on this paragraph? If not, we could take the proprietary corporations, and paragraph 89—Canadian Broadcasting Corportion. This, as you know, is dealt with by a particular committee—or, will be, I should say.

Mr. SMITH (*Simcoe North*): We should hope.

The CHAIRMAN: Yes, we should hope.

Are there any questions you wish to ask the Auditor General on this?

I would recall to your attention that the Auditor General was the C.B.C. auditor; is that not correct?

Mr. HENDERSON: No.

The CHAIRMAN: Comptroller?

Mr. HENDERSON: Yes.

The CHAIRMAN: Of the C.B.C., until some time this year.

Mr. BELL (*Carleton*): Then, we should have many questions on this subject.

The CHAIRMAN: Are there any secrets you would like to tell the committee, sir?

Mr. BELL (*Carleton*): I gather the Auditor General is quite satisfied with the C.B.C.

The CHAIRMAN: Are there any secrets to tell?

Mr. BELL (*Carleton*): I think we should not press him any further.

Mr. HENDERSON: If anyone has a question, I would be glad to do my best to answer it.

The CHAIRMAN: Well, that takes care of paragraphs 89, 90 and 91.

Paragraph 92 concerns the Canadian Farm Loan Board. I would point out this is one of the really early crown corporations.

Mr. SMITH (*Simcoe North*): And now one of the best.

The CHAIRMAN: Are there any questions on this? If not, paragraph 93—Canadian Overseas Telecommunication Corporation.

Paragraph 94—Eldorado Mining and Refining Limited.

Paragraph 95—Export Credits Insurance Corporation. We have dealt with that rather fully.

Paragraph 96—Northern Transportation Company Limited.

Mr. SMITH (*Simcoe North*): I suppose this is not exactly a question which should be asked of the Auditor General.

Does the Northern Transportation Company do transport work for companies other than Eldorado?

Mr. HENDERSON: Yes, it is my understanding it does. Mr. Stokes is the supervisor of that audit, and could give you more information on that.

Mr. SMITH (*Simcoe North*): Would Eldorado be the main source of revenue of this company, or would it be a secondary source?

Mr. STOKES: I would say it is the main source.

Mr. SMITH (*Simcoe North*): It is the main source of revenue?

Mr. STOKES: Yes.

Paragraph 97 and 98 agreed to.

The CHAIRMAN: In connection with the St. Lawrence seaway authority, that perhaps was the easiest passage they have had for some time.

Mr. SMITH (*Simcoe North*): Oh, they are all easy passages this year on the St. Lawrence seaway.

The CHAIRMAN: That is not quite what I meant.

Paragraph 99 agreed to.

Mr. BELL (*Carleton*): That was an easier passage than this item has been known to have.

SPECIAL STATUTORY AUDITS AND EXAMINATIONS

100. In addition to examinations of the accounts relating to the Consolidated Revenue Fund and 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, Royal Canadian Mint and Yukon Territorial Government.

101. The accounts of the Army Benevolent Fund were audited for the Fund's financial year ended 31 March 1959 in accordance with the requirement of section 11 of the Army Benevolent Fund Act, and the covering report was addressed to the Members of the Army Benevolent Fund Board constituted by the Act.

102. The accounts and financial transactions of the Canada Council were audited for the Council's fiscal year ended 31 March 1959 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. The audit report was included in the annual report of the Council which was laid before Parliament as required by section 23 of the Act.

103. The accounts of the Exchange Fund Account for its financial year ended 31 December 1958 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act, and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament and, in accordance with that requirement, it is certified that the transactions in connection with the Account for the year ended 31 December 1958 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.

104. The expenditures of the National Gallery of Canada are largely 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. Section 9 of the National Gallery Act directs that the accounts and financial transactions of the Board be annually audited by the Auditor General and that the report be included in the annual report of the Board, required to be laid before Parliament. This was done with respect to the financial year ended 31 March 1959.

105. The Royal Canadian Mint is a branch of the Department of Finance. Its revenues and expenditures accordingly form part of the departmental revenues and expenditures and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act requires that the Auditor General shall "at least once in each year, inspect the store of bullion and coin at the Mint", and such an inspection was made during the year under review.

106. In accordance with the requirement of section 26 of the Yukon Act, an audit was made of the accounts relating to the receipt and expenditure of Yukon territorial funds and of expenditures from Parliamentary appropriations for the Territory during the year ended 31 March 1959. The audit report was addressed to the Commissioner in Council of the Yukon Territory, and a copy was forwarded to the Minister of Northern Affairs and National Resources, in accordance with established practice.

The CHAIRMAN: On items 100 to 106; these are special statutory audits and examinations.

Mr. SPENCER: What is the difference between a so-called proprietory corporation, for example, the Canadian Broadcasting corporation, and other corporations such as Trans Canada Air Lines, and the Canadian National Railways? How is it that these corporations do not come within the scope of the Auditor General's report?

Mr. HENDERSON: Perhaps Mr. Stevenson could give you the official answer on that, because he is more familiar with it under the law than I am.

Mr. STEVENSON: I do not think there is any difference between Trans Canada Air Lines, for example, which is classed as a proprietory corporation, and others of the proprietory corporations; but with respect to the second part of your question, the reason that the Auditor General does not audit, is because, by statute, the auditors of the Canadian National Railways audit the accounts of that corporation.

Mr. SPENCER: And does the same thing apply in the case of Trans Canada Air Lines?

Mr. STEVENSON: I was speaking of Trans Canada Air Lines.

Mr. HENDERSON: We only report here in the case of those corporations for which we do the audit.

Mr. BELL (*Carleton*): Parliament, in its wisdom or in its lack of wisdom, has decided in connection with the Canadian National Railways and in connection with Trans Canada Air Lines and certain other corporations that there should be an independent audit.

Mr. HENDERSON: I do not know; I think we could provide that.

Mr. BELL (*Carleton*): I mean an audit done other than by the Auditor General. I think that is a legitimate comment by the Auditor General, but what I meant was an audit other than one done by the actual officer of parliament.

The CHAIRMAN: In paragraphs 100 to 106 you will see special audits are required by the Auditor General, such as in paragraph 101, the army benevolent fund, 102 the Canada council, 103 the exchange fund account, 104 the national gallery of Canada, 105 the Royal Canadian mint, and 106 the Yukon territorial fund.

What about the National gallery? Have you anything to report in the way of up-to-date news?

Mr. HENDERSON: I would be glad to answer any questions on that or on any other paragraph. But in connection with the national gallery, the audit is being completed at the moment, in respect to their past year; but I do have their accounts here with respect to the previous year, and if there are any questions which the members have, I should be glad to try to answer them.

I might say that my predecessor drew the attention of the board of trustees to certain deficiencies in the system of internal control in the national gallery, a year ago. His letter, I think, was very constructive, and according to the correspondence the trustees appreciated it, and sought to remedy the points in question.

Consequently I am hoping that this year, when we go over the details and make our report, we shall find that those points have been implemented.

Mr. BELL (*Carleton*): You say "sought to remedy". Have they in fact remedied them, or do you know?

Mr. HENDERSON: I cannot say. I would have to see the accounts for this year. And when they come before me, we shall check to see what has taken place.

Mr. BELL (*Carleton*): What was the nature of the problem that was encountered?

Mr. HENDERSON: The problems had to do with these points: there was little or no procedure in effect to ensure that all shipments were properly accounted for. For example, shipping orders were not pre-numbered, nor was it the invariable practice to raise one for each order, a chit or memo often being used for that purpose.

Also, there were discrepancies in calculations on invoices, as well as in the application of trade discounts, which indicated that there was an inadequate system of verification in the billing process.

There were items of that type which would bring to the attention of management upon the completion of our work, and make suggestions for them to improve their system of internal control.

Mr. BELL (*Carleton*): How long would that have gone on?

Mr. HENDERSON: That I cannot answer. Mr. Sellar addressed these points to Mr. Charles P. Fell, who was chairman of the board of trustees at that time; and in his reply, Mr. Fell indicated that they were having his attention, and we would expect that they had largely been remedied at this time.

Mr. SMITH (*Simcoe North*): What was the date of that communication?

Mr. HENDERSON: They were drawn to Mr. Fell's attention on July 3 by Mr. Sellar.

Mr. MCGEE: July 3 of what year?

Mr. HENDERSON: It was acknowledged by Mr. Fell on July 7, 1959.

Mr. MCGEE: We have come across some specific recommendations ,of apparently, irregularities—perhaps that is too strong a word; but are there similar recommendations in connection with any of the other items?

Mr. HENDERSON: You are speaking of the corporations mentioned from paragraph 100 on?

Mr. MCGEE: Yes.

Mr. HENDERSON: I believe that the national gallery accounts are the only ones containing that, on this page.

Mr. MCGEE: There is a letter concerning a lot of specific recommendations, and concerning practices which were not satisfactory to you. There is no indication of that kind in paragraph 104. My question is this: are there any other such letters that were written to people in charge of these various funds?

Mr. HENDERSON: Perhaps Mr. Stevenson might answer that question.

Mr. STEVENSON: There is one case where the report did contain a number of suggestions for strengthening internal control; that was in connection with the audit of the Yukon territorial government's accounts. A copy of the audit report was forwarded to the Minister of Northern Affairs and National Resources.

Mr. MCGEE: There is no other letter around similar to that which was sent to Mr. Fell?

Mr. STEVENSON: No.

Mr. SMITH (*Simcoe North*): Does the Auditor General ever suggest to crown corporations or to crown departments that their accounting system is irregular or cumbersome? Do you ever go so far as that in your dealings with departments and agencies of departments?

Mr. HENDERSON: Yes sir, and I regard it as my duty.

Mr. BELL (*Carleton*): You do so regularly, do you not?

Mr. HENDERSON: We do that quite often. That is one of the reasons underlying the long form reports which we are now issuing to the management of crown corporations, and in which we give them explanations of the accounts together with our comments, particularly on their system of internal control; and if their internal control is deficient in any respect, we seek to draw it to their attention.

Mr. SMITH: (*Simcoe North*): And you do the same with departments of government?

Mr. HENDERSON: I think I explained at an earlier session that we have inaugurated this practice. We have three or four of these long form reports in process in respect to the current year's work; and when I make my report to you next year I hope I shall be able to say that we have covered all the government departments as well as the crown corporations.

Mr. STEVENSON: In the past, although we did not follow the long form report procedure, we wrote letters to departments or to crown corporations in respect to certain weaknesses in their internal control; and in regard to Mr. Smith's point regarding cumbersome accounting systems we have done that in the past, but not in writing. We have done it through the means of verbal discussion with administrative officers.

Mr. SMITH (*Simcoe North*): Perhaps you can recommend a more efficient way of paying the members of parliament, instead of their having to trudge over every month to the west block to sign affidavits.

Mr. SPENCER: I notice under section 20 of the Currency Act that the Auditor General is required to inspect the store of bullion and coin at the royal mint. You report that the inspection was made, but there is no comment in regard to it. I wondered what function the auditor performed in that inspection, or what was the purpose of the inspection. Would you find that as an effect of the recent decision to discount American coins, that the result was that the store of coin was not sufficient, and that the men had to go into overtime production, and that kind of thing? Have you anything to comment?

Mr. HENDERSON: I do not know if we can cover the latter point for you, because it would have occurred subsequently to our undertaking the audit. But Mr. Long is here. He is supervisor in charge of the Royal Canadian mint, and he will speak to that point.

Mr. G LONG (*Supervisor of Audit*): The purpose of this inspection is to see that all the precious metal that the mint has purchased has been put in the form of coin, sold or is on hand. We do not weigh everything but a test is made of ingots and bars and coins being processed in the mint, or awaiting transmission to the bank of Canada; and in that way we satisfy ourselves that what is required to be there is there. It is a rare occasion when we might find a discrepancy of a few ounces.

The CHAIRMAN: It would not take many ounces, at $35 an ounce, would it?

Mr. LONG: No.

Mr. BELL (*Carleton*): Have you ever found a discrepancy?

Mr. LONG: Relying on my memory, I think there was a 15 ounce difference in a silver bar at one time, and it was a very rare occasion.

Mr. BELL (*Carleton*): How long ago was that?

Mr. LONG: It was four years ago.

Mr. MCGEE: Are you completely satisfied with the security measures at the mint? It seems to me that a recent visitor to the mint told me that visitors were permitted to handle the coins as they proceeded through their visit. Is that a fact?

Mr. LONG: I have been through there in my official capacity, and although I might have picked up some coins, I would be very careful not to do so.

Mr. MCGEE: I am not suggesting that you picked up any.

Mr. LONG: I do not think that if a visitor, for example, or any of the members of this committee should visit the mint, that they would handle the coin at all. The coin is checked every time it moves around from one section of the mint to another. It is very carefully checked.

Mr. MCGEE: I heard of this particular case, where a person had visited the mint and had handled a number of coins.

Mr. LONG: I am surprised to hear that it took place.

Mr. SPENCER: When I went through the mint they would not allow me to put my hands on anything. I trust it was not a reflection on me.

Mr. MCGEE: Would the finding of that particular shortage which you mentioned two years ago prompt you to inquire into the security measures?

Mr. LONG: This particular thing was a difference in the recorded weight of a bar of silver. It could not be anything like that.

Mr. BELL (*Carleton*): It was due to a reconciliation.

Mr. LONG: A difference could occur through a shortage in the stock, or a difference in the stock record, and it was a very small amount. There had been a slight error on the accounting side.

Mr. SPENCER: Does not the mint always have a very substantial volume of coin on hand?

Mr. LONG: It will vary. At the moment, relying on my memory, I think there is only a fraction of what there has been at different times, but it varies. Take, for instance, gold; they take every ounce of gold which is offered by the mines, and they send it out as gold to the bank of Canada.

Mr. SPENCER: I am thinking more of silver coin.

Mr. LONG: Your remark about the American currency causing overtime work, I believe, was correct. There has been a bit of overtime.

The CHAIRMAN: Is there anything else?

Mr. MACDONALD (*Kings*): In paragraph 101 it says that the accounts of the army benevolent fund were audited for the fund's financial year, and that the covering report was addressed to the army benevolent fund board. Was there a complaint from some veterans association that they could not find out what was going on with their benevolent fund? Can the Auditor General tell us if the report goes to the Department of Veterans Affairs, or is it sent to a branch of that department?

Mr. HENDERSON: I shall have to ask Mr. Millar.

Mr. B. A. MILLAR (*Supervisor of Audits*): The report of the fund is tabled in the House of Commons.

Mr. MACDONALD (*Kings*): Is this fund administered by the Department of Veterans Affairs?

Mr. MILLAR: No, it operates under its own directors.

Mr. BELL (*Carleton*): Since some questions have been raised in connection with paragraphs 104 and 106, I wonder if the Auditor General would make a

note of the fact that at the next session of the house, the committee might be interested in having the recommendations which have been made in his department, and if in effect they have been carried out? I am not suggesting that they should appear as part of his report, but when he is reporting to the committee next year, that he should make some reference to those two paragraphs.

The CHAIRMAN: Are there any other questions on paragraphs 100 to 106? Paragraphs 100 to 106 agreed to.

> 107. Watson Sellar, C.M.G., C.A., retired as Auditor General on 5 August 1959 after having held that office for almost twenty years. Throughout the period during which he headed the Audit Office, the former Auditor General was accorded the deep respect and warm regard of the members of his staff.

The CHAIRMAN: There is one matter to which I should refer. It is paragraph 107, which states that Mr. Watson Sellar retired on August 5, 1959 after having held that office for almost 20 years. Throughout the period during which he headed the audit office, the former Auditor General was accorded the deep respect and warm regard of the members of his staff.

I feel that I should voice our appreciation of the advice, counsel and wisdom of Mr. Sellar given to this committee, certainly in the last two years, and I am sure for many years before that.

Mr. BELL (*Carleton*): So say we all. Mr. Sellar for many years has been a very distinguished public servant, from the time when he first came here as private secretary to a minister, then as an official of the Department of Finance, then when he was appointed Comptroller of the Treasury, and finally when he was made Auditor General.

In all of these capacities he has served the public of Canada with the greatest distinction, and I know that all the members of the committee will wish him the greatest of happiness in his retirement.

The CHAIRMAN: May I write to him quoting those words?

Mr. SMITH (*Simcoe North*): Is this the last meeting when we shall have the Auditor General's staff here?

Mr. HENDERSON: Actually, it would be, because the next meeting is presumably to deal with the Crown Assets Disposal Corporation, and to take up where we left off. But Mr. Stokes, Mr. Stevenson, and myself will be here. Do you wish to have the other gentlemen here as well?

Mr. SMITH (*Simcoe North*): I think that the committee is grateful to you, Mr. Stevenson, and to all the members of your staff for the courteous way you have dealt with our innumerable and sometimes repetitive inquiries.

Mr. BELL (*Carleton*): I think we should add to that that we appreciate the way in which the Auditor General has brought along his staff to the committee, and has given us an opportunity to know who the men are. I only hope that they have enjoyed being with us as much as we have enjoyed seeing them here.

Mr. HENDERSON: Thank you.

The CHAIRMAN: The next meeting is tomorrow, when we shall discuss the Crown Assets Disposal Corporation.

APPENDIX "A-8"

NATIONAL HARBOURS BOARD

Analysis of Deficit Account from inception, January 1, 1936, to December 31, 1958

Charges:		
Adjusted deficits of former Harbour Commissions, assumed by the Board on January 1, 1936	$ 24,664,561	
Total of annual losses during the period from 1936 to 1951	54,672,895	
Special charge to write off certain capital assets in 1952	31,659,815	
Special charge in 1956 to establish reserve for replacement of capital assets of Prescott and Port Colborne Elevators and Churchill Harbour	7,138,465	
Transfers to the Receiver General of earnings of Prescott and Port Colborne Elevators (1938 to 1956)	6,257,465	
Charges for prior years' adjustments (1937 to 1958—net	169,050	$ 124,562,251
Less: Credits:		
Total of Government grants during the period from 1936 to 1941	2,040,162	
Cancellation, in 1947, of part of accumulated unpaid interest	44,790,355	
Total of annual net income amounts during period from 1952 to 1958	11,987,966	$ 58,818,483
Balance of Deficit Account, December 31, 1958		$ 65,743,768

APPENDIX "B-8"

In answer to the question asked by Mr. McGee in regard to guarantees obtained by the National Capital Commission from landscape contractors, in particular, Davey Tree Experts of Canada, Ltd., for trees planted on Sussex Drive, I have made enquiries and wish to inform the Committee that contracts for trees are only given after tenders have been obtained. The successful bidder guarantees, under contract, that the trees will come into leaf satisfactorily to the Commission or will be replaced. The Commission withholds 15% of the contract price until such time as this requirement has been satisfied. I have been informed that 15 trees on Sussex Drive which were planted in 1956, developed maple wilt in the third year and had been replaced. But since these came into leaf in the first two years following their planting, replacement was no longer the responsibility of the contractor; hence, replacement was at the Commission's expense. The work was done partly by Acme Tree Specialists and partly by Cedarvale Tree Experts at an average cost of $142 per tree.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

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CROWN ASSETS DISPOSAL CORPORATION

THURSDAY, JUNE 23, 1960

WITNESSES:

Mr. L. Richard, President and General Manager, *Crown Assets Disposal Corporation;* Mr. A. Maxwell Henderson, *Auditor General;* Mr. Ian Stevenson, Assistant Auditor General; Mr. A. B. Stokes, Supervisor of Audit of C.A.D.C.; and Mr. L. V. McGurran, Financial Advisor, *Department of Public Works.*

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23350-2—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

Beech,	Dupuis,	Nugent,
Bell (*Carleton*),	Fisher,	Payne,
Benidickson,	Fraser,	Pickersgill,
Bissonnette,	Grenier,	Pigeon,
Bourget,	Hales,	Pratt,
Brassard (*Chicoutimi*),	Hanbidge,	Regier,
Broome,	Keays,	Robichaud,
Bruchési,	Lahaye,	Rouleau,
Campeau,	McDonald (*Kings*),	Smith (*Simcoe North*),
Chown,	Macdonnell,	Spencer,
Coates,	McGee,	Stefanson,
Danforth,	McGrath,	Stewart,
Denis,	McGregor,	Tucker,
Deschatelets,	McIlraith,	Valade,
Dorion,	Morissette,	Villeneuve,
Drysdale,	Morton,	Wratten—50.

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 23, 1960.
(15)

The Standing Committee on Public Accounts met at 2.10 p.m. this day. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Beech, Chown, Danforth, Drysdale, Hales, McDonald (*Kings*), Macnaughton, McGrath, Morton, Smith (*Simcoe North*), Smith (*Winnipeg North*), Spencer, Stefanson and Tucker.—14.

In attendance: Mr. G. W. Hunter, Assistant Deputy Minister, Department of Defence Production; *From the Auditor General's Office:* Mr. A. Maxwell Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Mr. A. B. Stokes, Supervisor of Audit of *Crown Assets Disposal Corporation. From Crown Assets Disposal Corporation:* Mr. L. Richard, President and General Manager; Mr. I. M. MacKinnon, Assistant General Manager; Mr. T. P. O'Donoghue, Manager, Lands and Buildings Division; and Mr. L. M. Mondor, Assistant Comptroller.

Mr. Stokes read a brief statement in reply to a question asked by Mr. McGee on Wednesday, June 22nd respecting landscaping on Sussex Drive, Ottawa.

Agreed,—That the abovementioned statement be included in the Committee's Minutes of Proceedings and Evidence No. 13 as *Appendix "B-8"*.

The Committee proceeded to further consider the operations of Crown Assets Disposal Corporation, Mr. Richard and the Auditor General supplying information thereon.

The Chairman indicated that the following communications have been received:

1. A telegram from the President and General Manager, Koehring Waterous Ltd., Brantford, Ontario.
2. A letter from the office of the Vice-President and Treasurer of Dominion Engineering Works Ltd., Montreal.
3. A letter from Canadian Association of Equipment Distributors.
4. A letter from Blackwood Hodge Ltd., Montreal, Quebec.

Agreed,—That the abovementioned documents be included in today's evidence. (*See Appendix "A-9"*).

Mr. Richard read a prepared statement and he was further questioned.

Mr. MacKinnon filed the following information for inclusion in the Committee's record as *Appendix "B-9"*:

1. Origin and Negotiation History of *Note 100,* respecting provisions for the disposal of excess United States Government property in Canada through CADC.
2. Customs, Duties and Taxes under *Note 100.*
3. Donation, abandonment or destruction of equipment under *Note 100.*

23350-2—1½

4. Breakdown of appraisal made by CADC representatives on inspection of equipment prior to sale compared to sales prices obtained 1958-59.
5. Breakdown of appraisal made by CADC representatives on inspection of equipment prior to sale compared to sales prices obtained 1959-60.
6. Supplementary information, requested by Mr. Fisher and Mr. Smith at page 295 of the Committee's proceedings.
7. Supplementary information, requested by Mr. Drysdale at page 298 of the Committee's proceedings.

The witnesses were thanked and permitted to retire.

At 3.55 p.m. the Committee adjourned to the call of the Chair.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 23, 1960.

The CHAIRMAN: Gentlemen, may we call the meeting to order, please. At our meeting yesterday Mr. McGee wanted further information concerning trees and shrubbery in Ottawa. I believe we have obtained an answer in the interval, have we not, Mr. Henderson?

Mr. A. M. HENDERSON (*Auditor General of Canada*): That is correct, Mr. Chairman; and Mr. A. B. Stokes, the audit supervisor in charge of the National Capital Commission audit is here with some information that I would like to ask him to give.

Mr. A. B. STOKES (*Audit Supervisor of Crown Corporations, Auditor General office*): In answer to the question asked by Mr. McGee in regard to guarantees obtained by the National Capital Commission from landscape contractors, in particular, Davey Tree Experts of Canada, Ltd., for trees planted on Sussex Drive, I have made inquiries and wish to inform the committee that contracts for trees are only given after tenders have been obtained.

The successful bidder guarantees, under contract, that the trees will come into leaf satisfactorily to the commission, or will be replaced. The commission withholds 15 per cent of the contract price until such time as this requirement has been satisfied. We have been informed that there were 15 trees on Sussex drive which were planted in 1956 and developed maple wilt in the third year and had been replaced. But since these came into leaf in the first two years following their planting, replacement was no longer the responsibility of the contractor, hence, replacement was at the commissioner's expense. The replacement work was done partly by Acme tree specialists and partly by Cedarvale tree experts at an average cost of $142 per tree.

Mr. CHOWN: They cannot be expected to give an unlimited guarantee, a guarantee in perpetuity which would seem to be what was hinted at by Mr. McGee. That is not feasible.

The CHAIRMAN: Gentlemen, I have several letters which I suggest could be filed as an appendix to today's proceedings, because we are about to consider the item in respect of the Crown Assets Disposal Corporation, rather than the matters referred to in these documents. There is a telegram from the president and general manager of Koehring Waterous Limited, Brantford; a letter from Mr. Hugh Crombie, vice-president of Dominion Engineering Works Limited; a letter from George E. Bernard, Canadian association of equipment distributors, referring to the testimony he gave; and a letter from Mr. J. S. Thorp, executive vice-president of Blackwood Hodge Quebec Limited, referring to the testimony and is in amplification and clarification of the testimony given by some of the witnesses who appeared earlier before this committee when we were examining the Crown Assets Disposal Corporation.

Is it agreed that these be attached as an appendix? (*See Appendix "A-9"*)

Agreed.

The CHAIRMAN: Perhaps the statement read by Mr. Stokes with reference to the answer on trees might also appear as an appendix to yesterday's minutes of proceedings and evidence. (*See Appendix "B-8" to Proceedings No. 13*)

Agreed.

The CHAIRMAN: Now we have the Crown Assets Disposal Corporation. Mr. Richard is with us today. I understand you have some information, Mr. Richard, which you would like to bring to the attention of the committee.

Mr. LOUIS RICHARD (*President and General Manager, Crown Assets Disposal Corporation*): I have distributed to the members of the committee the details.

The CHAIRMAN: Would it be agreeable if Mr. Richard reads his statement now?

Agreed.

Mr. LOUIS RICHARD (*President and General Manager, Crown Assets Disposal Corporation*): I would like to make this statement.

Mr. Chairman, I would like to refer to some remarks made at the last sitting that sales of surpluses, Canadian or American, are restricted or made to a closed group of purchasers.

The reference was made in connection with sales of Newfoundland American surpluses and I must say that advertisements covering these sales appeared in newspapers of St. John's, Newfoundland, of Halifax and Saint John, New Brunswick, Quebec City, Montreal and Toronto informing anyone interested of the fact that these goods were for sale and inviting all and sundry to purchase and that each and every item sold was awarded to the party having submitted the highest written offer.

Crown Assets Disposal Corporation has consistently adhered for many years to the policy of selling to the public on the basis of written offers and to the highest bidder and I am referring to Canadian as well as American sales. If some firms are more frequent purchasers than others, as is bound to be the case, it is for no other reason than that they are consistently high bidders and therefore win out more frequently because of their bidding habits.

In our Montreal branch alone there are over 2,900 names on 46 lists for different types of materials and invitations for offers are mailed out in large numbers. The list for scrap includes no less than 113 names, that for machine tools 182 names, heavy machinery and contractors equipment 173 names, and so on. The average response on all lists is that 20 per cent offer us bids.

Other branches have equally heavy lists and I submit that these sales are far from restricted.

Aircraft and aircraft material sales conducted from our head office have even heavier lists. That for airplanes, airframes, engines, propellers and related support equipment has no less than 371 names.

We have made a search of our accounts and find that no single firm has bought as much as 6 per cent of the aggregate total of $6,001,238 of commodities sold in 1958-1959 and there are only six customers who have been awarded $100,000 in goods. On the other hand, an examination of ledgers accounts shows we had approximately 2,000 separate accounts in that year.

A list of the 54 most active purchasers of commodities in 1958-1959 is tabled for the information of the committee.

CROWN ASSETS DISPOSAL CORPORATION

LIST OF 54 MOST ACTIVE ACCOUNTS IN YEAR 1958-59

(Lands and Buildings Sales Excluded)

No. of Sales	Name	Amount	City
		$	
32	Army and Navy Surplus Store Ltd.	54,219.94	Regina, Edmonton and Vancouver
36	Atlas Iron and Metals	37,571.35	Vancouver
179	Aubin, Albert	20,886.41	Eastview
73	Canadian Consolidated Salvage	19,917.69	Edmonton
85	Capital Iron and Metals Ltd.	43,042.29	Victoria
52	Central Auto Parts	12,781.47	Lorrettville
39	Central Auto Wrecking Co. Ltd.	28,630.00	Winnipeg
57	Chabot, J. A.	8,652.60	Montreal
208	City Surplus Sales Co.	23,631.00	Toronto
24	Crawford Metals Ltd.	13,749.79	Belle ville
95	Crown Equipment Co. Ltd.	4,075.86	Montreal
110	Crown Surplus Stores	11,562.17	Calgary
27	Dartmouth Salvage	28,511.35	Dartmouth
16	Dartmouth Scrapyard	23,210.17	Dartmouth
22	DeFuria, James	117,403.40	Syracuse, N.Y.
24	Dembe, H. & Co.	8,722.00	Hamilton
55	Elliott Auto Wreckers	33,891.35	Newtonville
40	Federal Machinery Ltd.	13,851.75	Toronto
44	Freeman, H. & Co.	7,038.11	North Bay
53	Garland's Army Surplus Store	7,066.33	Saint John, N.B.
59	Garson, B. & Son (Yarmouth) Ltd.	21,999.45	Yarmouth
132	General Accessories & Equipment Ltd. & General Parts & Equipment Ltd.	88,801.26	Montreal
517	Hercules Sales Limited	335,476.76	Toronto
25	Hersch, Saul Ltd.	7,494.17	Toronto
41	Hogan Truck & Equipment Ltd.	8,975.13	Whalley
26	International Fire Arms Co. Ltd.	65,841.91	Montreal
31	Iron & Metal Inc.	27,750.53	Montreal
67	Irving, J. D. Ltd.	159,926.80	Saint John, N.B.
33	Junction Salvage Co.	72,624.06	Toronto
44	Klasser Brothers	15,022.06	Winnipeg
69	Kohn, Frank (Active Surplus)	9,095.54	Toronto
25	Lax Brothers Ltd.	18,669.52	Hamilton
52	Leavens Brothers Ltd.	6,668.71	Toronto
72	LeBlanc, A. & A.	6,958.50	Memramcook
231	Levy Auto Parts	130,440.28	Toronto
78	Lundrigan, Wm. J. Ltd.	73,363.00	Corner Brook
11	Marine Industries Ltd.	104,015.81	Sorel
332	Marvan Equipment Sales	207,881.55	Kemptville
84	Morin Auto Parts Reg'd.	9,059.76	St. Georges, Est.
44	Motor Accessory & Supply Co. Ltd.	29,441.98	Toronto
64	Naiman Trading Co.	4,756.09	Downsview
65	Newfoundland Salvage Sales	18,778.09	St. John's Nfld.
186	Pioneer Surplus Stores	20,125.70	Calgary
109	Pryce Motor Sales	35,096.31	Jasper, Ont.
55	Ribtor Mfg. & Distributing Co. Ltd.	29,933.10	Calgary
43	St. Joseph Auto Parts Inc.	32,670.00	St. Hyacinthe
76	Sigal, Samuel E. Enterprises Ltd.	59,639.53	New Toronto
191	Sun Glo Electric & Cycle Ltd.	11,013.05	Toronto
195	Surplus Stores Ltd.	32,801.92	Truro
131	Syrota Bros. Metal & Cartage Ltd.	20,232.06	Winnipeg
47	Tisdale Salvage Co.	6,940.92	St. Francois Xavier
66	Union Motors Ltd.	24,837.76	Edmonton
69	Westbourne Supply	10,537.29	Westbourne
92	Western Surplus Sales	11,714.32	Edmonton
4,633		2,236,997.95	

I would like once again to direct the attention of the committee to the tremendous increase in the number of reports of surplus which has taken place in the last five years, having risen from 8,263 in 1954-1955 to 17,134 to 1959-1960 and this means a corresponding increase in volume of clerical and paper work as well as accounting, which increase in volume has been further accentuated and multiplied by a large increase in the number of firms or persons requesting in recent years to be put on our lists of potential purchasers to be circularized.

Despite this, we have been successful in keeping staff numbers to a reasonable proportion and, although reports of surplus have more than doubled in the period referred to, the increase in number of persons employed is relatively small.

The report of the management consultants proposes in appendix "B" an organization composed of a staff of 100 persons excluding temporary help.

CROWN ASSETS DISPOSAL CORPORATION

Comparison of present staff of the Corporation with organization proposed by Management Consultants in Appendix "B" of their report

Total staff on payroll June 1, 1960		115
Deduct:		
Number on retirement leave	2	
Number on notice to retire (one in July and one in August)	2	
Resignation received in June	1	5
		110
Deduct:		
Temporary help:		
Ottawa	3	
Newfoundland	2	5
Total		105
Total number of personnel suggested by Management Consultants *"excluding temporary personnel"*, at Appendix "B" of their report		100
Difference		5

The management of the corporation has, at all times, been alert to any economies which could be effected and has kept the staff numbers down to the essentials required. I have prepared a table showing that, while the staff strength is 115 persons, as I stated the other day, it includes 5 persons on leave or due to retire and not be replaced, and 5 other persons employed temporarily so that, in comparing present staff with the organization proposed by the consultants, the actual difference in number of personnel is only five.

The report of Messrs. Price Waterhouse & Co. reached my desk on January 19, 1960 despite the December date shown.

In the following weeks, a number of meetings of senior officials of the corporation were held at which each and every point was discussed and the views of the senior staff obtained.

Each director of the corporation also received a copy of the report and two meetings have since been held.

A number of their recommendations have already been adopted but it soon became evident, however, that most of the important changes recommended were based on the creation of a new administration division which the report did not explain in sufficient detail, a fact which was pointed out to the consultants who explained that their initial terms of reference did not encompass this and it also became evident that for the proper appreciation of their suggestions we would require to re-engage them.

In April we sought a meeting with Price Waterhouse & Co. and expect to arrange for their further services shortly.

It is likely that before this committee meets again in 1961 the matter will have been cleared up.

The CHAIRMAN: Now, gentlemen, are there any questions?

Mr. CHOWN: There are a few questions I would like to clear up with Mr. Richard.

First of all, I would like to refer to page 252 of the evidence and put on record, once again, a portion of the minutes of proceedings, No. 21, of the standing committee on estimates in 1958, at page 594, when the then committee on which I was sitting recorded their opinion, under item 4, crown corporations—Crown Assets Disposal Corporation.

> Your committee regrets that in their opinion Crown Assets Disposal Corporation does not have any clearly defined method or policy respecting the sale of land or properties to municipalities. The operations of the corporation seem to be poorly organized with too much authority being vested in the president. As a result of the accounting methods in that organization, your committee experienced difficulty in securing certain desired information.
>
> 5. General—
>
> While there was no evidence to suggest any marked degree of inefficiency in the department or crown corporations under review, the committee, nevertheless, observed what it considers to be certain weaknesses in accounting and procedural methods. It is the opinion of the committee, therefore, that the government should consider the advisability of employing an independent business consultant to examine one or more of the crown companies. On completion of this review, the government should then decide whether a further examination of the remaining crown companies is required.

Now, for the record, was it not pursuant to that recommendation that you retained Price Waterhouse?

Mr. RICHARD: Well, I might say, in view of that criticism, we thought we would find out for ourselves what was wrong, if anything, with our corporation, and we went ahead and had a management survey made.

Mr. CHOWN: Then, for the record, you are saying it was following that criticism that you decided to retain Price Waterhouse?

Mr. RICHARD: We wanted to find out for ourselves if anything was wrong with our corporation.

Mr. CHOWN: Earlier, you said in your evidence you had done this on your own initiative, and I only wanted to clear the record on that point.

My next question is: what was their fee? They said, in their letter to you, at page 361, in the appendix to proceedings—

The CHAIRMAN: I have the answer, if you want it, quickly.

Mr. CHOWN: —No. 10, that they estimated the fee would run at a minimum of $5,000 and at a maximum of $7,500, with travelling and out of pocket disbursements extra.

Mr. RICHARD: The fee was $7,500 plus, I think, something like $600 in travelling expenses—about $8,100 altogether.

Mr. CHOWN: I see.

Now, I would like to read from page 253 of the evidence. The chairman asked Mr. Henderson if he had seen the report. Mr. Henderson replied:

> I have seen the report. Mr. Richard made a copy of it available to me.

And later Mr. Bell asked Mr. Henderson:

> Do you mean that you have not seen it until very recently?

Mr. Henderson replied:

> No, I received a copy from the president yesterday, and I learned of its existence at the time that the accounts were being "finalized" for the year.

The question comes to mind, inasmuch as you have stated today you have received this report from Price Waterhouse on January 19 this year, why were its contents not brought to the attention of the Auditor General before, roughly, June 1, 1960?

Mr. RICHARD: I think it fair to say that officers of the Auditor General's office had an opportunity. The report was in their hands early in May, and they had an opportunity to review it.

Mr. CHOWN: That is not the evidence of the Auditor General. Would it be somebody in your department, Mr. Henderson?

Mr. HENDERSON: The existence of this report came to my attention when the accounts were being finalized which, I think, was on May 12, because during the course of the audit the existence of this report had come to the audit supervisor's attention. He had made certain extracts from it, and brought it up at the time of the signing of the accounts. I had not seen the complete report until I met with Mr. Richard the day before he appeared before this committee last time.

Mr. CHOWN: In other words, on May 31. This evidence was given on June 1?

Mr. HENDERSON: That is right.

Mr. CHOWN: Would you explain to me why, Mr. Richard, this report was not filed with the Auditor General before early in May, and brought to his personal attention before May 31?

Mr. RICHARD: We thought we should have an opportunity of seeing it first.

Mr. CHOWN: What is the procedure, Mr. Auditor General, in cases of this nature? Was your department aware that this management consulting firm had beeen retained—or anybody under your authority?

Mr. HENDERSON: I understand that we first became aware of their retention during the course of our audit. Is that correct, Mr. Stokes?

Mr. STOKES: Our interim audit.

Mr. CHOWN: Your interim audit?

Mr. HENDERSON: Yes, during the course of our interim audit. The report, proper, Mr. Stokes saw during the finalization of the audit, and he made extracts from it and brought them to my attention; and that is why I asked Mr. Richard for a copy.

Mr. CHOWN: Would you not normally be aware an outside consultant agency had been retained, even by a crown corporation?

Mr. HENDERSON: I cannot speak with any degree of knowledge on that, because my tenure of office is only of a few months' duration. In my opinion, I should be aware and, moreover, should be consulted at the time any crown corporation or government department employs consultants of this type, because the effectiveness of their recommendations largely has to deal with the system of internal check and the manner in which the accounting records are maintained.

By the same token, I think that when the consultants are concluding their work they should go over it in draft form, not only with the client but also with us, because of our familiarity with the feasibility of the recommendations they propose to make.

Mr. SMITH (*Simcoe North*): Is not this Price Waterhouse report as if the company had brought in an outside audit firm, to make an audit report, without getting the advice of the regular auditors?

Mr. HENDERSON: It would appear to be that way.

Mr. SMITH (*Simcoe North*): Price Waterhouse, therefore, ought to have come to the Auditor General's Office?

Mr. HENDERSON: I do not think we can just say that. I think the corporation's management, through the president, are most certainly entitled to retain whatever services they feel are best suited in connection with their management operations. I would have hoped at the time when they were finalizing the arangements that a firm like Price Waterhouse would have given us a call, and we could have sat down with them in connection with the planning of it, because of our direct interest.

Mr. SMITH (*Simcoe North*): Even beyond that, after Price Waterhouse had been retained, would it not have been more usual if they had discussed the auditing with you?

Mr. HENDERSON: That has always been my experience in private business.

Mr. CHOWN: Surely, it would be in their interests; and I am surprised they did not do this on their own initiative, being a firm of such repute—but, surely, it would have been in their own interest to have consulted you about the terms of reference, if we want to use a broad expression?

What I am so concerned about is that the merit of this report, at a fairly substantial cost, and the fact this firm had to be drawn back in at further expense, because the recommendations they had made are not on all fours with the existing accounting procedures that are laid on by the Auditor General—it has lost its value, its immediate value, and that situation I am concerned about, because it is relatively worthless, to use a rather extreme expression.

The CHAIRMAN: I have four short questions right along that line.

No. 1: Mr. Richard, did the management consultants consult with the auditors of crown assets, to your knowledge?

Mr. RICHARD: No.

The CHAIRMAN: Question No. 2: The auditors of your corporation are surely in close relationship with you and your officials, are they not, with regard to such matters?

Mr. RICHARD: They make periodic visits.

The CHAIRMAN: That would be the Auditor General's department?

Mr. RICHARD: Yes.

The CHAIRMAN: Question No. 3: Do you not think the auditor or the Auditor General's department could help you in determining the feasibilities of the recommendations of the management consultants, if they had consulted you?

Mr. RICHARD: We had no intention of making any radical changes in the accounting and internal check features, without consulting the Auditor General. We are still at the point of trying to find out what they are driving at.

The CHAIRMAN: I think Mr. Chown has put his finger right on a very important thing, and I am very glad you brought it to the attention of this committee.

Mr. Auditor General, would there be other crown corporations who might have received reports from management consultants, but they have not brought these reports to your attention?

Mr. HENDERSON: There is only one other firm, to my knowledge, at the moment, who have employed management consultants; and the president has just made available to me a copy of their completed report and their recommendations. I have acknowledged them and indicated I would like to discuss them with him.

Mr. CHOWN: What crown corporation was this?

Mr. HENDERSON: Eldorado Mining and Refining.

Mr. CHOWN: This is the first knowledge you have that such an outside agency was retained by that corporation?

Mr. HENDERSON: I learned about it at about the time of our previous discussion in this committee. I believe Mr. Stokes was familiar with the work being in progress at the time it was being carried out. Mr Gilchrist very kindly telephoned me and sent over the reports.

Mr. CHOWN: Mr. Stokes, when were you brought into the picture.

Mr. STOKES: We were not brought into the picture, in the sense of consulting, but we were informed and they mentioned that the consultants had been engaged. We knew it was going to take place in the year 1959, in the course of our interim audit. That was around August.

Mr. CHOWN: Having been informed of this, would you say it was early —at the time that they were retained, or before they were retained?

Mr. STOKES: We were aware that they were considering their engagement, I will put it that way. Yes, we knew they were being engaged.

Mr. CHOWN: As a result of that, did you take an interest in it?

Mr. STOKES: No, we were not consulted.

Mr. CHOWN: On your own initiative, you did not take an interest in it?

Mr. STOKES: No.

Mr. SMITH (*Simcoe North*): I do not think that the audit supervisor of the Auditor General could, on his own initiative, go to Eldorado and say, "We want to be included in these discussions".

I do not think we should imply any dereliction of duty on the part of Mr. Stokes or any other audit supervisor.

Mr. CHOWN: No, I had no intention of doing that, for the record.

Mr. HENDERSON: Mr. Chown, if I may say so, I think you have made a very good point. In my experience I have seen quite a number—I am speaking of business experience—of these jobs undertaken. I, personally, have a very high regard for the approach that the management consultants bring to their work, particularly a firm of Price Waterhouse's reputation. But due to the fact that they go about it without always consulting with the client's auditors has, in my experience, often resulted in very expensive, elaborately prepared

reports being read by the management, and perhaps only 10 per cent of their value used, and the rest goes on the shelf and gathers dust. That, not too infrequently, is the case.

Mr. CHOWN: That is the point I wanted on the record, Mr. Chairman.

Mr. HENDERSON: They are not practical. I have not studied all the recommendations in respect of Crown Assets Disposal Corporation, but I have discussed a few of them with Mr. Richard and his associates, and there are several remarks here that I think we could have ironed out very happily together, had we been in on the discussions.

For example, they say:

> Accounts receivable records are now kept on a national cash register company bookkeeping machine. Accounts receivable could be handled more easily and more quickly by using a manual system—

That is to say, by writing. I would agree with that, if there were just a few hundred accounts. In the case of Crown Assets, there are 2,500 accounts; and to say that a person could write them up in longhand faster than a machine—with just that rather limited remark—I think is open to question. That is the type of thing that possibly we could have made a contribution to, had we been consulted.

Mr. MCGRATH: Could the Auditor General's department fulfil this role of the management consultant to the crown corporations?

Mr. HENDERSON: At the present time, due to our staff situation—which we discussed earlier—the answer would be no, Mr. McGrath. But I would hope that in due course, over the next year or so, we would be in a position to discharge the bulk of this type of thing.

Mr. MCGRATH: I would gather from your reply that you would be in a better position to do this to the crown corporations than an outside firm.

Mr. HENDERSON: I have maintained before that by virtue of his close knowledge and experience with the client's affairs, the auditor is in a preferred position to render this type of service.

Where specialists are required, they can always be obtained for the job in question, or something like that—or we could work in cooperation with an outside firm, equipped to cover the more technical aspects. It depends on the nature of the assignment.

Mr. MCGRATH: Do you make recommendations of this nature?

Mr. SMITH (*Simcoe North*): It was on the record yesterday.

Mr. MCGRATH: In this specific case?

Mr. HENDERSON: Yes.

Mr. MCGRATH: I am sorry.

Mr. CHOWN: Mr. Chairman, may I ask the deputy auditor general the same question that I asked of Mr. Henderson earlier, about whether it was the practice in the past, in your experience, for you to be consulted before or after outside agencies were retained as management consultants.

Mr. IAN STEVENSON (*Assistant Auditor General*): No, sir, it was not the practice for us to be consulted either before or after.

Mr. CHOWN: I see.

The CHAIRMAN: There is one thing that worries me, if I may ask a question of the assistant auditor general. Are these management consultant reports brought to your attention automatically, or must you dig for them?

Mr. STEVENSON: As I understand it, Mr. Chairman, they come to the notice of our audit staffs while they are engaged in the audits of the various corporations, unofficially, as it were. They have not been—

Mr. CHOWN: Casually?

Mr. STEVENSON: Casually. They have not been submitted to us at all on an official basis.

The CHAIRMAN: Does that mean that if your eyes are not wide open, you might not even know about it?

Mr. STEVENSON: I think it would be likely that it would come to our notice, for, of course, our auditors would observe the cost of the services that had been engaged as an item of expense. Mr. Stokes might be able to add something to what I have said.

Mr. STOKES: In such an event we would ask for a copy of the report. Then we would examine it and see how it would fit in with our auditing procedures.

The CHAIRMAN: Then there is no responsibility on the president, or manager of a crown corporation to bring it to your attention? He is an independent operator?

Mr. STEVENSON: In the past, this matter has not come up for consideration. Of course, it may be just within the last year or two, since the recommendation made by the estimates committee, that certain crown corporations have engaged management consultants. In the past there have been very few cases where management consultant firms have been engaged.

Mr. CHOWN: There is an obvious recommendation for a report contained in the evidence we have so far, and my use of the word "worthless" with respect to this Price Waterhouse report, at a cost of $8,100, seems to be more valid than I anticipated.

Mr. Richard, did you anticipate that this report would have to be tabled during the deliberations of this committee?

Mr. RICHARD: No.

Mr. CHOWN: I am going to quote from page 243 of the evidence, where part of your report is as follows:

> During 1959-1960 the corporation employed the management consultants division of Messrs. Price Waterhouse & Co. to make a survey of its operations and procedures. The report states in part and I quote: "Our review of marketing practices indicates that the present procedures are satisfactory and we make no recommendation on them" and it further states that "no reference was made to the many features of the present organization and practices which are well designed and operating effectively."

Then you went on and said that you did discuss and make a number of recommendations to coordinate the work of the various branches of your organization and prevent duplication. Then you say:

> The principal one was for the introduction of a mechanical photographic process for the preparation of forms and documentation with a consequent revision of these to permit extensive use of machinery in streamlining the various steps between the receipt of records of surplus and the final sales invoicing, this change to mechanical process entailing also the creation of an all inclusive division to handle all phases of documentation. It also recommended the elimination of certain records and information which were considered unnecessary for the operations of the corporation.

From the context of those two pragraphs it would appear to me—and in light of your answer that you did not anticipate that this report would have to be tabled during the committee deliberations—that the committee was misled as to the contents of the report, and to some extent, if you want to take a more

serious view, the lack of full coverage in your report as to the obvious dimensions of the report was a breach, or contempt of parliament, because the recommendations made by the management consultant firm amounted to 57 and reflected a potential saving of $60,000. Now, what would you say to that statement?

Mr. RICHARD: I would say that means all the savings that they say would be made are based on the implementation of this management division that I spoke of, and the mechanization of our paper processing as I pointed out in my statement.

Mr. CHOWN: You did not regard the matter sufficiently serious to deal with it to a greater extent and with more clarity in your own report to this committee?

Mr. RICHARD: I did not think I misled the committee when I said that that was the whole substance of it.

Mr. CHOWN: It occurred to me that if you stated that there were 57 recommendations made, or made an outline as was done by the Auditor General at page 253 of the evidence, it would have been better. The Auditor General gave a very concise summary of what I feel you should have given us. I think you could have gone further and said that there were 57 recommendations which would cost $81,000 to implement, and would create a savings estimated at $60,000. Would you not agree with that?

Mr. RICHARD: It is a matter of opinion, sir.

Mr. CHOWN: I beg your pardon?

Mr. RICHARD: It is a matter of opinion.

Mr. SMITH (*Winnipeg North Centre*): Has the Price Waterhouse Company completed its work under this report?

Mr. RICHARD: Under this report, yes, but it is not finished to the point that we can implement it without further reference to them.

Mr. SMITH (*Winnipeg North Centre*): You mean without further reference to Price Waterhouse?

Mr. RICHARD: Yes, in order to clarify what they mean, and to show us how this management division would operate.

Mr. SMITH (*Winnipeg North Centre*): Has this aspect of the situation been discussed with the Auditor General's department, and I am speaking of the implementation of these recommendations?

Mr. RICHARD: That department has examined the report, yes.

Mr. SMITH (*Winnipeg North Centre*): Would the Auditor General care to make a comment as to whether or not his department could facilitate the implementation of these recommendations without having to re-engage the Price Waterhouse Company?

Mr. HENDERSON: Yes, we have. I have already indicated at an earlier meeting that we could do that. In respect to their re-engagement, I would say that is something that I would want to discuss further with Mr. Richard. I have made the suggestion to him that, if Price Waterhouse and Company could have a meeting with him and with us, that we could go through the points at issue and determine their feasibility. We ourselves could check on the job of seeing that the various improvements were implemented. Whether this would involve their re-employment and an additional fee or not, of course, I cannot say, but I would hardly think so.

Mr. HALES: In this report from the Price Waterhouse Company they have recommended that the Toronto office be closed?

Mr. RICHARD: The report does recommend that, yes.

Mr. HALES: You did not report that fact to the committee in your first report?

Mr. RICHARD: No.

Mr. HALES: You received that report on January 19?

Mr. RICHARD: Yes.

Mr. HALES: Has the Toronto office been closed?

Mr. RICHARD: No.

Mr. HALES: Have steps been taken to close it?

Mr. RICHARD: No. There are good reasons for not doing that.

Mr. HALES: Why did we spend $8,100 of the taxpayers money to get the advice from Price Waterhouse if we are not going to take it? Why did we spend this public money?

Mr. RICHARD: I must say that when we employed the Price Waterhouse Company I was looking for better methods of marketing.

Mr. HALES: Better methods of what?

Mr. RICHARD: I was looking for better methods of marketing. We did not get that information. They made a number of suggestions here. Some of them have been adopted already and others it is very doubtful if they will be adopted. There are good reasons why we should not do some of the things they recommend. They only looked at it from the viewpoint of economy, and there are other good reasons for not doing some of the things they recommend. I do not say, however, that we shall not close the Toronto office.

Tied in with the explanation I have just given is the implementation of the mechanical process to prepare our office forms. This is tied together with the other proposed improvements. We are trying out at the present time what they call the xerography mechanical process, and so far it has not come up to expectations. We felt that it would work a great deal better if we had all our forms revised, but there still would be objections to it.

Mr. HALES: Mr. Chairman, I would like to pursue this question of closing the Toronto office. Have we the report here today where Price Waterhouse recommended these things?

The CHAIRMAN: You will find the recommendations on page 233 of the minutes of an earlier meeting.

Mr. HALES: I am sorry, I have not got my copy with me.

Mr. Richard, you say it is purely for economical reasons that Price Waterhouse recommend closing the Toronto office. I presume that was the same reason they were asked to make this study. Were they not asked to make this study so as to improve the efficiency of your department? Having received this information in regard to the recommendation they made I am yet to be convinced that there is not a just reason why the Toronto office should not be closed.

Mr. RICHARD: They say that we should close the Toronto office and do the clerical and paper work from Ottawa, including all this xerography process.

Mr. HALES: That sounds reasonable.

Mr. RICHARD: We are trying out the xerography process, but it has not worked satisfactorily as yet.

The CHAIRMAN: I suppose you have suspended judgment?

Mr. RICHARD: We have suspended judgment, if you like, yes.

Mr. HALES: Have you a Montreal office?

Mr. RICHARD: We have what is labelled a Montreal office, here in Ottawa. It is operating from here but is labelled as the Montreal office.

Mr. HALES: And the report proposes the same situation in respect of Toronto?

Mr. RICHARD: Yes.

Mr. HALES: That is to operate from Ottawa?

Mr. RICHARD: Yes.

Mr. HALES: Am I to take it from your remarks that you do not intend to close the Toronto office?

Mr. RICHARD: No, you may not take that from my remarks because this is still under consideration pending the results of the trial of this mechanical process. We have been searching for years for a mechanical process to handle this tremendous volume of paperwork. We have tried a number of machines. We have even tried, or had a demonstration of this xerography process some time ago, but did not think it would be suitable. In view of the recommendations made by Price Waterhouse and Company we decided to give it another try. We rented a machine and we are experimenting with it now. We find that this machine will not give us satisfactory results until such time as we are able to change our whole procedure.

Mr. HALES: How many people are employed in the Toronto office?

Mr. HENDERSON: There are two sales employees and five clerks in Toronto.

Mr. HALES: That is seven people altogether?

Mr. RICHARD: I would also like to point out that I commented about the Toronto office here. The report says that inspection of customer relation duties in connection with the Toronto office, could be carried out either by periodic trips from Ottawa, or by resident inspectors and salesmen. The report still recommends that we should have resident people in Toronto. We would also be spending money in travelling expenses to Toronto, and this would be quite a high item.

The CHAIRMAN: Mr. Hales, the exact reference in the minutes of this committee is page 329 and page 352.

Mr. CHOWN: Mr. Chairman, I wonder if Mr. Richard would go over the recommendations from the Price Waterhouse agency starting at page 353 in volume 10, appendix C and tell the committee, taking each recommendation separately, which has been implemented and which has not?

Mr. MORTON: And perhaps he could tell us if the recommendation has been considered.

Mr. RICHARD: We have adopted 20 of them.

Mr. CHOWN: Could you point out which 20? Have you adopted No. 1?

Mr. RICHARD: Yes.

Mr. CHOWN: Have you adopted No. 2?

Mr. RICHARD: No, under consideration.

Mr. CHOWN: Would you keep on going through them, please?

The CHAIRMAN: No. 3?

Mr. CHOWN: That is:

> Close the Toronto sales office. Operate the Toronto office activities from head office in the same manner as the Montreal sales office.

Mr. RICHARD: I have that as adopted.

Mr. CHOWN: No. 4?

Mr. RICHARD: Nos. 4 and 5 are under consideration. No. 6 is, yes, in time. No. 7 is under consideration. Eight will be adopted. No. 9 will be adopted in time; No. 10, adopted; Nos. 11, 12 and 13 are subject to the result of trials. Nos. 14 and 15, we are not in agreement with. No. 16 is doubtful. No. 17 we are

in agreement with. No. 18 is adopted. No. 19 is also subject to result of trials. No. 20 will be adopted in time. No. 21 we do not agree with. No. 22, subject to trials.

Mr. CHOWN: Would you just pause there a minute. Going back to No. 20—

> Refuse improperly made bids; assigned control over files of sealed bids to a senior official; place personnel and files concerned with sealed bids in a private office.

The implication there is that you call for tenders, and that they have to be submitted in a certain way, but some of these have come in in a improper form and have not been rejected on that ground. Is that true; is that the explanation?

Mr. RICHARD: Would you mind repeating that?

Mr. CHOWN: No. 20 says:

> Refuse improperly made bids; assigned over files of sealed bids to a senior official; personnel and files concerned with sealed bids in a private office.

What is the procedure now? That might be a good way of getting at it.

Mr. RICHARD: There are three recommendations really in that one:

> Refuse improperly made bids.

That refers to bids which come to us open. We have asked for sealed bids for the client's own protection. If he chooses to send them in an open envelope, or as an ordinary letter, he is surrendering that protection; and the alternative would be to send it back to him and ask him to send it in a sealed envelope; and by that time the bids would be closed.

Mr. CHOWN: Your practice here, heretofore, has been to accept an open bid?

Mr. RICHARD: Yes.

Mr. CHOWN: In spite of the fact you call for sealed tenders?

Mr. RICHARD: Yes.

Mr. MORTON: Is there not an opportunity, in such open bids, of someone on the staff putting in improper figures?

The CHAIRMAN: Changing them, raising or lowering them?

Mr. MORTON: Yes, changing them, raising or lowering them?

Mr. RICHARD: The receipt of bids, their custody, and the opening of them, is all done by a staff which has no contact with the purchasers.

Mr. MORTON: Still, that is rather a dangerous operation, I would say.

Mr. RICHARD: We have asked them time and again, that is the customers—

Mr. MORTON: It is not just a danger to the customer—but also a danger to the operation of the whole thing.

The CHAIRMAN: A temptation.

Mr. MORTON: Yes, a temptation.

Mr. RICHARD: They are not very numerous.

Mr. SMITH (*Winnipeg North*): Why not refuse them then?

Mr. CHOWN: Why do you say, in answer to my question, "What are you going to do about No. 20?" "Yes, in time."? What is involved in terms of time in order to implement No. 20? It seems to me it is a very simple thing to do it immediately.

Mr. RICHARD: I think we had come to a decision on that one, to refuse them and return them.

Mr. CHOWN: When?

Mr. RICHARD: In these meetings of our senior staff.

Mr. CHOWN: Are they under the control now of the senior official; and who is the senior official? Can you give me his name?

Mr. RICHARD: No, they are not in his control.

Mr. CHOWN: Who are the staff that open the bids?

Mr. RICHARD: The recording section.

Mr. CHOWN: What classification are they; what are they called; what is their civil service classification?

The CHAIRMAN: Of course, the witness did say they had accepted No. 20.

Mr. CHOWN: He said, "Yes, in time."

The CHAIRMAN: I thought he said they had accepted it.

Mr. RICHARD: They would be Grade 3 clerks.

Mr. CHOWN: Grade 3 clerks?

Mr. RICHARD: Yes.

Mr. CHOWN: Is that not a terrific responsibility to give to a grade 3 clerk? What is his estimated salary, roughly? Clerks go up in rank, 5, 4, 3, 2, 1. The Grade 1 clerk is a supervising clerk, is he not?

Mr. RICHARD: Pardon me, I might correct that, and say that they are put in the custody of an official of higher rank, the chief of the recording section. He would have custody of the bids.

Mr. CHOWN: Is it in his sole custody, the responsibility for opening these bids?

Mr. RICHARD: He has the custody of them, but he does not open them.

Mr. CHOWN: Who opens them?

Mr. RICHARD: They are opened by Grade 3 clerks.

Mr. SMITH (*Winnipeg North*): What is the reason for not refusing these bids?

Mr. RICHARD: Well, there is not time for the purchaser to get them back and resubmit again.

Mr. MORTON: Is that not an unfortunate situation, if he cannot go according to the instructions?

Mr. SMITH (*Winnipeg North*): He has been instructed and told what to do.

Mr. CHOWN: Could he move to item 21:

> Discontinue checking calculations on each bid received.

May I have an explanation of what is meant by that?

Mr. RICHARD: We have a computer girl who checks the extensions and calculations on the bids received. We instituted that some two years ago, when we had an unfortunate occasion when a wrong calculation resulted in a loss of recovery.

Mr. CHOWN: If this is a good thing, in your opinion—and it must be, because you instituted it because of this unfortunate occurrence—why would it be a recommendation that this practice should be discontinued? Are you now following that recommendation?

Mr. RICHARD: It involves the salary of one girl.

Mr. SMITH (*Simcoe North*): Is it not a custom in most bids for buildings and ships, and everything, that calculations of the bidder and the estimates of the bidder are checked? Is that not a normal business practice?

Mr. HENDERSON: It is a customary practice, Mr. Smith, but I think in fairness to Price Waterhouse, at page 13 of their report they say:

> Since this practice rarely discloses an error and seldom, if ever, affects the choice of the bid to be recommended, it should be discontinued.

It may not be desirable to give a one hundred per cent check to them, but they could, perhaps, cut it down to just a test check.

Mr. CHOWN: Have you gone along with No. 21?

Mr. RICHARD: No, we still want to do it.

Mr. CHOWN: You reject that recommendation?

Mr. RICHARD: No. 22 is subject to trials. No. 23, that is doubtful.

Mr. HALES: In connection with the land and buildings division, I notice they did not make any recommendations. As I understand it, if one department of government wants to get another piece of government property, it has to go through your department?

Mr. RICHARD: Yes.

Mr. HALES: To me that seems like an awful roundabout way of transferring property that belongs to the crown. Could we have some explanation on that? I think the Auditor General would be interested in this too.

Mr. RICHARD: Well it is a very simple way. We simply allocate it from one department to the other by a mere record on a sales order. The alternative would be to have it done by order in council, and that would be a much more elaborate procedure. Besides, treasury board has laid down that land may not be transferred from one department to another without reference to Crown Assets, and they have to obtain treasury board's permission in addition to that, if the item is of a value of $15,000 or more.

Mr. HALES: How long has this system been in effect?

Mr. RICHARD: The treasury board reference has been in effect, I would say, some 3, 4 or 5 years, and the allocation of property from one government department to another dates back to 1944, again on the ruling of treasury board.

Mr. HALES: I have a case in my own area, where the Public Works Department wants a piece of land from the Department of National Defence, just across the street. National Defence are quite in accord to turn that over to Public Works, but this rigmarole they have to go through, through Crown Assets, seems to be holding it up; and I do not know why it is holding it up.

Mr. RICHARD: There would be no delay in Crown Assets. It is a very simple procedure.

Mr. SMITH (*Simcoe North*): When property is declared surplus—that is this property I am speaking of, land and/or buildings—and transferred to you for sale by one department, do you circularize the other departments of the government who might have some need or use for that land or those buildings? Is there any program whereby they are notified?

Mr. RICHARD: Not as a rule, but we have on file requests from a number of departments as to certain types of property, and these we screen with them. We know just about what they do need, and if anything like that turns—

Mr. SMITH (*Simcoe North*): You do not, as a matter of regular procedure, notify the property to be sold in each of the other departments of government?

Mr. RICHARD: No.

Mr. SMITH (*Simcoe North*): You do not do that?

Mr. RICHARD: No.

The CHAIRMAN: Nothing is paid for this transfer, is it?

Mr. RICHARD: I beg your pardon, Mr. Chairman?

The CHAIRMAN: Do you want to make a statement, Mr. Richard, about notice?

Mr. RICHARD: Mr. O'Donoghue tells me we advise the Department of Public Works of any property offered for sale.

Mr. SMITH (*Simcoe North*): You do it through Public Works?

Mr. RICHARD: Yes.

The CHAIRMAN: Mr. McGrath, I had your name on my list a long time ago.

Mr. MCGRATH: My question is not along this line, but it had to do with the difficulty of questioning Mr. Richard on the statement he made today, in so far as we do not have copies of that statement.

The CHAIRMAN: It is printed in the record.

Mr. MCGRATH: I mean the statement he made today.

The CHAIRMAN: Oh, I am sorry.

Mr. RICHARD: It will be in the record. I am sorry I did not prepare copies.

Mr. MCGRATH: Sometimes we do not get the printed reports of hearings of the committee in time for the next meeting. My question is, I wonder if we could have a copy of this report distributed tomorrow, from Mr. Richard's office, if we are going to meet again tomorrow?

The CHAIRMAN: Perhaps Mr. Richard could loan you his original copy now, while we go on with something else.

Mr. CHOWN: There is really nothing in the report to speak of, I do not think, Mr. Chairman.

The CHAIRMAN: Could we start with No. 24, recommendation No. 24, gentlemen? Mr. Chown, do you want to continue?

Mr. CHOWN: Yes, is this implemented or is it not, Mr. Richard?

Mr. RICHARD: No. 24, it is under consideration.

Mr. CHOWN: Go ahead, Mr. Richard.

Mr. MCGRATH: For the sake of efficiency, might I suggest, with the concurrence of the committee, if Mr. Richard would tell us the numbers that are to be implemented, the numbers that are under consideration, and the number of recommendations that have been turned down, instead of going through them one by one, that might speed things up.

Mr. CHOWN: He is doing that now.

The CHAIRMAN: I think we will make speed in a slow way. Is that a good Irish pronouncement?

Mr. RICHARD: Twenty are adopted; a further seven, over a period of time; and the rest are under consideration.

Mr. SMITH (*Simcoe North*): What about No. 25? We were going through them one by one.

Mr. RICHARD: No. 25 is under consideration.

Mr. SMITH (*Simcoe North*): Would you just proceed?

Mr. RICHARD: No. 26, yes, in time. No. 27, already in effect. No. 28, already in effect. No. 29, already in effect. No. 30, subject to trials. No. 31, subject to trials. No. 32, doubtful. No. 33, adopted. No. 34, under consideration. No. 35, under consideration. No. 36, we do not agree with. No. 37. adopted. No. 38, under consideration. No. 39, adopted. No. 40, we do not agree with. No. 41, adopted. No. 42, adopted. No. 43, doubtful. No. 44, under consideration. No. 45, will be adopted in time. No. 46 will be adopted. No. 47, adopted. No. 48, adopted. No. 49, adopted. No. 50, adopted in time. No. 51, 52 and 53, adopted. No. 54 will be adopted in time. No. 55, under consideration. So is No. 56, and No. 57 will be adopted in time.

Mr. MORTON: Mr. Chairman, there are one or two points I would like to get clarified.

As I understand it, when equipment is being sold on the basis of tender, and certain lists are prepared in which you circularize as to the sale of

that equipment, the acceptances of those bids, are they made at a central office, or do the branch offices accept the bids coming through that branch office?

Mr. RICHARD: No, they are sent to Ottawa, and accepted by head office.

Mr. MORTON: So that all bids in respect to equipment sold by Crown Assets, anywhere within the dominion, are accepted through a central office in Ottawa?

Mr. RICHARD: They are recommended by the branches and are approved in Ottawa.

Mr. SMITH (*Simcoe North*): Where are the bids opened, all in Ottawa?

Mr. RICHARD: No, in the branches.

Mr. MORTON: What check have you in your system on the bids that are made? Do you make a periodic check from your headquarters to see that the instructions are being carried out correctly, and see that the bids are properly made.

Mr. RICHARD: Yes, that is what we check up through our branches.

Mr. MORTON: Is it a matter of a spot check, or is every bid checked within a period of a year?

Mr. RICHARD: No, not every bid. All bids are forwarded to head office and are checked here.

Mr. SMITH (*Simcoe North*): Having regard to the fact the staff in Toronto is fairly limited—seven people, I think—would it not be possible to have all the bids opened in Ottawa? Would that not be a feasible thing?

Mr. RICHARD: Then they would have to be sent back to the branch for the salesmen to obtain the customer's cheque and to see whether he approves the sale or not, or recommends the sale, or not. Then it would have to come back here again. Mind you, all bids opened have the date and hour stamp, and this shows when they are opened.

Mr. MORTON: Are the bids opened by more than one person?

Mr. RICHARD: Yes, two.

Mr. MORTON: Do they make a certificate, or is there any indication of each bid?

Mr. RICHARD: The bids are listed on a sheet which is signed by the two persons opening the bids.

Mr. MCGRATH: You do not have a branch in Newfoundland, do you?

Mr. RICHARD: No, sir.

Mr. MCGRATH: Where is the bulk of the American surplus processed? Where is the bulk of the paper work and the actual work done in that line—in Halifax?

Mr. RICHARD: No, it is done at the Pepperell air force base, or whichever location is put at our disposal by the United States people, during the course of the sale.

Mr. MCGRATH: Would this not necessitate your people having to make frequent visits or trips to Newfoundland?

Mr. RICHARD: You must remember they are seasonal sales, one in the spring and one in the fall. Our men do go to Newfoundland for a specific period.

Mr. MCGRATH: How often do they usually stay? For each sale, how long do you think they usually stay?

Mr. RICHARD: I would say, two months.

Mr. MCGRATH: This will be four months of the year?

Mr. RICHARD: If not five or six.

Mr. McGRATH: Am I correct in assuming that during this period of five or six months your people maintained a suite in the Newfoundland hotel?

Mr. RICHARD: They are located in the Newfoundland hotel; yes.

Mr. McGRATH: In a suite?

Mr. RICHARD: A suite?

Mr. McGRATH: Yes, a hotel suite.

Mr. RICHARD: A room.

Mr. McGRATH: They do not have a suite?

Mr. RICHARD: They have the usual type of accommodation.

Mr. McGRATH: My question is pertinent in this regard; if they do maintain a suite, which I believe they do, would it not be more economical to have a branch office and a man there all the year around if you are spending so much time on the United States surplus.

Mr. RICHARD: A number of times we have considered whether or not it would be preferable to have an office there the year around. I do not think it would be any more economical.

Mr. BEECH: Mr. Chairman and Mr. Richard, some of the people in my area complain they do not get in on the bidding because there seems to be one firm which gets all the tenders. I see one firm here, Hercules Sales Limited, which had 517 sales in the Toronto area. Is that unusual? Can these other people check the figures so as to be able to put themselves on a competitive basis?

Mr. RICHARD: I just have pointed out that all these bids are by sealed tender and if one firm gets more than the others it is merely because consistently they are the high bidder. You have in front of you the list of all the principal or more active firms. You point out the case of Hercules Sales Limited which company has bought 517 items in the year, but I would also like to point out that we have 16,000 items in here. Is that a big proportion?

Mr. BEECH: The thing is that this one firm gets all these sales and these other people claim they do not get in on it. Is there any way in which they can check the tenders in order to compete? If they do not know what the other people are paying it is difficult to compete. Is there any way in which they can see the tenders which are granted?

Mr. RICHARD: That also has been considered a number of times. We think the best practice is not to disclose the bidding habits of competitors.

Mr. McGRATH: Do you conduct an investigation into any of these firms which buy a large quantity, as to the principles of these firms?

Mr. RICHARD: In what way?

Mr. McGRATH: Do you examine the corporate structure of these firms?

Mr. RICHARD: As to their financial responsibility?

Mr. McGRATH: Yes and—

Mr. RICHARD: Generally we ask for cash before they get anything, so we are not much interested in their financial responsibility.

Mr. McGRATH: I am not thinking so much of financial responsibility as sort of an investigation of the individuals who comprise these firms in order to ensure that things are being properly carried on.

Mr. RICHARD: We have had a number of investigations made; but I am not sure exactly what you mean.

Mr. McGRATH: I have a case in point but I do not think it would be relevant to the committee if I elaborated on it. I am thinking specifically of one or two firms on this list who have bought substantial quantities in relation to the other firms listed here.

Mr. RICHARD: At any time you wish you can come down to our office and discuss any particular case. You are welcome, as are all other members of the committee. We would only be too glad to have you come in and see how it works.

Mr. MCGRATH: I realize that, sir, but my question had to do with what, if any, investigation do you make of those firms with which you are dealing. I suggest to you that some of these firms are in the business solely to deal with your corporation; this is the only function they carry out.

Mr. RICHARD: Perhaps you have in mind the case of Hercules sales. I would say that is a very minor part of their business. They buy from all over—the United States, Japan, Korea and other countries.

Mr. MCGRATH: What about Marvan Equipment Sales of Kemptville, Ontario. They are the second highest.

Mr. RICHARD: Yes. I do not think they could be said to be solely in the business of buying from us.

Mr. SMITH (*Simcoe*): Is it not a fact that some of these people are heavy buyers because they have the distribution facilities to dispose of huge quantities?

Mr. RICHARD: Yes.

Mr. SMITH (*Simcoe*): For instance, Levy Auto Parts.

The CHAIRMAN: Mr. Smith, do you have something that you wish to read into the record on behalf of another member?

Mr. SMITH (*Simcoe*): Yes.

Mr. BEECH: May I follow up with my other point. I know you have the principle of giving these tenders to the highest bidder; but normally, as in other provincial matters, people bidding have the right to see what the other people are bidding. Does that not apply here?

Mr. RICHARD: This is not the system we have followed.

Mr. BEECH: How can it be equitable? Surely the other people have a right to know.

Mr. MORTON: I believe that was explained at a previous meeting. He gave quite a logical reason.

Mr. BEECH: I am sorry, if it is on the record.

Mr. DANFORTH: May I follow this up. Mr. Richard, how would it be possible for a small company which has done business with the Crown Assets Disposal Corporation once not to be on the tender list on occasions after that? I am speaking of a company which on two occasions purchased airplanes in a small number and has had to make reapplication in order to be put back on the tender list.

Mr. RICHARD: The most frequent reason for that is that we have ruled that when a firm fails to reply to us after five offer forms have been circulated to them we assume they no longer are interested and we cut them off the list.

Mr. SPENCER: Are they advised that if they do not reply they will be taken off the mailing list?

Mr. RICHARD: Yes.

Mr. SMITH (*Simcoe*): Is it not also the case that some people who are on the list and are not bidding will sometimes send in a blank form with no author in order to keep in good standing.

Mr. RICHARD: Yes. Also there are cases where they may fail to make payment when called upon; they may be the high bidder and when we ask them for a cheque for the merchandise they do not put up the money and we cut them off.

Mr. SMITH (*Simcoe*): I have a question which related more to what we were discussing the last day. You may have answered this and if you have please say so. I am not talking about land now. When assets are turned over to you for disposal how much discretion have you as to when they will be put on the market? Do you have to proceed immediately to sell it even though it might, for instance, distress the heavy equipment sales in a certain part of Canada? Do you have a certain discretion to delay the sale of, say, ten bulldozers, for six months or even a year, or do you have to sell them at once.

Mr. RICHARD: We have no great accumulation as a rule.

Mr. SMITH (*Simcoe*): I am not speaking of an accumulation. I am talking about the discretion you would have.

Mr. RICHARD: I suppose we would have that discretion; but I do not see any point in holding off. As a rule we try to dispose of surpluses within three months. The paper work involved, the calling for bids, and getting deliveries made does not give us much time. The alternative is to store these things and that runs up greater storage costs for the government than the higher recovery we might get for holding them.

Mr. CHOWN: Have you ever suspected that any of these major purchasers have set up shadow companies under the Partnership Act which is a very cheap way to get in a multiplicity of bids.

Mr. RICHARD: Yes. We are constantly on the watch for that.

Mr. CHOWN: I think this is the point Mr. McGrath was getting at in an indirect way. There is one way of checking, for example, through the provincial secretary's office of the province of Ontario.

Mr. RICHARD: We do not have to do that. We know them well enough to know what the tie-in is between companies. We particularly are on the watch all the time to see they do not, shall we say, gang up against us.

Mr. MCGRATH: Do you subscribe to Dun and Bradstreet.

Mr. RICHARD: No.

Mr. MCGRATH: Do you subscribe to any similar organization?

Mr. RICHARD: No. We do not give any credit.

Mr. MCGRATH: I am not necessarily speaking about credit but rather the corporate structure of some of these companies and their financial reliabilities.

Mr. RICHARD: Upon occasion we have had Dun and Bradstreet reports.

Mr. SMITH (*Simcoe*): What really does the corporate structure of these companies matter? I know it is suspected that sometimes they form a combine, but actually we cannot decide not to sell to them on the basis that we do not like their religion or politics. So long as they get the cash on the barrel head I do not think we have any discretion in the matter. I do not think it matters anyway, so long as we get the highest bid.

Mr. RICHARD: The thing we have to watch is that they do not get together. As I pointed out there is a multiplicity of names on our list.

Mr. MCGRATH: That does not mean a thing.

Mr. RICHARD: If we circulate 182 firms they have to compete with the rest.

Mr. MCGRATH: In particular I am thinking of the United States surplus sales. From time to time I have had suggestions that this is evidently going on.

Mr. RICHARD: In respect of the United States surplus sales, these people who go up to Newfoundland are, shall I say, gamblers. They must risk a large sum of money to go up there and take some of their technical men with them to inspect the surpluses, and even then they are not sure they will get anything.

So they must be prepared to buy in large quantities. Of course, that may restrict the number which are likely to be interested, but only owing to the expense involved.

Mr. CHOWN: I am concerned about these tenders being opened all over the country by grade III clerks. I was going to ask the Auditor General, is it the practice in other departments of government to spread out the opening of tenders or is it on a local level?

Mr. HENDERSON: I do not know. I have not had the experience to answer that question. I believe Mr. Stevenson might be able to answer.

Mr. STEVENSON: My understanding is that the tenders are opened centrally. In the course of our audit we inquire into the system of opening tenders from time to time.

Mr. CHOWN: I am thinking of the Department of Transport and the Department of Public Works.

Mr. STEVENSON: Yes.

Mr. CHOWN: I believe they are opened by clerks, each tender is stamped and they are recorded on a list and it is done in public.

Mr. SPENCER: A tenderer is entitled to be present at the time the tenders are opened.

Mr. STEVENSON: Yes.

Mr. RICHARD: But these departments do not have the tremendous volume we have.

Mr. CHOWN: I am concerned about this decentralization. As a matter of policy it would seem that it would be better to have it centralized.

The CHAIRMAN: I think Mr. Smith has a statement he would like to put on the record.

Mr. SMITH (*Simcoe*): Is it not a custom, Mr. Stevenson, that when tenders are opened in the Department of Public Works or in the Department of Transport that usually there is a representative of the shipbuilders association present in that case and in the case of the Department of Public Works tenders a representative of the Canadian construction association is present.

Mr. STEVENSON: That is so.

Mr. SMITH (*Simcoe*): I think that is a commendable practice and it might be the course followed by Crown Assets in cases where there are large sales. I am not speaking of the sale of two typewriters, but rather sales of many thousands of dollars worth of construction equipment in which case if there were a representative of the industries present when those tenders are opened it would remove a lot of doubts that surround it.

Mr. Broome at the last meeting asked me, since he would not be here, to read a conclusion from the report of the Canadian manufacturers association of this year. It has to do with surplus sales.

> The association also recommended that the agreement between Canada and the United States with respect to the disposal of U.S. equipment located in Canada be revised so that all such equipment will be subject to appraisal under the usual customs laws prior to its sale or disposal in Canada. Under the present agreement, this U.S. equipment is allowed importation into Canada free of customs duties and taxes. When this equipment is declared surplus it is turned over to the Crown Assets Disposal Corporation for sale in Canada, for the reason that the United States government prohibits its return to that country. The sale of this U.S. equipment in Canada at bargain prices adversely affects the sale of competitive Canadian-made equipment.

The CHAIRMAN: I am sure Mr. Richard will appreciate all the good friendly advice he is getting. On behalf of the committee I do hope that you will pay some attention to our free advice.

Mr. RICHARD: I would like to direct attention of the committee to page 338 of No. 10 of the minutes of proceedings and evidence in which the management consultants comment on the opening of bids.

Mr. CHOWN: That would be the comment on page 338 in (*b*):

(*b*) a fixed schedule for the opening of bids, with extra staff to handle the maximum volume of bids that conceivably could be opened on any day. Opening of bids and selection of the successful bids would, of course, have to be completed in the presence of the public on the day of opening.

Mr. RICHARD: Please go on, sir.

Mr. CHOWN: Do you want me to continue?

Mr. RICHARD: Yes, please.

Mr. CHOWN:

The following advantages of present practices would be lost, likely leading to reduced recovery to the crown, if bids were opened in public:

(*a*) at present the amount of the successful bids is not disclosed until three months after the sale is made and the amounts of unsuccessful bids are never disclosed. This protects the customer in marketing the commodities. It also prevents customers from learning the bidding habits of their competitors;

(*b*) some protection against collusion amongst customers is afforded by the private opening of bids;

(*c*) the successful bidder does not learn the amounts of other bids. Under public opening he would be able to cancel his bid (by refusing to submit a cheque to complete the sale) if his bid seemed to him to be inordinately high compared to the others.

(*d*) bids are accepted at present if they are postmarked on or before the closing date for bids. If bids were opened in public on the closing date, bids in transit by post would not be eligible.

For these reasons and in view of the geographical locations of the branches, we came to the conclusion that neither of them is practicable.

The CHAIRMAN: I wonder, Mr. Auditor General, if I can anticipate the future. Perhaps next year in your follow-up report you might ask what happened to the recommendations and what conclusions were arrived at between the Crown Assets Disposal Corporation and the management consultants.

Mr. HENDERSON: Yes, Mr. Chairman, if it meets with the approval of the committee, I can go ahead with these meetings and next year have a follow-up report in respect of the recommendations.

Mr. MORTON: I think that would be most desirable. Also, I would like the Auditor General to keep in mind, in view of the fact that the Crown Assets Disposal Corporation seems to be getting somewhat smaller—primarily it was set up to dispose of large assets during war years—to consider the advisability perhaps of dissolving the Crown Assets Disposal Corporation as such and perhaps make it an agency of the Department of Defence Production.

Mr. HENDERSON: Are you suggesting this be part of the discussion I hold with both the consultants and Mr. Richard and his associates?

Mr. MORTON: Yes.

Mr. HENDERSON: At first blush it would seem that if the recommendations in this report can be made effective that the Crown Assets Disposal Corporation can be set up or reset on a better basis than appears to be evident from this discussion, and that we might have the solution to the problem right there; however, I do agree that I should take into consideration the possibility of the other approach you suggest.

Mr. MORTON: They may not have had their minds directed to that alternative?

Mr. HENDERSON: I do not think that was part of the terms of reference handed to them.

The CHAIRMAN: Gentlemen, I think I should point out at this stage that Crown Assets have done very useful work over the years. At one time they had 10,000 or more employees; now they are down to 115 or so. It is just the other side of the coin that we should keep in mind.

Mr. CHOWN: If I may make one other suggestion, Mr. Chairman, to the Auditor General. I wonder if this would be possible to execute, that the Price Waterhouse Company of management consultants should not be re-retained without your serious consideration, if it is found that in cooperation with the officials of the crown corporation concerned our own Auditor General can make the necessary adjustments in the present report to streamline the organization and get it functioning at maximum efficiency.

Mr. HENDERSON: I think, Mr. Chairman, Mr. Richard and I would want to bear that point in mind very definitely.

Mr. MCGRATH: Further to Mr. Morton's comment, Mr. Chairman, that the terms of reference of the Crown Assets Disposal Corporation today places the president and the officials of that corporation under tremendous responsibility, we have every sympathy for you, I can assure you, Mr. Richard, and members of your staff. We appreciate that fully. This is just in support of Mr. Morton's contention that perhaps consideration be given to making the corporation an agency, under the direct control of the Department of Defence Production.

Mr. HENDERSON: I think that was contained in Mr. Morton's suggestion, if I understood it right, Mr. McGrath.

Mr. MCGRATH: Yes.

The CHAIRMAN: Yes.

The CHAIRMAN: Is there anything else, gentlemen? If not, will you leave the calling of the next meeting, which will probably be for the purposes of considering our report, to the chairman?

Agreed.

Mr. SPENCER: Mr. Chairman, may I just clear up one matter in my own mind. I hope it is not something that has been already dealt with. It follows along the explanation that is given in the report of Price Waterhouse as to the advantages of the private opening of these tenders. I think I should like to direct my question to the Auditor General.

No. 1 is: would not those reasons equally apply—and if not, to what extent do they not apply equally—to the opening of all tenders, including construction tenders and tenders that are called by all government departments?

Secondly, if on balance that is considered to be a preferable manner, then do you suggest that the same procedure should be followed in the calling of tenders by the departments for construction and otherwise?

Mr. HENDERSON: If I understood your question correctly, Mr. Spencer, I think it is that in view of the fact that tenders are opened in public in the Department of Transport, and the Department of Public Works, should they not likewise receive similar treatment in Crown Assets?

Mr. SPENCER: Yes—or vice versa, if it is preferable to treat them as it is done in Crown Assets, why not apply it to the other departments?

Mr. HENDERSON: I see no reason why it should not be. It seems to me the principle is the same in both places.

Mr. SMITH (*Simcoe North*): It seems to me that government agencies must be like Caesar's wife—above suspicion, even if sometimes it might cost the government a few dollars in the amount of sales; that it is more important to adopt a course of absolute rectitude and fairness to everybody—

Mr. HENDERSON: If you call for tenders in that manner when you are purchasing something, is it not equally right that you should call for tenders when you are selling something—because it is public money both ways?

Mr. SPENCER: That is my feeling; but I wanted to find out whether you had that opinion.

The CHAIRMAN: Mr. Mackinnon has a statement, which I suggest we could file in the record. It is in answer to several points raised by Mr. Chown at the last meeting. I suggest that we file it in the record, unless you want to hear it now, Mr. Chown?

Mr. CHOWN: No, Mr. Chairman; that can be filed as an appendix.

I wonder if Mr. Richard would be good enough to introduce the officials of his department who are here in support of himself, and give us their calling, or their position in the corporation.

Mr. RICHARD: I have with me here Mr. Ian M. Mackinnon, who is assistant general manager of the corporation; Mr. T. P. O'Donoghue, who is manager of our lands and buildings division; and Mr. L. M. Mondor, who is assistant comptroller of the corporation.

Mr. CHOWN: Thank you.

The CHAIRMAN: Thank you, gentlemen. The meeting is adjourned to the call of the chair.

APPENDIX "A-9"

A CANADIAN PACIFIC TELEGRAM

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JUNE 13, 4.42 P.M., 1960

TLX BRANTFORD ONT. 13 335P

Alan Macnaughton M.P. Chairman, Standing Committee on Public Accounts Room 5375 House of Commons Ottawa Ont.

Have been advised testimony before your committee indicates construction machinery only being assembled in Canada. This is not true. Koehring-Waterous Ltd. manufactures in Brantford Ontario, five sizes of excavators, three sizes of road rollers, hot mix asphalt plants, concrete batch plants and construction mixers. These products have from 70 to 90 per cent Canadian content. Our normal employment has been as high as 500, is presently 300 and dropping. We strenuously object to disposal of surplus construction machinery through the Crown Assets Corporation, which is seriously affecting our business.

D. W. Marchant, President and General Manager Koehring Waterous Ltd.

CANADIAN ASSOCIATION OF EQUIPMENT DISTRIBUTORS

Personal 13th June, 1960.

Mr. Alan Macnaughton, Q.C., M.P.,
Chairman,
Standing Committee on Public Accounts,
Room 537-S, House of Commons,
Ottawa, Ontario.

Dear Mr. Macnaughton:

I would like to thank you for the privilege extended to Representatives of this Association to appear at the Public Accounts Committee on Wednesday the 8th and stress our point of view in regard to the American Surpluses disposed of by Crown Assets and answer the questions submitted from the Honourable Members.

In my testimony I stressed the fact that the year of fabrication of equipment, as shown in Crown Assets' reports is not an exact criterion to determine the condition of the machines. Notwithstanding the fact that most of the equipment sold is six on seven years old and some of it slightly more, a substantial part of it has been used to a lesser extent than it would normally have been in two or three seasons if owned by a Contractor. The average age of Contractors' inventory of equipment is over five years and one could see at random on construction projects hundreds of shovels, truck-cranes, compressors, or road rollers that are twelve and fifteen years old.

In saying therefore that I have seen machines having less than three hundred hours on the hourmeter, I only wanted to illustrate my statement and impress upon the Committee the very relative importance of the year of fabrication.

I have also stated that some Canadian Manufacturers of construction equipment, far from having only assembly plants in which American components were assembled, produced equipment with 80% to 90% Canadian content, not counting the engines which are not manufactured in Canada.

The letter that was addressed to you by Mr. Hugh Crombie, Vice-President of Dominion Engineering, will attest that my statement was very conservative in referring to them because, excluding the engine they reach as high as 99% on certain models.

The value of a power unit for a ¾ yard shovel, which I said was worth approximately $5,000.00, could be purchased at the Manufacturers level at between $3,500.00 and $5,500.00, depending on the Manufacturer and the model used.

If I stress these points to you, it is because I was appearing on behalf of this Association and the Canadian Construction Association who had presented jointly a submission to the Honourable the Minister of Defence Production, which is reproduced in the Minutes of Proceedings and Evidence No. 9 of your Committee, dated June 1st, at page 259 and following. I also stated that this submission had been endorsed by MEMAC (Machinery and Equipment Manufacturers Association of Canada), by the Canadian Automobile Chamber of Commerce, by the Quebec Road Builders Association, the Office Equipment Dealers Associations, and it is therefore of importance that no part of my testimony be contradicted because it could instill doubt as to the exactness of the other facts which I stated.

Is it not possible that the Members of your Committee be informed of the accuracy of my statements, notwithstanding the harsh contradiction by one of the Honourable Members?

I beg to remain, Sir,

Yours very truly,
CANADIAN ASSOCIATION OF EQUIPMENT DISTRIBUTORS,

Geo. E. Bernard,
Past President and
GEB/AL. Member of Used Equipment Committee.

DOMINION ENGINEERING
WORKS LIMITED
P.O Box 220, Montreal, Canada

10th JUNE, 1960

Allan Macnaughton, Esq., Q.C., M.P.,
House of Commons,
Ottawa,
Ontario.

Dear Mr. Macnaughton:

According to reports of a recent meeting of the Commons Public Accounts committee, the so-called manufacture in Canada of construction machinery and equipment consists merely of the assembly in Canada of parts and components imported from other countries.

This is not true.

We have been manufacturing power cranes and shovels in Canada since 1931 and in sizes up to and including those having a normal dipper capacity of 3 cubic yards.

Of a total work force of 2100, 265 are engaged in the manufacture of power cranes and shovels in normal times. Today the figure is 100.

The power units are of a size and capacity not made in Canada. They have a value of from $4,000.00 to $9,000.00 depending upon the size of the machine. They are imported from the United States.

Including the power units, the Canadian content of the complete machines would vary from 85% in the smallest size to 92% in the largest size.

Excluding the power units the Canadian content would be practically 99%. The only parts we import are a few special bearings.

Yours very truly,

Hugh Crombie,
HC/yr Vice President and Treasurer

c.c. Mr. Geo. Bernard

BLACKWOOD HODGE
Blackwood Hodge Quebec Ltd.
6317 Cote de Liesse Road
Montreal, Quebec
P.O. Box No. 89 Dorval Station

Branch
1450 Rue Provinciale
Quebec, Que.
Murray 1-1621

Telephone
MELrose 1-6751
Cables
Suntract Montreal

JUNE 13, 1960.

Mr. Allan Macnaughton, M.P.,
Chairman,
Standing Committee on Public Accounts,
Parliament Buildings,
Ottawa, Ontario.

Dear Sir:

My attention has been drawn to questions raised by the evidence given recently before your Committee by Mr. George E. Bernard representing the Canadian Association of Equipment Distributors relative to the dumping on the Canadian market of U.S. Government-owned surplus of construction equipment.

Mr. Bernard mentioned in his evidence that there were instances within his knowledge of machinery reaching the Canadian market through this channel which, whilst old in years, were in first-class operating condition. In other words, it was Mr. Bernard's contention that the year of manufacture should not necessarily be regarded as a guide to condition. As an example I wish to cite the case of a Lima 1½ cu. yd. Excavator which arrived in the Port of Montreal in July or August 1958. This machine was manufactured about 1951, but showed only about 300 hours of work. The machine was purchased by a contractor in the Eastern Townships who asked us, as the then Lima franchised distributor, to check the machine and instruct his personnel in its operation. Our records show that an experienced Service Engineer was sent to the purchaser's location and a thorough examination indicated that the machine was in perfect shape and required no attention whatsoever. Therefore, the only charge made to the customer was in respect of 7 hours of labour for the inspection, plus a nominal mileage charge for our man's travel.

Since it is my understanding that Mr. Bernard's evidence was questioned as to the possibility of machinery six years or more of age being able to operate without further expenditure on repairs, I am glad to offer the foregoing information in support of Mr. Bernard's testimony relative to the markedly serious effect such dumping activity must have on our market.

Yours very truly,

BLACKWOOD HODGE QUEBEC LTD.

JST/mw

J. S. Thorp, *Executive Vice President*

APPENDIX "B-9"

(1) ORIGIN AND NEGOTIATION HISTORY—NOTE 100

The International Agreement designated as Note 100 was originally proposed by the United States Government in 1949. The desirability and requirement of an agreement was basically due to confederation of Newfoundland with Canada, thus becoming a province of Canada and U.S. leased bases in Newfoundland coming within the laws of Canada. Prior to confederation the U.S. bases disposed of excess property by sale at the various bases, no doubt with consent of the Newfoundland Commission Government under the Colonial Office of the U.K. With confederation these previous arrangements apparently were no longer valid and to bring disposals of excess property under control and agreement between the Government of Canada and the Government of the United States was desirable.

A draft proposal on the subject of disposal of United States excess property located in Canada was submitted to Dr. R. A. Mackay, Department of External Affairs, Ottawa, by Mr. Julian F. Harrington, American Minister, American Embassy, Ottawa, on September 13th, 1949. This proposal was not accepted and negotiations continued until on December 5th, 1949, Mr. Harrington submitted another draft proposal, prepared in Washington, to Mr. A. D. P. Heeney, K.C., Under Secretary of State for External Affairs. This proposal was likewise considered unacceptable as drafted.

Negotiations continued, off and on, for the following year and in December 1950 a draft proposal, acceptable to Canada, was forwarded by the American Embassy, Ottawa, to Washington. With small adjustments this draft became Canadian Note 100, dated April 11th, 1951, signed by The Honourable L. B. Pearson, Secretary of State for External Affairs and it was accepted by the American Embassy Note 317, dated April 18th, 1951, signed by Mr. Stanley Woodward, American Ambassador to Canada.

Under the same date of April 18th, 1951, American Embassy Note 318 was submitted to the Department of External Affairs requesting that the provisions of Section 402, Public Law 152, 81st Congress be taken into account in Note 100 by the inclusion on bills of sale of former United States foreign excess property a notice to the purchaser along the following lines: "Under United States law excess United States Government property sold abroad may not be imported into the United States except upon determination of the Secretary of Agriculture, in the case of agricultural commodities, foods or cotton or woolen goods, or the Secretary of Commerce, in the case of other property, that such importation would relieve domestic shortages or otherwise be beneficial to the economy of the United States." The Secretary of State for Foreign Affairs replied by Note E-24, dated May 1st, 1951, that the suggestion was agreeable to the Canadian authorities and Crown Assets Disposal Corporation would insert the notice on offer forms to prospective purchasers.

The conflict in Korea was not the reason for negotiating this agreement, and the agreement was not negotiated for the purpose of meeting a temporary situation created by the Korean conflict as indicated in the evidence submitted at the last meeting of this Committee. According to our records the agreement was negotiated for the purpose of establishing an orderly and controlled method of disposal of United States property in Canada through a Canadian agency and still remains in effect for this purpose.

CUSTOMS, DUTIES AND TAXES

(2) *Note 100, Part II, Para. 3, Sub-paras. (g) and (h)*

The value of U.S. property applied by the Department of National Revenue for duty and tax purposes is as laid down under Note 100, Part II, Para. 3, Sub-para. (g) as follows: "Sales price shall be determined by CADC after calling for bids, and shall be deemed to include duty and tax payable by the purchaser to the Canadian Government".

CADC is accountable to the Department of National Revenue for that amount of the receipts collected on behalf of the Canadian Government as duties and taxes (Note 100, Part II, para. 3, Sub-para. (h)). The Department of National Revenue set a composite rate for duties and taxes and notified the President and General Manager of CADC of this composite rate by letter dated May 27th, 1950. CADC has been informed by the Department of National Revenue, Customs and Excise Branch, that this composite rate was set after taking the following factors into consideration:

(*a*) All U.S. Government property reported to CADC for disposal by U.S. Agencies was not necessarily procured by the U.S. Government from sources outside Canada and due to its age and lack of records of original procurement the composite rate would apply to all U.S. property reported for disposal in Canada under Note 100.

(*b*) The composite rate likewise takes into consideration the many classifications of U.S. property reported for disposal that would normally be entered into Canada duty free. Some of these classifications include heavy crawler tractors and other heavy construction equipment of a type not manufactured in Canada, specialized vehicles of models and types not manufactured in Canada, other light vehicles and equipment of models and types not manufactured in Canada, certain classifications of scrap, etc.

CADC has been advised by the Department of National Revenue that any additional reasons for or clarification of the above subject of setting the composite rate for duties and taxes should be obtained from that Department.

23350-2—3½

DONATION, ABANDONMENT OR DESTRUCTION

(3) *Note 100, Part II, Para. 3, Sub-para (b)*

This sub-paragraph states that property which upon physical inspection is judged to be of a type or in a condition which would make economical disposal by CADC impractical may be rejected and returned to the United States Reporting Agency which may dispose of such property by abandonment, donation or sale under conditions to be agreed upon by CADC and the U.S. Reporting Agency or may make other disposition not conflicting with Canadian public interest.

The application of this sub-paragraph is applied by CADC under agreement with the U.S. Reporting Agencies in the following manner:

(*a*) Whenever excess property is accepted but cannot be disposed of by CADC by sale or otherwise, then the property is returned to the U.S. Reporting Agencies for disposal by destruction, abandonment, sale or donation, subject to (*c*) below.

(*b*) Whenever CADC rejects declared excess property then the U.S. Reporting Agency will be authorized to dispose of such property in the same manner as (*a*) above.

(*c*) When the U.S. Reporting Agencies can dispose of returned or rejected property (referred to in (*a*) and (*b*) above by sale or donation then such property will be re-declared to CADC and accepted. CADC will then effect sale or donation of the excess property in accordance with the terms of Note 100.

(*d*) When CADC rejects or returns declared excess property the report is endorsed as follows:

"Rejected for Disposal by Sales action by CADC owing to isolated location. May be returned to the U.S.A., moved to an accessible disposal location in Canada, totally destroyed and buried or drowned at the discretion of the U.S. Declaring Agency, but not abandoned at Canadian Sites. Donations are not permitted unless first being cleared through Canadian Customs".

CADC is required under Note 100 to dispose of U.S. property in Canada regardless of condition and when declarations are received for equipment or materials that have been either used or stored without protection from the elements for a period from ten to fifteen years or more, the majority of such property has been reduced to a scrap condition and sold as such. A great deal of equipment and material has been reported at isolated locations from which the cost of transportation to salvage or scrap markets by a purchaser exceeds any indicated resale value. In these instances CADC authorizes the U.S. Reporting Agency to destroy, bury or drown the property but only in very few instances is abandonment approved. The reason abandonment is soldom approved is due to the undesirability of permitting U.S. Reporting Agencies to create dumps of abandoned U.S. property on Canadian territory that has not been entered into Canada under Canadian customs regulations.

CADC has approved donation in certain instances particularly with respect to religious or sacred properties which are exempt from customs or taxes by the Department of National Revenue. Donations other than this category cannot be approved unless the property is reported to the Department of National Revenue, Customs and Excise Branch, for customs and tax purposes.

(4) BREAKDOWN OF APPRAISAL MADE BY C.A.D.C. REPRESENTATIVES ON INSPECTION OF EQUIPMENT PRIOR TO SALE COMPARED TO SALES PRICES OBTAINED

CROWN ASSETS DISPOSAL CORPORATION—FISCAL YEAR 1958-1959

Agency	Description	Appraisal		Sales Price
US Navy, Argentia	1 Crane, Shovel, Thew, 2 cu. yd. 1953	Est. Acquisition Cost	$ 55,000	$ 16,112
		Depreciated—5 yrs.	17,600	
		Estimated Recovery	15,000	
		Condition—Repairable		
USAF, Harmon	1 Shovel, Revolving, Crawler Crane Lima Co., 1951	Est. Acquisition Cost	45,000	10,100
		Depreciated—7 yrs.	3,600	
		Estimated Recovery	8,500	
		Condition—Serviceable		
USAF, Harmon	1 Shovel, Revolving, Crawler Crane Bucyrus Eric Co., 1951.	Est. Acquisition Cost	35,000	5,100
		Depreciated—7 yrs.	2,800	
		Estimated Recovery	4,500	
		Condition—Serviceable		
USAF, Harmon	1 Crane Shovel, Power Unit, Revolving Crawler, 1951, Marion Power Shovel	Est. Acquisition Cost	75,000	11,250
		Depreciated—average 9 yrs.	Nil Value	
	1 Crane, Revolving, Crawler, 1939, Harnishchfleger Co.	Estimated Recovery	10,500	
		Condition—Repairable		
US Army, Engineers Harmon	1 Crane, Revolving, Crawler, Boom 50", 1951, Lorain	Reported Acquisition Cost	12,000	10,100
		Est. Acquisition Cost	42,000	
		Depreciated—7 yrs. est. from serial number	3,360	
		Estimated Recovery	7,500	
		Condition—Repairable		
US Army, Engineers Harmon	1 Crane, Revolving, Tractor, IHC, TD 9	Reported Acquisition Cost	47,866	9,015
	2 Tractors, Crawler, Bulldozer, TD 24, IHC, 1951	Depreciated—7 yrs.	3,829	
		Estimated Recovery	6,800	
		Condition—Repairable		

US Army, Engineers Goose Bay.....	Misc. Heavy Construction Equipment as follows: 2 Tractors w/dozers and winch, IHC, 1953 2 Pavers, Dual Drum, Ransome, 1942 1 Generator, Portable, 1000 Watt, 1 Compressor, LeRoi, 1951 1 Crusher, Austin-Western, 1942 3 Cement Finishers Koehring, 1942 1 Spreader, Blaw Knox, 1942 1 Subgrader, Blaw Knox, 1942 1 Well Drill, Cyclone, 1942 1 Welder Arc 1 Sweeper, Rotary, Little Giant 1 Melting Kettle and 2 Melting Applicators, 1942 8 Buckets, Dragline and Clamshell 5/8 cu. yd. to 2 cu. yd., 1942 1 Paver Adnum, Black Tip, 1942 2 Float Foot Bridges, Flex Plane 1942	Reported Acquisition Cost..... Depreciated—average 10 yrs..... Estimated Recovery..... Condition—Salvage	$238,441 Nil Value 14,430	$9,865
US Army, Engineers Goose Bay.....	1 Spreader, Concrete, Blaw Knox, 1951..... 1 Subgrader, Blaw Knox, 1952 1 Finisher, Concrete, Blaw Knox, 1952 1 Spreader, Concrete, Koehring, 1952 1 Machine, Concrete, Curing, Flex Plane, 1952 2 Pavers, Concrete, Multifoote 1 Finisher, Asphalt, Adnum, 1951 1 Batch Plant, 100 T, Heltzel, 1952 1 Bridge Cross Over, Blaw Knox, 1952	Reported Acquisition Cost..... Depreciated—average 6 yrs..... Estimated Recovery Value..... Condition—Salvage	158,994 31,799 8,750	6,759
US Army, Engineers Goose Bay.....	1 Grader. Road, Austin-Western, 1951..... 1 Tractor, Crawler, Caterpillar, D8, 1953..... 2 Trucks, Dump Diamond T, 1953.....	Reported Acquisition Cost..... Depreciated—average 5 yrs..... Estimated Recovery Value..... Condition—Repairable	50,527 16,169 6,250	5,998

(5) BREAKDOWN OF APPRAISAL MADE BY C.A.D.C. REPRESENTATIVES ON INSPECTION OF EQUIPMENT PRIOR TO SALE COMPARED TO SALES PRICES OBTAINED

CROWN ASSETS DISPOSAL CORPORATION—FISCAL YEAR 1959-1960

Agency	Description	Appraisal		Sales Price
USAF, Pepperrell	1 Crane, Shovel, Basic Unit, 10 ton, ¾ yd., crawler mounted, Mod. TL 25K, Thew Lorain 1952	Est. Acquisition Cost Depreciated—7 yrs Estimated Recovery Condition—Repairable	$ 35,000 2,800 4,000	$ 5,200
USAF, Harmon	1 Crane, Crawler, 10 ton, Mod. 22B, Bucyrus Erie, 1951	Est. Acquisition Cost Depreciated—8 yrs Estimated Recovery Condition—Serviceable	35,000 Nil Value 6,500	9,385
USAF, Harmon	1 Crane, Crawler, 10 ton, Mod. 22B, Bucyrus Erie, 1951	Est. Acquisition Cost Depreciated—8 yrs Estimated Recovery Condition—Serviceable	35,000 Nil Value 6,500	8,333
USAF, Goose Bay	1 Crane, Truck Mounted, 20 ton Lima, 1952	Est. Acquisition Cost Depreciated—7 yrs Estimated Recovery Condition—Serviceable	35,000 2,800 9,000	10779
USAF, Goose Bay	1 Crane Shovel, Front ½ cu. yd., Truck mounted, 4½ ton, IHC, Mod. 15B, 1944 1 Crane Shovel, Basic Unit, Truck mounted, 20½ ton, Thew Lorain Shovel Co., 1951	Est. Acquisition Cost Depreciated—average 10 yrs Estimated Recovery Condition—Repairable	55,000 Nil Value 7,500	8,518
USAF, Goose Bay	1 Crane, Crawler, GED, ¾ cu. yd., 10 ton, Mod. 22B, Bucyrus Erie Co.	Est. Acquisition Cost Depreciated—age set by serial number 8 yrs Estimated Recovery Condition—Repairable	35,000 Nil Value 4,500	5,058

USAF, Goose Bay	1 Scraper, earth moving, towed 12 cu. yd., 1948, R. G. Letourneau	Est. Acquisition Cost	$ 37,000	$ 6,647
		Depreciated—11 yrs.	Nil Value	
	1 Crane Truck, gas driven, 10 ton Mod. 150 TC, 1948, Pawlings and Harnischfiecer	Estimated Recovery	6,000	
		Condition—Repairable		
US Army, Engineers Goose Bay	1 Scrubber and Washer, paddle type Portable, Pioneer, 1945.	Reported Acquisition Cost	51,210	10,001
	1 Screen, Revolving, Local made, 1952	Depreciated—average 8 yrs. and over	Nil Value	
	1 Sand Plant, Portable, Mod. 300 Pioneer Athey, 1951	Estimated Recovery	7,500	
	1 Finishing Machine, Mod. 51XE, Blaw Knox, 1951	Condition—Repairable		
US Army, Churchill	1 Crane, Shovel, ¾ cu. yd. Mod. 22B Bucyrus-Erie	Reported Acquisition Cost	47,076	10,000
	1 Crane Shovel, ¾ cu. yd. Mod. 22B Bucyrus-Erie	Depreciated—8 years and over	Nil Value	
	2 Shovel, Front ¾ cu. yd	Estimated Recovery	10,000	
	2 Fairlead Sheave	Condition—Repairable		
	1 Bucket Dragline			
	1 Bucket Clamshell			
	1 Tagline Track, riding			
	1 Tagline, interchangeable			
	4 Booms			

(6) STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEETING No. 10

Page 295:

(*a*) Mr. Fisher asked Mr. Bernard the volume or scale of surplus heavy construction equipment that might effect the distribution into the market. Mr. Bernard stated that if Pepperrell was closed down there would be enough equipment to take care of the requirements of the Maritimes for a few years to come.

I have obtained information from the U.S. Authorities who state that at Pepperrel there is one ¾ yd. Two Lorain Shovel and two or possibly three Caterpillar Tractors for disposal in the Fall.

(*b*) Mr. Smith asked Mr. Bernard where in Canada the bulk of American equipment is that is likely to become surplus during the next few years. Mr. Bernard stated that it has been mostly in Newfoundland but there might be some in Churchill or Frobisher.

I have, likewise, taken this matter up with the U.S. Authorities and am informed that after this year, on completion of construction programmes, there will be very little heavy construction equipment reported in Newfoundland. Churchill over the past years has reported surplus only three Crane Shovels and practically no other heavy construction equipment. At Frobisher the U.S. Government transferred all their heavy construction to the Canadian Department of Transport to fill their requirement on taking over the operation of Frobisher as an International airport. This equipment has not been reported surplus for disposal by the Department of Transport. At Harmon and Goose Air Bases the U.S. Army, Corps of Engineers, will be reporting for disposal this Fall one ¾ cu. yd. Lorain Shovel, truck mounted at Goose and one Koehring Crawler Crane at Harmon. At these locations the USAF will be reporting one Truck Mounted and one Crawler Crane at Harmon and as of this date there are no Cranes or Shovels known to be surplus for disposal.

(7) STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEETING No. 10

Page 298:

(*a*) Mr. Drysdale requested Mr. Richard to obtain and submit detail of description, condition and evaluation relating to the sale of one Crane, Shovel, Thew, 1953, sold for $16,112.

CADC Representatives conducting inspections of equipment and sales operations in Newfoundland have many years of experience in inspecting and evaluating construction equipment. The method used is as follows:

(i) Each piece of construction equipment reported surplus at U.S. Bases is identified and inspected.

(ii) Where declared value is not reported, CADC Representatives place an estimated original cost on each piece of equipment based on recorded data on previous disposals of the same make and model.

(iii) For appraisal purposes the age of each piece of equipment is taken into consideration on the basis of an eight year usage write-off on depreciation.

(iv) After physical examination the depreciated value is either raised or lowered to provide an estimated sales recovery evaluation. If equipment is in repairable condition and depreciated in excess of six years, the estimated recovery value is raised to reflect a probable sales value. If the equipment after depreciation is found to be almost totally worn out, the estimated cost of rehabilitation and in many instances transportation difficulties owing to location may justify reducing the estimated recovery value accordingly.

(v) The estimated recovery is recorded prior to customer inspection and closing date for receiving bids.

(vi) After bids are opened and the highest bid established it is compared with the estimated recovery, in many instances the bids are higher than estimated recovery and, likewise, in many instances lower. Then the CADC Representative returns the file to Head Office with his recommendation of acceptance or rejection of the highest bid. Final approval of a sale is the responsibility of the Manager of the Commodity Sales Division, Head Office.

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS

No. 15

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INCLUDING THIRD REPORT TO THE HOUSE

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1960

23420-3—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton,

Vice-Chairman: Mr. Murray Smith (*Winnipeg North*)

and Messrs.

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

(Quorum—10)

E. W. Innes,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, July 12, 1960.

Ordered—That the names of Messrs. Woolliams and Winch be substituted for those of Messrs. Payne and Fisher respectively on the Standing Committee on Public Accounts.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

23420-3 – 1½

REPORT TO THE HOUSE

WEDNESDAY, July 20, 1960.

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

THIRD REPORT

1. On Tuesday, February 16, 1960, your Committee was constituted by an Order of the House, and on Tuesday, March 15, 1960, the House of Commons passed the following resolutions:

Ordered,—That the Report of the Canada Council for the fiscal year ended March 31, 1959, laid before the House on July 10, 1959, 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, 1959, and the financial statements of the Canada Council and the Report of the Auditor General thereon for the fiscal year ended March 31, 1959, be referred to the said Committee.

2. Your Committee held its organization meeting on Thursday, March 3, 1960, and unanimously elected as Chairman for the third year a member of Her Majesty's Loyal Opposition. The following Members were designated by the Chairman to act with him as a sub-committee on Agenda and Procedure:

Messrs. Murray Smith, *Vice-Chairman*
Emilien Morissette
M. D. Morton
Hon. J. W. Pickersgill
Harold Winch
Eldon Woolliams

3. Your Committee held seventeen meetings in the course of which it heard:

From the Office of the Auditor General:

Mr. A. Maxwell Henderson, Auditor General
Mr. Ian Stevenson, Assistant Auditor General
Mr. B. A. Millar
Mr. D. A. Smith
Mr. G. Long
Mr. A. B. Stokes, Supervisors of Audit Branches

Representing the Canada Council:

Dr. A. W. Trueman, Director
Mr. Eugène Bussière, Associate Director
Dr. J. F. Leddy, Member of the Council and Vice-President of National Commission for UNESCO
Mr. Douglas Fullerton, Treasurer of the Council
Mr. Peter Dwyer, Supervisor of Arts Program
Miss L. Breen, Secretary.

Mr. G. A. Boyle, Deputy Postmaster General
Mr. H. T. Aitken, President and General Manager of Export Credits Insurance Corporation
Mr. L. Richard, President and General Manager, Crown Assets Disposal Corporation
Mr. George E. Bernard and
Mr. R. B. Somerville, representing Canadian Association of Equipment Distributors
Dr. P. M. Ollivier, Q.C., Parliamentary Counsel
Miss O. J. Waters, Secretary of Department of National Health and Welfare
Mr. L. V. McGurran, Financial Adviser, Department of Public Works.

I—General

4. Your Committee gave consideration to:
   (a) the action taken by departments as a result of recommendations by the Standing Committee on Public Accounts in its 1958 and 1959 reports;
   (b) the report of the Auditor General for the fiscal year ended March 31, 1959;
   (c) Crown corporations, and in particular to Export Credits Insurance Corporation and Crown Assets Disposal Corporation; and
   (d) the Canada Council

5. In examining the affairs of two of the Crown corporations, as noted in (c) above, the Committee feels that it has broken important ground in its approach to its work. It is of the opinion that it would be desirable for the operations of additional Crown corporations to be examined by the Committee in future.

6. It is noted that the Federal Government has upwards of 4½ billion dollars invested in Crown corporations and agencies.

7. The original Crown corporation might be said to have started with the various harbour commissions throughout the country in the 1880s. Later on, towards the end of the First World War, the Government was obliged to take over nearly all Canadian railways other than the C.P.R. and administer by means of a statutory corporation now known as the C.N.R. Subsequently, in 1927, the Government entered a new field by setting up the Crown corporation known as the Canadian Farm Loan Board.

8. In the 1930s the Government of the day set up the C.B.C. and followed this by the National Harbours Board in 1936. The real growth of the Crown corporation idea was during the Second World War when it was necessary for the Government to accomplish a lot in a hurry and upwards of forty corporations were in existence at one time. Most of these Crown Corporations served a most useful purpose.

9. The time has come for a reappraisal of the position of Crown corporations in our national setup. Circumstances have changed; personnel has altered; and public policy is now more directly involved in the activities of these public corporations than was the case during the two World Wars.

II—Action Taken by Departments as a Result of Recommendations Made by the Committee in its 1958 and 1959 Reports

10. Your Committee at the beginning of its sittings asked for and was provided by the Auditor General with a detailed memorandum reporting upon the current situation regarding matters which had given rise to recommendations by the Committee in its 1958 and 1959 reports.

11. The information thus provided indicated that in most cases suitable remedial measures had been taken by the departments concerned. However, there were instances where the Committee's recommendations have not been acted upon and which the Committee feels should continue to receive consideration. These matters are noted in the paragraphs which follow:

The Form of the Public Accounts

12. In its Third Report, 1958, the Committee suggested that ministerial proposals for improving the Public Accounts be considered when the Committee was again organized, and in its Second Report, 1959, the Committee was informed that were listings of salaries to commence at $8,000 per annum instead of $5,000 in Part II, the book would be substantially reduced. This change was introduced by the Department of Finance in the 1958-59 Public Accounts, but the Committee considers that further measures could be taken.

13. For example, the cost of preparing tabulations and printing travel expense payments to employees whose salaries are below $8,000 per annum must be out of proportion to end-use value.

14. It was noted that almost ten pages, each with three columns of names and amounts, were used for this purpose for the Department of Agriculture alone in the 1958-59 Public Accounts.

15. The Committee recommends 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.

Second-Class Mail

16. In its Third Report, 1958, the Committee made observations regarding the wide disparity between the cost of handling second-class mail during the fiscal year 1956-57 and the related revenue for that year.

17. The Committee 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 $4,000,000 from 1956-57) while revenues were $6,000,000 (the same as in 1956-57). The Committee 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.

18. The Committee is disturbed at the annually increasing cost of handling second-class mail. However, having in mind the desirability of continuing to assist the distribution of Canadian publications, the Committee recommends that the Department review the problem to the end that a more realistic policy be adopted.

Treatment of Receipts for Services Rendered

19. In its Third Report, 1958, the Committee recommended that a study be made by the Department of Finance of vote structures of departments

providing services in return for fees or charges, with an officer of the Auditor General participating in the study.

20. 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.

21. 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.

III—Auditor General's Report

22. Your Committee considered the Auditor General's Report for the year ended March 31, 1959, and was provided with all explanations requested.

23. The Committee makes the following comments and recommendations:

Repairs to Privately-Owned Wharf

24. The report (paragraph 26) had noted that expenditures had been incurred for repairs to a wharf which, although previously publicly-owned, had been sold in 1955, and that the repair costs had been charged to one of the appropriations for "acquisition, construction and improvements of harbour and river works".

25. In the Committee's view, expenditure on privately-owned property is permissive only after the House of Commons has been given adequate notice of the intent so to do and Parliament sanctions the making of a donation in cash or kind. The Committee regards the mode adopted in this instance as unsatisfactory.

Reimbursement to Contractor for State Tax

26. The Committee noted that a payment in excess of $180,000 had been made to a California contractor to reimburse State tax paid. Liability to the tax would not have arisen had the contract provided for delivery of title at the time of export rather than on receipt of progress payments.

27. The Committee was informed that the State has agreed to a refund of part of the monies 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.

Transfers of Armed Forces Personnel

28. The Committee noted with concern the comment included in the report (paragraph 34) that there had been cases where armed forces personnel, with large families, had been transferred to stations classified as being short of suitable housing accommodation.

29. The Committee felt that this indicates incompetency on the part of the officials responsible, and is glad to learn that the Department of National Defence has taken steps to avoid such occurrences in the future.

Special Charge to National Defence Expenditure, for Cloth Inventories

30. The Committee inquired regarding the results of the departmental survey of these inventories, to which reference was made in the report (paragraph 36), and 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.

31. The Committee recommends 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.

Unpaid Accounts Charged to New Fiscal Year

32. The Committee was concerned at learning of a case (paragraph 38 of the Report) where the Department of National Health and Welfare had failed to request the inclusion of an item in the supplementary estimates for 1958-59 to cover anticipated additional expenditures, with the result that invoices totalling over $100,000 and relating to goods delivered and services rendered up to March 31, 1959, were carried forward as a charge to 1959-60. The Committee learned from an officer of the department that this had been the first time such action had been taken, and was given assurance that a similar situation would not be permitted to arise in the future.

33. The Committee feels that an important question of principle is involved. Public Accounting is on 'cash basis', each year complete in itself and balances in votes lapsing at each year-end. Parliament, therefore, is entitled to assume that the Parliamentary Votes truly and completely reflect the proposed financial transactions of a year. The vote for sick mariners may present problems in forecasting charges to it, but there should never be distortion by allowing accounts to remain unpaid to the end that they may be used to whittle down an anticipated vote surplus in the next year.

Interest on Temporary Investment of University Grants Funds

34. The report (paragraph 40) noted 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 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.

35. The Committee 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.

36. The Committee was informed that the matter is currently under review by the law officers.

Recoverable Outlays on Canso Causeway

37. It was noted from the report (paragraph 41) that no payment had been received from the Province of Nova Scotia toward its share of the cost of the Canso Causeway, although April 1, 1957 had been determined by the Minister of Transport as being the "date of completion", under the Agreement with the Province.

38. The Committee was informed by the Auditor General of the action that had been taken by the Department of Transport in recent months, and learned that the matter is currently in abeyance pending receipt by the Department of an opinion of the Department of Justice with regard to the contention of the Province that payment is not due until the final cost of the project has been determined. This, therefore, is another matter regarded as in abeyance by the Committee.

Recovery of Debts Due to the Crown by Diversion of Part of Pension

39. The report (paragraph 43) noted that instances had been observed where amounts were being withheld from current pension payments under section 38 of the Pension Act, and applied in reduction of debts arising from previous overpayments.

40. 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.

Inactive Loans and Investments

41. The Committee noted the reference in the report (paragraph 58) to the balance due in respect of loans made to Greece and Roumania, outstanding in the amounts of $6,525,000 and $24,329,000 respectively.

42. In 1919 a credit was extended to Greece in order to facilitate the purchase of Canadian goods and about $7.5 million of this credit was utilized. At the end of 1922, interest due and unpaid exceeded $600,000 and, in 1923, the debt was consolidated with Greece depositing with Canada a special bond issue in the amount of $8 million. Semi-annual payments of principal were to retire the debt by 1948. The principal sum was reduced to $6,525,000 by 1931 when it was agreed that, due to the existing worldwide economic crises, demands for payment of principal and interest would temporarily be suspended. No payments have since been made.

43. In 1919 a credit was extended to Roumania under authority of the Demobilization Appropriation Act, 1919, to enable Roumania to purchase Canadian goods and about $20.5 million was utilized. In 1922 the debt was consolidated with Roumania depositing with Canada a special bond issue amounting to $23,969,720 to cover principal and overdue interest. A further bond issue of $359,542 was received later to cover an interest payment, bringing the total debt to $24,329,542. The pincipal is not payable until 1968. Interest is payable at 4 percent but no interest payments have been received since 1939.

44. The Committee is of the opion that the current status of these loans should be reviewed.

Share of Loans to Fishermen

45. The Committee noted the reference in the report (paragraph 68) to amounts representing Canada's share 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.

46. The Committee recommends that the government seeks Parliamentary authority to write off the balances owing.

Superannuation Account

47. The report (paragraph 70) included an explanation of the basis upon which an excess amount of $139,000,000 was included in the balance at the credit of the Superannuation Account at March 31, 1959, as a result of a bookkeeping entry of $214,000,000 made a number of years ago.

48. The Committee notes that the bookkeeping entry made to the credit of the Superannuation Account was without Parliamentary authority. It is of the opinion that credits to the Account should be limited to amounts provided under the Public Service Superannuation Act or by Parliamentary appropriations.

Permanent Services Pension Account

49. The Committee noted the explanation contained in the report (paragraph 71) 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.

50. The Committee notes again that the bookkeeping entry was made without Parliamentary authority. It is of the 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.

IV—Crown Corporations

51. Corporations whose capital stock or proprietor's equity is vested in the Government of Canada total 29 at the present time. The accounts of each of these corporations are audited by the Auditor General of Canada, with five exceptions, namely, Bank of Canada, Industrial Development Bank, Central Mortgage and Housing Corporation, Canadian National Railways and Trans-Canada Air Lines.

52. The financial statements of each of the Crown corporations were published in Volume II of the Public Accounts for the fiscal year ended March 31, 1959, which volume, together with Volume I, was referred by Parliament to the Committee.

53. In selecting the Crown corporations for examination at this time, the Committee limited its choice to those corporations whose accounts were audited by the Auditor General, choosing two of these for detailed study.

Export Credits Insurance Corporation

54. The Committee had a statement from the Auditor General expanding on his statutory audit report respecting the operations of this corporation for the year ended December 31, 1958, and including references to the operating results for the year ended December 31, 1959, together with a description of the scope of the audit of the corporation's accounts.

55. The Committee had as a witness the President of the Corporation, who outlined the nature of its operations and answered questions thereon.

56. The Committee was informed that the corporation's aim was neither to subsidize exporters nor to make profits. Instead, the aim was to break even in the long run, and this aim had been achieved—the excess of premium income over the operating expenses and net claims having been less than one-tenth of 1 percent on $818,000,000 of exports insured up to December 31, 1959. The Committee concurred in this aim.

57. The Committee was informed that the corporation extends credit in accordance with policies adopted by the Berne Union, of which it is a member, and whose purpose is to promote the exchange of information, techniques, policy and procedure with a view to maintaining orderly competition in international credit. The corporation's maximum terms of credit vary according to the nature of the goods exported—from six months in the case of consumer goods to five years in the case of heavy capital equipment—and these terms were stated to be in harmony with principles agreed upon by the Berne Union.

Crown Assets Disposal Corporation

58. A statement was given by the Auditor General supplementing his statutory audit report respecting the operations of this corporation for the year ended March 31, 1959, and including references to the operating results for the year ended March 31, 1960, together with comments on the scope of the audit that had been made of the corporation's accounts.

59. The President gave statements on the operations and organization of the corporation and was examined at length by the Committee.

Sales of Surplus Equipment on Behalf of the United States Government

60. Representations were made to the Committee by representatives of the Canadian Association of Equipment Distributors to the effect that the disposal, on behalf of the United States Government, of its surplus equipment in Canada was prejudicial to the interests of Canadian firms engaged in the business of distributing equipment and detrimental to the Canadian economy.

61. The Committee, noting that the Agreement with the United States Government under which the sales were being made is terminable by either Government on thirty days' notice to the other, recommends that the Government make a careful study of the situation in order to satisfy itself whether action should be taken to terminate the Agreement in view of the anticipated increase in the quantity of United States surplus equipment becoming available, having regard to the position of Canadian equipment distributors among other factors.

62. So long as sales continue to be made on behalf of the United States Government, the Committee recommends that the corporation include in its annual reports information regarding such sales, in the same detail as in the case of sales made on behalf of the Government of Canada.

Management Consultants' Report

63. The President of the Corporation referred to an examination of the corporation's management organization and its operating and administrative practices, recently completed by a firm of management consultants. The Committee required the report to be tabled and studied it in detail.

64. In the opinion of the Committee, the Corporation had not acted with reasonable promptness in giving effect to recommendations contained in this report.

65. The Committee noted that the Auditor General had not been consulted concerning the employment of the management consultants, nor had he seen their report dated December 16, 1959, in its entirety until May 31, 1960.

66. The Committee recommends:

(*a*) 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;

(*b*) that any government department or corporation considering employing management consultants in future should consult with the Auditor General as to the proposed employment and terms of reference so that provision may be made for the consultants to work in cooperation with the Auditor General in his capacity as the auditor of the government department or corporation concerned.

Future of the Corporation

67. The Committee recommends 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.

V—The Canada Council

68. The Auditor General made a statement to your Committee regarding his examination of the accounts of the Canada Council for the year ended March 31, 1959, and describing the scope of the audit.

69. The Committee heard evidence given by the Director and other officers of the Council regarding its responsibilities, aims and operations, particularly the awarding of various classes of grants from the Endowment Fund, and the investment policy of the Council. An outline was also received from the Vice-President of the National Commission for UNESCO, regarding the purposes and work of the commission, whose secretariat is provided by the Council.

70. The Committee received a report from its special subcommittee appointed to consider the question of the Committee's powers to elicit information from the officials of the Canada Council. In the Minutes of Proceedings and Evidence No. 6, at page 146, this report, given by the Vice-Chairman, reads as follows:

> At the May 4 meeting of the Standing Committee on Public Accounts it was agreed that a subcommittee be appointed by the Chairman and Vice-Chairman to consider the question of the relationship between the Committee and the Canada Council and, in particular, the scope of the Committee's examination of the council's operations. This subcommittee was composed of Messrs. Fisher, Benidickson, Robichaud, Morton, Morissette, Bell (*Carleton*) and myself. Your subcommittee engaged Dr. Ollivier, the parliamentary counsel, and obtained his opinion on various aspects of the matter.
>
> Members will recall that Dr. Trueman made reference to two statements of Prime Minister Diefenbaker made in the House of Commons in reply to questions asked by Mr. Fisher. The statements appear at page 134 of the proceedings of this committee and the questions asked

by Mr. Fisher appear at page 135. Dr. Ollivier's opinion was that these statements were justified in view of section 13 of the Canada Council Act which specifically states that the council is not an agent of Her Majesty.

Section 8 of the Canada Council Act sets out the objects and powers of the council and it will be seen that money is disbursed in the form of scholarships, grants, awards, etc. Section 23 of the Act requires the council to "submit to the member of the Queen's Privy Council for Canada designated by the governor in council for the purpose a report of all proceedings under this Act"—and I emphasize the words "all proceedings under this Act", and later on in that section it says: "and provisions shall be made for a review thereof by parliament.

Dr. Ollivier held the opinion that in view of these sections of the Canada Council Act and because the council has included in its report its financial statements, the committee is entitled to details of expenditures including awards, grants, scholarships, etc., if it so desires.

In amplifying this Dr. Ollivier felt that the following general principles should apply:

(1) every member of the committee has the right to ask any questions. Questions however must be in order and fall within the terms of reference of the committee.

(2) all questions should be answered but a witness is entitled to say that in his opinion the question should not be answered and state his reason for declining to answer—for example that he does not feel that it would be in the public interest to give such information.

(3) the member asking the question may appeal to the committee and the committee has the right to demand full information in spite of the statement of the witness. The procedure would be for the committee to pass a motion to the effect that the information demanded should be given.

(4) the witness should then produce the information requested.

The committee thus has the right to closely examine all aspects of the operations of the Canada Council that are included in or flowing from its annual report. As a committee of Parliament it can seek and gain information that is not available to the government or any member thereof because of the fact that the Canada Council is not an agent of Her Majesty."

71. The Committee was informed that the profits and interest earned on the University Capital Grants Fund have not been allocated either to the provinces or to the universities.

72. This question was discussed with officials of the Council in 1959 and the Committee feels that decision should be reached on the question of this allocation without further delay. It was glad to be informed that the Council is giving consideration to the matter.

73. The Committee learned that, as a matter of principle, the Council avoided undertaking to make recurring grants to the same organizations, on the grounds that its budget could become committed to such an extent as to restrict its capacity to respond to requests for assistance from new organizations. This approach commended itself to the Committee.

VI—Auditor General's Office

74. In response to questions from the Committee, it was found that whereas the approved establishment of the Auditor General's Office for the fiscal year

1959-60 was 142, its average strength during the year was only 136, and at March 31, 1960, it stood reduced to 132. Ten years ago in 1950 its staff strength was 166. This was at a time when total annual government expenditure was $2,449 million embracing 29 government departments and 23 Crown corporations. To-day government expenditure is over $5,707 million embracing 34 government departments and 29 Crown corporations.

75. The Committee was interested in details of the approach being taken by the Auditor General in the course of his duties, particularly the manner in which the Audit Office is seeking to work constructively with the managements of government agencies in evaluating not only the systems of internal control, organization, methods and procedure and related matters, but also the results achieved thereunder in terms of cost. Your Committee was interested also in noting that the Auditor General hopes to achieve this objective in part by the submission of detailed reports to the agency managements on the results of his office's examinations, a practice he hopes to extend to all departments and Crown corporations.

76. The Committee was pleased to note in the Auditor General's Report for 1959 the informative explanations given respecting the operations of those Crown corporations examined by the Auditor General. It is of the opinion that such informative explanations could be usefully expanded and that appropriate appendices might be given.

77. Parliament has placed broad auditing responsibilities on the Auditor General and they involve the largest and most complex business in Canada to-day—the Federal Government. To carry out these responsibilities adequately in the interests of Parliament and the public requires the highest order of leadership coupled with a competent staff of career accountants and auditors. In the opinion of the Committee it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants.

78. Since the Auditor General is responsible only to Parliament, the Committee recommends that at the next Session of Parliament, the proposed Special Committee on the Civil Service Act should give consideration 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 and the establishment of rates of compensation for each class of position, having regard to the rates of compensation and conditions of employment for comparable positions in other branches of the public service and outside the public service.

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79. Your Committee feels it to be important in the interests of maintaining Parliamentary control over financial matters that the recommendations and suggestions of the Committee be given careful study and consideration by the departments and corporations concerned.

80. A copy of the Minutes of Proceedings and Evidence relating to the above matters is appended.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, July 14, 1960.
(16)

The Standing Committee on Public Accounts met *in camera* this day at 8.20 o'clock in the evening, pursuant to notice. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Bell (*Carleton*), Bissonnette, Campeau, Chown, Danforth, Hales, Macnaughton, McGee, Morissette, Morton, Pratt, Regier, Smith (*Simcoe North*), Tucker, Valade, and Winch.—(16).

The Chairman tabled mimeographed copies of a draft Report to the House which was agreed upon by the Subcommittee on Agenda and Procedure, and he made general comments on the contents thereof.

The Committee commenced consideration of the said draft, paragraph by paragraph.

Mr. Bell (*Carleton*) recorded his dissent to the paragraphs dealing with second-class mail.

Certain amendments were made to the draft report, and its consideration still continuing, at 10.25 p.m. the Committee adjourned to the call of the Chair —12 noon Friday, July 15.

Antonio Plouffe,
Chief Clerk of Committees.

FRIDAY, July 15, 1960.
(17)

The Standing Committee on Public Accounts met *in camera* at 12.00 noon this day, the Chairman, Mr. Alan Macnaughton, presiding.

Members present: Messrs. Bell (*Carleton*), Benidickson, Bissonnette, Chown, Coates, Danforth, Lahaye, Macnaughton, McGee, Morton, Villeneuve and Winch.—(12).

The Committee resumed consideration of the draft 'Report to the House'.

Certain amendments to the Report were proposed and approved.

Mr. Winch moved, seconded by Mr. Chown,

That the Report, as amended, be adopted; and that the Chairman present it to the House.

The motion was adopted *unanimously.*

(*Note,*—For contents of abovementioned Report see "REPORT TO THE HOUSE" appearing in this issue.)

On motion of Mr. Winch, seconded by Mr. Bell (*Carleton*), *Resolved,*—That a hearty vote of thanks be extended to the Chairman for the manner in which he has conducted the proceedings of this Committee. Carried *unanimously.*

At 12.20 p.m. the Committee adjourned to the call of the Chair.

E. W. Innes,
Clerk of the Committee.