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Standing Committee on
Public Accounts, 1964/65.
Minutes of proceedings
and evidence.

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

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Standing Committee on
PUBLIC ACCOUNTS

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HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Public Accounts, Volumes I, II and III (1962)

THURSDAY, APRIL 30, 1964

TUESDAY, MAY 26, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

20879—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Beaulé,
Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cardiff,
Chaplin,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Eudes,
Fane,
Forbes,
Frenette,
Gendron,
Grafftey,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
O'Keefe,
Pigeon,
Pilon,
Regan,
Richard,
Ricard,
Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Skoreyko,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, April 10, 1964.

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

Messrs.

Baldwin,	Gendron,	Ricard,
Basford,	Grafftey,	Rinfret,
Beaulé,	Gray,	Rochon,
Berger,	Hales,	Rock,
Cameron (*High Park*),	Harkness,	Rondeau,
Cameron (*Nanaimo-Cowichan-The Islands*),	Lessard (*Saint-Henri*),	Ryan,
	Loiselle,	Scott,
Cardiff,	Mandziuk,	Skoreyko,
Chaplin,	McLean (*Charlotte*),	Smith,
Côté (*Chicoutimi*),	McMillan,	Southam,
Crouse,	McNulty,	Stefanson,
Drouin,	Muir (*Lisgar*),	Tardif,
Dubé,	O'Keefe,	Tucker,
Eudes,	Pigeon,	Valade,
Fane,	Pilon,	Wahn,
Forbes,	Regan,	Whelan,
Frenette,	Richard,	Winch—50.

(Quorum 15)

WEDNESDAY, March 11, 1964.

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.

MONDAY, May 4, 1964.

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.

FRIDAY, May 22, 1964.

Ordered,—That the Reports of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the Standing Committee on Public Accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

20879—1½

FRIDAY, May 22, 1964.

Ordered,—That the Public Accounts, Volumes I, II and III for the fiscal years ended March 31, 1962 and March 31, 1963, and the Reports of the Auditor General thereon, tabled on January 21, 1963 and on February 19, 1964 respectively, together with the financial statements of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963 and the Reports of the Auditor General thereon, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the Standing Committee on Public Accounts.

Attest.

LÉON J. RAYMOND,
The Clerk of the House

REPORT TO THE HOUSE

FRIDAY, May 1, 1964.

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,

G. W. BALDWIN,
Chairman

(*Note,*—This Report was concurred in by the House on Monday, May 4.)

MINUTES OF PROCEEDINGS

THURSDAY, April 30, 1964.
(1)

The Standing Committee on Public Accounts met this day at 11.05 o'clock a.m. for organization purposes.

Members present: Messrs. Baldwin, Berger, Cardiff, Côté (*Chicoutimi*), Crouse, Dubé, Fane, Forbes, Frenette, Gendron, Lessard (*Saint-Henri*), Loiselle, Mandziuk, McLean (*Charlotte*), McMillan, Pilon, Rinfret, Rock, Rondeau, Scott, Southam, Stefanson, Tucker, Wahn, Whelan, Winch—(26).

The Clerk attending, and having called for nominations, Mr. Berger moved, seconded by Mr. Loiselle, that Mr. Baldwin be elected Chairman of the Committee.

There being no further nominations, Mr. Baldwin was declared elected as Chairman.

Mr. Baldwin thanked the Committee for the honour conferred on him and then referred to the objective and excellent press coverage of last year's committee sittings.

On motion of Mr. Lessard (*Saint-Henri*), seconded by Mr. Tucker, Mr. Tardif was elected Vice-Chairman.

On motion of Mr. Stefanson, seconded by Mr. Forbes,

Resolved,—That a Sub-Committee on Agenda and Procedure comprised of the Chairman and six members to be named by him, be appointed.

On motion of Mr. Loiselle, seconded by Mr. Lessard (*Saint-Henri*),

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

On motion of Mr. Berger, seconded by Mr. Crouse,

Resolved,—That the Committee print 700 copies in English and 300 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Rock, seconded by Mr. Southam,

Resolved,—That the Committee recommend to the House that its quorum be reduced from 15 to 10 members.

Mr. Fane suggested that the Chairmen of the various select committees meet and organize their sittings in such a manner as to prevent numerous committee meetings at the same time.

Following a brief discussion concerning future proceedings, the Committee adjourned at 11.20 a.m. to the call of the Chair.

TUESDAY, May 26, 1964
(2)

The Standing Committee on Public Accounts met this day at 9.30 a.m. The Chairman, Mr. G. W. Baldwin presided.

Members present: Messrs. Baldwin, Cardiff, Côte (*Chicoutimi*), Crouse, Fane, Forbes, Gray, Hales, Harkness, Lessard (*Saint-Henri*), Mandziuk, McLean (*Charlotte*), McMillan, O'Keefe, Regan, Ricard, Rinfret, Rock, Skoreyko, Southam, Stefanson, Tardif, Tucker, Wahn (24).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Millar, Stokes, Smith, Douglas, Crawley, Chapman and Laroche of the Auditor General's office.

The Chairman, after a brief introductory statement, announced the composition of the Subcommittee on Agenda and Procedure as follows: Messrs. Baldwin, Tardif, Ryan, McMillan, Hales, Winch and Côté (*Chicoutimi*).

The oral report of the Subcommittee on Agenda and Procedure was then presented by the Chairman, recommending that the Committee sit on Tuesdays and Thursdays at 10.00 a.m. and that permission be sought from the House to establish subcommittees.

After discussion, Mr. McMillan moved, seconded by Mr. Forbes,

Resolved,—That the Committee sit at 10.00 a.m. on Tuesdays and Thursdays and that the Chairman of this committee meet with the Chairman of the Special Committee on Defence to co-ordinate hours of sitting.

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

Resolved,—That the Committee be empowered to appoint sub-committees, to fix the quorum of any such sub-committee and to refer to such sub-committees any of the matters referred to the Committee; that any such sub-committee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the House is sitting, to adjourn from place to place, and to report from time to time to the Committee.

The Committee recessed at 9.50 a.m. in order to proceed to the House to hear Mr. U. Thant, Secretary-General of the United Nations, and agreed to reconvene at 11.00 a.m. this day.

The Committee resumed at 11.05 a.m.

Members present: Messrs. Baldwin, Berger, Cardiff, Forbes, Mandziuk, Regan, Rinfret, Rock, Southam, Stefanson, Tardif, Tucker, Wahn (13).

In attendance: Same as at 9.30 a.m. sitting.

The Chairman introduced Mr. A. M. Henderson, who made a brief statement on matters to be considered by the Committee and referred to the function and role of the Auditor General.

Mr. Henderson then introduced his senior officers as follows: Messrs. Long, Millar, Stokes, Smith, Douglas, Crawley, Chapman and Laroche.

The Committee then proceeded to the consideration of the "Follow-Up Report by the Auditor General on the action taken by departments and other agencies in response to recommendations made by the Committee in 1963".

On motion of Mr. Regan, seconded by Mr. Stefanson,

Resolved,—That the Follow-Up Report of the Auditor General be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix*).

Mr. Henderson supplied additional information on the three introductory paragraphs, followed by a statement on "Office of the Auditor General" dealing with staff recruitment and was questioned thereon.

After discussion on "The Form of the Public Accounts", on motion of Mr. Wahn, seconded by Mr. Berger,

Resolved,—That the Steering Committee discuss the advisability of setting up a subcommittee to consider the form of the Public Accounts and report their recommendation to the Main Committee.

At 12.05 p.m., the Committee adjourned until 10.00 a.m., on Thursday, May 28.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 26, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. May I welcome you here.

My remarks will be very brief, because I hope we will complete certain recommended business and then be able to have a few minutes discussion with regard to whether or not it is our wish to reconvene after we have adjourned before ten o'clock to hear the speech of the secretary general of the United Nations.

First, let me say how happy I am to have you all here, particularly so early in the morning. There is a large amount of work which this committee has in store for it during the ensuing series of meetings. I will not say anything more than that now, because of the pressure of time, However, to accentuate that point, I would ask our secretary, Mr. Slack, to read the orders of reference covering the matters the committee will have before it.

The COMMITTEE CLERK:

FRIDAY, May 22, 1964.

Ordered,—That the reports of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the standing committee on public accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

FRIDAY, May 22, 1964.

Ordered,—That the Public Accounts, Volumes I, II and III for the fiscal years ended March 31, 1962 and March 31, 1963, and reports of the Auditor General thereon, tabled on January 21, 1963 and on February 19, 1964 respectively, together with the financial statements of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963 and the reports of the Auditor General thereon, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the standing committee on public accounts.

The CHAIRMAN: Thank you. You will see from these orders of reference that in addition to completing our examination of the 1962 Auditor General's report and the public accounts, we also have, of course, the same for 1963 and the examination of the financial statements and report in connection with the Canada Council for the two years. In addition, if time will permit, later on, as has been the practice of this committee in the past, we may take up one or two of the crown corporations, or more if time permits, which are included in volume III of the public accounts. Our terms of reference referring the public accounts to us for examination contain this right. This is a matter to which we will have to give some consideration later on when we see to what extent we are making progress. So, this accentuates the statement I made earlier to the effect that there is a large job for this committee during the ensuing period of this session.

May I now announce the composition of the subcommittee on agenda and procedure? Besides the Chairman it includes Messrs. Tardif, Ryan, McMillan, Hales, Côté (Chicoutimi), and Winch. In addition, under the same arrangement which prevailed last year, Mr. Beaulé will sit in on the meetings and report to his particular group with regard to the discussions of the steering committee.

Your steering committee met and made the following recommendations which I would ask you to consider now: first, that we meet on Tuesdays and Thursdays at 10 a.m. This is a change from last year when we met on Mondays and Fridays. Of course, there will be some conflict. It was the view of the steering committee that we put this forward for your consideration. I will ask you to consider it before we leave this morning.

In addition, we also thought it advisable to seek permission from the house to establish subcommittees. The reason is that it has been the experience of this committee that there are a number of matters which lend themselves well to treatment by subcommittees. I am thinking of such matters as the form of the estimates, matters relating to the manner in which the public accounts themselves are presented, and a lot of other items which can be well treated by means of small subcommittees sitting or meeting with the Auditor General or his officials and representatives from various departments concerned.

Now we tried this last year but with some doubt in my mind. There is a precedent which suggests that, while you can appoint a subcommittee, there is some doubt as to the validity of its deliberations and whether or not it has the right to hear witnesses, and receive documents. I only need to tell you that this goes back to 1942-1943 when the matter was considered. At that time the war expenditure committee decided to establish subcommittees to look into matters, and it was decided, as a result of advice received from officials, that it would be better to receive from the house itself authority to establish such subcommittees.

This was, therefore, the view of your steering committee when we met having in mind the many subjects and much work which we think can be more competently, efficiently and effectively carried on by means of subcommittees. The steering committee thought we should ask this main committee to make a recommendation to the house to receive such authority.

Is there any discussion on these two particular subject matters: first, that the committee should meet on Tuesdays and Thursdays at 10.00 a.m.? Perhaps we can deal with that item first.

Mr. McMillan: Mr. Chairman, I wonder if it has been considered meeting at 9.30 a.m. instead of 10.00 a.m. A number of us are on the defence committee and I think they intend to meet at 11.00 a.m. on Tuesdays and Thursdays, so we would have just an hour and one half to spend on each committee and there would be no overlapping.

The Chairman: You would be in good condition to go into the house. Thank you for the suggestion. I think it is an excellent one. Are there any further comments?

Mr. Harkness: In the case of committees meeting regularly, has there been any investigation of efforts to co-ordinate their times of meeting? It seems to me that something definite should be done along that line.

The Chairman: I am informed that it has been considered by the steering committee. You mean, has there been any co-ordination between the various committees?

Mr. Harkness: Yes.

The CHAIRMAN: I think it has been considered. I notice that the assistant government whip, Mr. Rinfret, is present today. Perhaps he could inform us if there has been any arrangement made to try to co-ordinate the various committees.

Mr. RINFRET: Yes.

The CHAIRMAN: We are heading in that direction.

Mr. ROCK: It does not look like it to me. The private bills committee is supposed to meet within half an hour, but because of the visit today of Mr. U Thant, it will not sit. I do not think we should leave it to the whips. There is a sizeable staff in the committees branch all situated in the same row of offices on the fourth floor, and surely they can always tell the chairmen "at this time we have this committee meeting, and that time we have that committee meeting". Surely they could bring up a proper type of schedule which we could go by.

The CHAIRMAN: Thank you.

Mr. ROCK: I think those members should recommend the times which are best for those meetings.

Mr. HARKNESS: Mr. Chairman I would suggest that the committees which are going to be meeting regularly at the present time are this committee and the defence committee as well as probably the external affairs committee. I do not know of any others. If the Chairmen of those committees could get together probably a schedule could be worked out so that there is a minimum of overlapping.

The CHAIRMAN: Thank you Mr. Harkness. We did have a meeting of the chairmen of committees last session toward the tag end.

Mr. LESSARD (*Saint-Henri*): I think that would be the best thing to do, Mr. Chairman.

The CHAIRMAN: May I take it, Dr. McMillan, you are in fact suggesting that we meet at 9.30 in the morning rather than 10 o'clock on Tuesdays and Thursdays?

Mr. MCMILLAN: Yes, since there are other meetings to be held immediately afterward.

The CHAIRMAN: Yes.

Mr. FORBES: Mr. Chairman, Dr. McMillan has made that suggestion in view of the fact that he is a member of another committee. Surely the meetings of the various committees could be co-ordinated, as Mr. Harkness has suggested, and thereby obviate the necessity of meeting at 9.30. I am anxious to meet at 9.30 but when one sits in the House of Commons until 10.30 it is 11 o'clock before one arrives home and 9.30 the following morning arrives pretty early. I think we should co-ordinate the meetings of these committees so that we will not have them sitting at the same time and then from 10 o'clock in the morning would give us ample time to do the business we have before us.

The CHAIRMAN: Perhaps it would be best if someone made a motion to this effect, then if there is any discussion or desire to amend it we can do so.

Mr. MCMILLAN: I should like to move that the chairmen of the defence committee and public accounts committee meet in an attempt to co-ordinate the hours of sittings in view of the fact there are a number of members of this committee who are members of the defence committee as well.

The CHAIRMAN: Would you also suggest that we should meet at 10 o'clock on the day of our next meeting and then arrive at some decision?

Mr. MCMILLAN: Yes, and I think we should have some co-ordination.

The CHAIRMAN: Would you include that suggestion in your motion?

Mr. MCMILLAN: Yes.

The CHAIRMAN: Is there a seconder to the motion?

Mr. FORBES: I second the motion.

The CHAIRMAN: Dr. McMillan has moved that we meet at 10 o'clock on Tuesdays and Thursdays and that the Chairman of your committee meet with the chairman of the defence committee and other committees in an attempt to co-ordinate the meetings so as to avoid over-lapping.

Mr. LESSARD (*Saint-Henri*): Mr. Chairman, I think the chairmen of all the committees should meet in an attempt to solve the problem.

The CHAIRMAN: I took the liberty of adding that suggestion to the motion made by Dr. McMillan.

Mr. ROCK: You are getting support, Mr. Chairman.

The CHAIRMAN: All those in favour of the motion?

Motion agreed to.

I declare the motion carried.

Our next subject involves permission from the House of Commons to establish subcommittees.

Mr. HALES: Mr. Chairman, I think that is an excellent idea which has proven in the past to be much better and allows committees to do the work with greater speed. As long as the subcommittees report back to the main committee before reporting to the House of Commons I see no danger of anything going through which is not approved of by the whole committee.

The CHAIRMAN: I think it would be obligatory that the subcommittees report to the main committee before any further report is made. There was some doubt in respect of the legality of subcommittees actually entertaining witnesses, hearing evidence and examining documents without having obtained the authority of the House of Commons to do so in the first instance. So that there is no doubt in this regard I am suggesting we should have a motion to this effect. I might say that the subcommittee on procedure and organization is considering this whole question and, without anticipating, it is my hope that that committee will come up with something in due course probably in the general order of a reference to all committees including the right to establish subcommittees. If I have approval for this suggestion can I take it you have moved this, Mr. Hales?

Mr. HALES: I will be glad to make that a motion, Mr. Chairman.

Mr. O'KEEFE: Mr. Chairman, in view of our experience last year in getting a quorum even for this committee how do you expect to be able to get a quorum for the subcommittees?

The CHAIRMAN: The subcommittees will be smaller, Mr. O'Keefe. They will consist of some three to six or seven members. There is not the same restriction on the times of their meeting because they can meet in between these meetings. The committee that sat on the form of the estimates sat for several weeks and sat in the evenings; I think there were seven members on that subcommittee and they needed four for a quorum.

Mr. TUCKER: I wish to second the motion.

Mr. REGAN: The subcommittees would deal with specific matters that would, in due course, be reported back to the full committee?

The CHAIRMAN: Yes.

Mr. REGAN: I think it is an excellent way to cover matters.

The CHAIRMAN: Matters that are technical in nature and which do not have the same necessity for publicity can well be covered by subcommittee. We do a tremendous amount of work in these subcommittees, as was proven last year.

Mr. Hales, may I read a motion which I took the liberty of drafting with the clerk?

> That the committee be empowered to appoint subcommittees, to fix the quorum of any such subcommittee and to refer to such subcommittees any of the matters referred to the committee; that any such subcommittee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the house is sitting, to adjourn from place to place, and to report from time to time to the committee.

Mr. HALES: I am in agreement with that.

The CHAIRMAN: It is seconded by Mr. Tucker.

Are you ready for the question, gentlemen?

Will all those who are in favour of the motion please indicate. Contrary?

Motion agreed to.

Gentlemen, it is now a quarter to ten. Mr. Henderson has come here with a large number of his officials. We hope there might be some time to hear them after we have heard the secretary general of the United Nations at ten o'clock. I understand the secretary general's speech is to last for half an hour.

You have had handed to you the follow up report that will form the subject of our discussion. Is it your wish that we should reconvene and ask Mr. Henderson and his officials to come back here at a time which you think will be suitable? May I suggest eleven o'clock?

Mr. GRAY: Mr. Chairman, I think there is no reason why the committee should not reconvene, but I would like to point out that the Minister of Industry has invited members taking part in the designated area program to attend a special meeting in which the workings of the agency concerned are to be explained in some detail. I merely draw that to your attention though, of course, there may be many members of this committee who are not concerned with that.

Mr. FANE: The defence committee meets at eleven o'clock and some of us are concerned with that.

The CHAIRMAN: Would any members be free to come back here at eleven o'clock?

Some hon. MEMBERS: Yes.

The CHAIRMAN: It appears from the number of members who have just raised their hands that we will get a quorum. I suggest that we should get under way with the report at eleven o'clock, have it tabled, and have Mr. Henderson introduced in order to get the matter started. We have a great deal of work and we did find last year that we were rushing things at the end. I think there is too much importance attached to the material we are dealing with to try to rush it again. Are you agreeable to reconvening at eleven o'clock?

Agreed.

The meeting is adjourned until eleven o'clock this morning.

AFTER RECESS

The CHAIRMAN: The meeting is called to order. I thank you for your haste in getting back here as early as you all did so that we can make some progress with our deliberations.

First, might I introduce to you Mr. Maxwell Henderson, the Auditor General of Canada who appears before us in two capacities. It is his report which we consider with respect to the matters contained in his report; these are our points of embarkation in dealing with all of the subjects which we do discuss. In addition, Mr. Henderson and members of his staff are witnesses in the sense that they corroborate and amplify matters in the report on which members of the committee might wish to question them.

Very briefly, I might say that Mr. Henderson, who was born in England, has had a long and distinguished career as a chartered accountant both in industry and during various phases of government employment. He has been Auditor General since 1960, and during that time has brought down a number of reports in his capacity as Auditor General. As such he deals not only with the accounting end of it but with the parliamentary audit, to make sure that money is properly accounted for and is also spent in accordance with parliamentary directions. Mr. Henderson and members of his staff are usually with us continuously. I am going to introduce him to you now and ask him if he will, in turn, after he has made some comment, introduce the members of his staff who are here with him. All of the members of his staff are not with us on all occasions but only when we deal with a particular subject matter which invites their particular concern.

Mr. A. M. HENDERSON (*Auditor General*): Thank you very much, Mr. Chairman. It gives me particular pleasure, gentlemen, to appear before you again today at the commencement of the sittings of the committee, and, as the Chairman has said, it is in my official capacity as an officer of parliament that I am traditionally the adviser of this committee.

Before introducing the senior members of my staff who are with me here today, I should perhaps say a few words about the material that you have before you. As you know, the committee's last report was its fourth report 1963 presented to the House of Commons on December 19, 1963. In accordance with the standing instructions of the committee, I have prepared the usual follow-up report describing the action taken by the various departments, agencies and crown corporations on the committee's various recommendations made in this last report. This will be the first item of business on the agenda, and it will therefore give you an idea of the detailed matters with which you have to deal. The format of this particular report is designed to explain the details and the background of the points as simply as possible. You will notice that it deals with 21 subjects. In breaking these down you will perhaps have noted that I myself will be following up on nine of them, which is what the committee asked me to do in the regular course of my work, while 10 of the remaining 12 items were the subject of positive recommendation by the public accounts committee to the executive that they take remedial action of one kind or another. You will however have noted from perhaps the third paragraph on page one that of these 10 only three of the recommendations have been carried out so far by the departments concerned since you made your last report on December 19.

After considering the items in the follow-up report it is assumed I think that the committee will wish to carry on with its examination of my report for the fiscal year ended March 31, 1962. When the committee rose last December it had examined paragraphs 1 to 74 of that report, and also had dealt with paragraphs 84, 114 and 140. Presumably, Mr. Chairman, it will now wish to carry on with its examination from paragraph 75 to the end of this particular

volume, and after that turn its attention to my report for the fiscal year ended March 13, 1963 which, in accordance with the terms of reference of the committee which were read out early this morning, was tabled on February 19 last.

I should perhaps just say a brief word about the function and role of the Auditor General. As you know, he is an officer of parliament. His functions and responsibilities are outlined in part VII of the Financial Administration Act. By law he is entitled to free access at all convenient times to all files, documents and records relating to accounts of every government department, crown corporation and agency, 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.

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.

Section 70 of the act requires the Auditor General to report to the House of Commons each year on 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 to a purpose or 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, he is required to report any other case that he considers should be brought to the notice of the House of Commons.

I should now like to take a moment to introduce to you the members of my staff who are here today. As the Chairman has mentioned, it is not proposed that we should attend in quite such force each of the sittings, but, generally speaking, I shall have my audit directors present when you are dealing with those matters which are their individual responsibility. On my right is Mr. George Long, C.A., who is acting assistant auditor general with a long and distinguished career in the audit office. He will be participating in all of the meetings with me. Next to Mr. Long is Mr. Millar, my audit director whose prime responsibility is handling all national defence operations, the crown corporations in that field, and his work now includes the Department of Industry and the Department of Defence Production. On Mr. Millar's right is Mr. Laroche, of our revenue audit branch, and Mr. Crowley who is in charge of all of the national revenue side of our work, that is to say customs and excise income, taxation, the Canadian mint, the Secretary of State, the post office, the exchange fund and various other areas. Next to Mr. Crowley is Mr. Chapman who deals with all of the responsibilities we have in the House of Commons, in the Senate, the central pay office, the superannuation branch, the civil service commission work, the external affairs department and the passport division. On Mr. Chapman's right is Mr. Douglas, my audit director in charge of our work in the Department of Citizenship and Immigration, the Department of Labour, the Department of National Health and Welfare, the Unemployment Insurance Commission, the Department of Veterans Affairs, and so on. On Mr. Douglas's right, is Mr. Smith, my auditor director in charge of the larger spending departments, to name a few the Department of Transport, the Department of Public Works, Public Printing and Stationery, the Department of Northern Affairs and National Resources, the National Research Council, the Department of Mines and Technical Surveys, and so forth. Finally, we have Mr. Arthur Stokes, who is my audit director in charge of such departments as agriculture, the Department of External Affairs, the Privy Council, the Secretary of State, Depart-

ment of Trade and Commerce, and the majority of the crown corporations which we examine and, as you know, they include some large ones.

That completes my introductions, Mr. Chairman, and perhaps will serve to give the members a brief idea of the way in which our office is organized and how we assign and go about our work. If there are any questions, I would be pleased to deal with them.

The CHAIRMAN: Has the committee any questions with regard to any of the functions of the various audit directors who have been introduced? This would be an appropriate time to ask any such questions. If not, possibly the committee might like to carry on in the way we have in the past by giving page by page and paragraph by paragraph consideration to the follow-up report which, as Mr. Henderson said, indicates the measure of success or lack of it which met the recommendations which the committee made last year. If there are no questions with regard to the personnel and functions of the gentlemen who have been introduced, let me say that we are very glad to have them here and that we look forward to having them again from time to time as we come to that part of our report to which we may direct our attention.

Is it your wish, gentlemen, that we start on the follow-up report and deal with this first? Have you all got copies of the follow-up report before you now?

Mr. SOUTHAM: How long is the committee sitting this morning? I have another short meeting which I wish to attend so that I will have to be excused, but I will come back if you are going to go on.

Mr. ROCK: I have to leave at 12 o'clock.

Mr. REGAN: So do I.

The CHAIRMAN: We might sit until 12 o'clock.

The follow-up report has been tabled. Would someone make a motion that it be printed as an appendix to today's proceedings?

Mr. REGAN: I so move.

Mr. STEFANSON: I second the motion.

Motion agreed to.

The CHAIRMAN: Mr. Henderson, would you mind turning to the follow-up report before us. I assume we might start on page one and deal with the various items. I think the first item is one of particular concern because last year, as an innovation, this committee asked the deputy ministers of the departments which were concerned in our report to advise the Auditor General within three months as to what action had been taken on matters on which the committee had made recommendations. I wonder if I might start off the proceedings by asking Mr. Henderson what written reports have been received by the department in response to this request of the committee.

Mr. HENDERSON: Not very many, I am afraid. However, in the absence of these, as I explain in the comments I make on each item, I have followed them up myself and in some cases was able to obtain a reply, in other cases I am still waiting for replies. However, I have sought to bring the members up to date as best I could in accordance with the instructions I received from the committee. I deal with each case in the comment section on the item, and you will notice in some cases I have quoted what the department has said, for example, in the case of reimbursement to servicemen for lease termination payments, what the deputy minister wrote to me on April 3. In other cases I have made inquiries and sometimes spoken to the deputy minister concerned. In those cases I advise you what he told me.

The CHAIRMAN: I suppose the inference behind this is that there has not been a very large and substantial compliance with the committee's request last year?

Mr. HENDERSON: It seems if we compare the three out of ten batting average this time with the previous one, which I think was 13 out of 25 or something of that nature, it is not as good as the previous one.

The CHAIRMAN: Gentlemen, have you any questions in respect of this particular aspect of the follow-up report.

Mr. WAHN: If we think it is desirable to achieve this end and if we knew of those who have not complied we could perhaps raise this question when the estimates of the various departments are before the house. Perhaps this would give an incentive for some to comply more fully in the future.

Mr. HENDERSON: I think Mr. Wahn has a good point. But, in all fairness, I am doubtful if all the departments read this as closely perhaps as they have done in the past. The report follows the same format but in the past I myself have written to each deputy minister while the follow-up report was being put together to ask them to bring me up to date. I think, in all fairness, they probably were waiting to hear from me instead of realizing this had been changed around. They were told to write to me within three months of December 19 and that, of course, led me to await hearing from them, and I suppose the responses fell between the two. However, we went after them in order that I might be able to give you an as up to date report as possible.

Mr. TARDIF: What excuses do they use for not replying?

Mr. HENDERSON: Well, they are busy people. These were the committee's definite instructions in the closing paragraph of its last report. A number were aware of it but, I suppose, they felt that the longer they left it the more up to date their information would be.

The CHAIRMAN: I will read the precise paragraph in this connection, namely paragraph 58 of our fourth report, which reads as follows:

> The importance of maintaining parliamentary control over financial matters is the paramount concern of this committee. It is therefore expected that its recommendations will be given close attention by the departments, crown corporations and other agencies, and the committee requests that each deputy minister concerned advise the Auditor General within three months from this date as to what action has been taken on matters on which the committee has made recommendations in this report.

Mr. TARDIF: Is there not a method of having the deputy ministers concerned initial these reports to prove they have read them, or is this only for the benefit of the committee?

Mr. HENDERSON: They obtain minutes of the proceedings and I presume within their own departments they must have some follow up.

Mr. REGAN: Inasmuch as the past practice has been for the Auditor General to contact the deputy ministers, perhaps they had relied on the expectation of receiving such a letter. Would it not be worth while now for the Auditor General to write to those deputy ministers from whom he has not heard and then he can report to us at a later meeting what reaction he received.

Mr. HENDERSON: Mr. Regan, that could be done but you might care to go through the items first and see what specific comments you then would like to make in individual instances.

Mr. REGAN: Fine.

Mr. FORBES: Can we not request the deputy ministers to appear before the committee and ask their reasons for not replying?

Mr. HENDERSON: Certainly, sir, and you may want to do that after you have gone through the items in the follow-up report. You may wish to question several of them or do what you think best in the circumstances.

The CHAIRMAN: Gentlemen, most of them will be appearing at one time or another during the course of our deliberations and I think this is an excellent thing for members to keep in mind when putting questions. As I said, this is a point that could be raised later and, as Mr. Regan said, this should bring to their mind the necessity in the future of complying with our request.

Mr. TARDIF: Has the committee authority to make them comply with our request? You said we should try to make them.

The CHAIRMAN: Offhand, I would say we are limited to calling them before us as witnesses. As I appreciate it, the main force of the committee is in the amount of study it gives and the resulting publicity in respect of what the committee feels are matters which should concern us. We have no power other than to ask them to appear before us as witnesses and then, of course, the consequent report we make back to the house will be based on those views the committee has after hearing all the evidence and all the witnesses who appear before us.

Are there any further questions in respect of the first three paragraphs? If not, could we deal now with the next item, the office of the Auditor General, which starts in the middle of the first page.

Mr. HENDERSON: Under this heading I have set down the committee's action at its last meetings, from which you will note that I was asked to keep the committee posted in respect of whether or not the arangement that was made is functioning to my satisfaction and is enabling me to recruit such officers and employees as are necessary for me to perform my duties.

I have set down the precise situation as it existed at the close of last month and indicated to you that as a result of delays which developed in the procedures of the civil service commission and the treasury board in connection with recommendations made by the commission about the revised rates of pay and new classes, little headway was made on the recruiting side with the result that since the arrangement was made I have secured a net increase of only two employees, still leaving 18 short of my establishment.

As the Chairman mentioned, this committee always has shown a keen interest in the staff problems of my office and I remain very grateful for the help and advice I have received from time to time from the Chairman and the members. At this time I am sorry I do not have more progress than this to report.

The CHAIRMAN: Mr. Henderson, do you feel that this shotage must necessarily be reflected, to some extent, in the work which you are directed by statute to carry on with regard to your examinations?

Mr. HENDERSON: I have said this, Mr. Chairman, in my last two reports to the House of Commons, my 1962 and 1963 reports. I have made it clear and I think you considered it at your last meeting in respect of the 1962 report, which you will be considering. The matter is covered in the preface and amounts to a qualification of the scope of my work which I must say to you again I regard very seriously. I pointed out in my 1963 report, and I quote:

> As I stated in my report last year, there are altogether too many instances where staff shortages result in the audit office being unable to carry out its test examinations with sufficient frequency or in sufficient depth to achieve even the minimum standard required by modern accepted auditing practice.

I went on in that report to say that I looked forward to being able to report progress as a result of the arrangement made last November toward im-

proving the scope of my audit work during the now current year, 1964-65. But, I would be less than frank if I did not say to you that until my staff can be effectively brought up to strength and until what I would describe to you as red tape road blocks of the type mentioned here have been surmounted it will not be possible to report progress in bringing the scope of the work up to the minimum standard required by modern accepted auditing practice. As of today the recruitment outlook is good.

The secretary of my office who came to me from the Civil Service Commission following the arrangement made last November reported for duty on January 20 last and, as a result, we have received more effective service from the Civil Service Commission because they have decentralized their authority to him. He operates from my office and, I might say, part of that agreement was that in occupying the position of secretary in my office such a position would be created on my establishment, and that he would fill it; in other words, I would pay his salary. However, despite repeated requests which I have been making over the past six months and which I am still making, this has not been done yet. The officer continues to be on the salary roll of the Civil Service Commission. This is important to me because, as you know, I am anxious in knowing what the true costs of my operation are. Also, there is an important organizational question involved.

I have a letter in front of me from the treasury board, saying they cannot move on this because they are still awaiting replies to letters from the Civil Service Commission dated March 18 and March 24.

The other matter mentioned here was in respect of changes in my audit supervisors' rates of pay and salary, about which I have been inquiring for a long time. I was informed on May 20 that treasury board, in fact, had actually approved this on May 14 but we have not been advised as to the amount or given the details yet. They have not sent the minute or anything. And, May 14 was a fortnight ago.

Mr. TARDIF: Mr. Henderson, what would you recommend to remove these road blocks?

Mr. HENDERSON: I am doing my best to work them out. So long as my officer must function as it does this arrangement represents an improvement, and what I am giving you now is a progress report.

The original consideration which this committee brought to the matter was that being an officer of parliament my establishment should be removed from the jurisdiction of these regulatory bodies and that I should do my own recruiting. But, because of the various legal and other difficulties in the way, the chairman of the Civil Service Commission and I worked out this arrangement last November under the aegis of this committee. I am giving you this up to date report now in accordance with your request.

Mr. ROCK: You do not come under the jurisdiction of any minister?

Mr. HENDERSON: No.

Mr. ROCK: You are the Auditor General for the parliament of Canada?

Mr. HENDERSON: Yes.

Mr. ROCK: And, in respect of all departments you report to this committee and to parliament and, for this reason, you do not want your hands tied to the civil service. Indirectly, you also check on the civil service?

Mr. HENDERSON: That is a fact. It is my duty to check them as well as treasury board.

Mr. ROCK: So, you should not have to depend on them for recruitment; you should recruit your own staff as a separate body, and this is what you want.

Mr. HENDERSON: This is what I hoped would be the case, and this is what this committee, since 1960, has recommended be the case. But, because of the fact that none of the governments of the day had moved on that recommendation it came to a head, as you recall, last November, at which time Mr. MacNeill, the chairman of the Civil Service Commission, and I sat down and worked out this arrangement described in your last report. I am doing my utmost to make that work, and so is Mr. MacNeill.

There has been an improvement in the set-up by virtue of the reasons I described. But we have not been able to make the progress we hoped because of the delays I referred to in the third paragraph of my comments. However, I would like to have more time to work this out. I would express the hope that I might be given that additional time and, of course, report back to you later.

Mr. ROCK: I understand that you are short 18 persons?

Mr. HENDERSON: That is right.

Mr. ROCK: And that you have received only two.

Mr. HENDERSON: Over the six months period I have lost and gained persons, and have a net gain of two.

Mr. ROCK: Do you have difficulty in recruiting the proper staff; has the Civil Service Commission offered you any personnel that are suitable for your staff?

Mr. HENDERSON: Oh, yes. Through the good work of their representative, who, as I have explained, is now the secretary of my office, we are receiving more effective service, and the recruitment outlook is better. The salaries could be described as satisfactory, I think, and I am hoping that once the problems I have mentioned are out of the way, we can begin to show some improvement.

Mr. ROCK: Would you repeat the main problem that you would like to see out of the way?

Mr. HENDERSON: The clearance of the salaries of my audit directors. I only succeeded in having the general staff salaries cleared a few weeks ago. I, myself, have taken the matter up with the senior treasury board officials, and the minister kindly has interested himself in it. They have sought to help, but it seems that procedures take an unconscionably long time.

Mr. ROCK: You think it will be resolved?

Mr. HENDERSON: I hope so. I intend to keep after it as diligently as I can.

Mr. ROCK: You feel you will have these 18 vacancies filled within a year or so?

Mr. HENDERSON: I hope so, sir.

Mr. FORBES: You say that this condition of shortage of staff, and so on, has existed since 1960. Do you have a large backlog of auditing work in respect of the various departments? Has the work not been done, or is your present staff overworked?

Mr. HENDERSON: It is a combination of both. If your staff is inadequate, then you tend to cut back on the depth of your work or the frequency of your visits to the various departments. We make test audits based on the volume or the dollar size of the transactions. We are able to make tests only of these as you can appreciate. To the extent we are plagued with staff problems, we have to shorten those tests and in some cases not do them at all.

In 1962, the matter had reached the point where I felt it important I bring it to the attention of the house in my report, which I did. I do not feel I should disclose the extent to which those tests are inadequate, because, obviously, that would be inviting trouble. However, I have disclosed them to the respective ministers of finance so that they know in a general way where we are vulnerable.

Mr. REGAN: Mr. Henderson, would it be reasonable to assume that, even if these difficulties that you have, such as with the Civil Service Commission, were cleared away, you would still encounter considerable difficulty possibly in recruiting the number of personnel you need who have the qualifications which are prerequisite because of the competitive nature of the market for these people today, and the advantages that accrue to an auditor in commercial life, private business, and the large companies? Do you feel, if these difficulties which you presently have are cleared away, that this would not necessarily be a full solution to your problem?

Mr. HENDERSON: I would not anticipate that we would have difficulty competitively with private firms. Our salary structure today is quite competitive with theirs, I think. In the higher levels or echelons, however, service in the government does not compete with service in the professions or in industry, as you know; but there is a good type of young man coming along who is anxious to obtain experience. This summer we have taken on some students for four months at our lowest salary level. These are students from universities, and we are impressed by their calibre and by the interest they are showing in the work. We are hoping that some of them later on will join us permanently.

Mr. RINFRET: How many students are involved?

Mr. HENDERSON: Seven, I think.

The CHAIRMAN: Are there any further questions on this particular item; if not, we might go on to the next item, the form of the public accounts. Have you any comment on this?

Mr. HENDERSON: As members of the committee are aware, this was the subject of a study by a subcommittee of this committee in 1961. As a result of that, the public accounts were brought out in three volumes which included a number of improvements. I have to say to you, as I said in my report to the house, that I think there is additional important information which usefully could be disclosed in the public accounts and, on the other hand, I think there is some material there which could be dispensed with. I do not have any precise recommendation to make to you just at this time on the subject.

The CHAIRMAN: Do you think that a further subcommittee study, having in mind the rather technical nature of this particular matter, might be appointed for the purpose of carrying on discussions between the subcommittee, your officials and officials of the treasury board.

Mr. HENDERSON: It is the comptroller of the treasury who is responsible for the preparation of the public accounts; possibly he might have some views on this. I have not discussed it with him lately.

In 1961 the subcommittee's considerations were very helpful, but frankly we did not make all the progress a number of us had hoped. You face the problem of the extent to which you might be prepared to cut back the listing of civil servant names and their salaries which, as you know, occupy a considerable amount of space in the public accounts; then there is the extent to which you would abbreviate contract listings and so forth, employees' travelling expenses and the like.

In our subcommittee discussions, when we got right down to it, we found there existed a certain reluctance to dispense with this or that listing, and it was difficult to obtain unanimity. It might be that with further discussion of those points we, in fact, could make some headway. I hope one of these days this will be done, but I thought I should say this to you to point up the kind of problem encountered. On the other hand, I myself have asked whether additional information could not be shown in the accounts. You will notice in the second paragraph I am able to report to you that one of my suggestions was adopted and the public accounts last year reported in respect of remissions

in much greater detail. I think the reporting of remissions, and the reasons for them, are matters of considerable importance.

The CHAIRMAN: Thank you. Are there any questions on this?

Mr. BERGER: I notice that you say that progress has been made and we seem to be headed in the right direction. So that we do not have to go back over what was done last year, could you indicate to us what still needs to be done by a subcommittee or this committee to speed up the work?

Mr. HENDERSON: You mean what a subcommittee could do?

Mr. BERGER: A subcommittee or the committee. You say progress has been made, and we seem to be headed in the right direction.

Mr. HENDERSON: In my report I have dealt with several. For example, as I say in the previous paragraph, I think there could be a more informative disclosure of accounts receivable due to the crown and inclusion of financial statements covering departmental operating activities. I hope those two suggestions will commend themselves to you. At this particular juncture, of course, you have the treasury paying particular attention to the recommendations of the royal commission on government organization. They are in the throes of seeing how far they can adopt recommendations like these.

The CHAIRMAN: I believe it is two years since this was done the last time.

Mr. HENDERSON: In 1961, I think.

The CHAIRMAN: As a result of the subcommittee's report, I believe various improvements were made in the form of the public accounts.

Mr. HENDERSON: Yes, sir.

The CHAIRMAN: And there are further improvements which could be made and the subject matter lends itself to a discussion by a subcommittee.

Mr. HENDERSON: Most certainly. If you feel you could tackle it, I think it should be done some time. I would hope that you could form a subcommittee and make some progress in considering this.

The CHAIRMAN: Would it be the wish of the committee that your steering committee meet and give some thought to the constitution of a subcommittee to deal with this matter?

Mr. ROCK: Do you not think it is a little early?

The CHAIRMAN: I thought we might leave it in the hands of the steering committee to consider and bring back a recommendation at a later stage.

Mr. HENDERSON: You might like to seek the advice of the Minister of Finance and the comptroller of the treasury in order to have their views.

Mr. WAHN: I think it would be in order to have the steering committee give some thought to this, and I would so move.

The CHAIRMAN: There is a motion by Mr. Wahn, seconded by Mr. Berger.

Motion agreed to.

The CHAIRMAN: The motion is agreed to.

APPENDIX

FOLLOW-UP REPORT BY THE AUDITOR GENERAL TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS ON THE ACTION TAKEN BY DEPARTMENTS AND OTHER AGENCIES IN RESPONSE TO RECOMMENDATIONS MADE BY THE COMMITTEE IN 1963

In paragraph 58 of its Fourth Report 1963, presented on December 19, 1963, the Committee requested each deputy minister concerned to advise the Auditor General within three months as to what action had been taken on matters on which the Committee had made recommendations in its report.

In paragraph 59 of the Fourth Report 1963 the Committee requested the Auditor General to report to it on the action taken by the various government departments, Crown corporations and other agencies toward implementing recommendations made by the Committee. This is my report on the current situation with respect to the various recommendations made by the Committee in the above mentioned Fourth Report 1963.

It will be noted from the comments that follow that action which the Committee might consider appropriate in the circumstances has been taken by the departments or other agencies concerned in three of the ten cases where recommendations had been made by the Committee in its Fourth Report 1963.

Office of the Auditor General

Members of the Committee will recall that agreement was reached on November 22, 1963 between the Auditor General and the Chairman of the Civil Service Commission on the steps to be taken to achieve the objectives of the Auditor General in the area of recruitment, selection and negotiation with candidates for positions in his Office. While giving the Auditor General freedom to recruit staff, these steps contemplated adherence to the basic personnel policies and standards sought for the Canadian public service by the Civil Service Commission, and the Auditor General accepted the responsibility to see that this is maintained through the medium of effective liaison. In order to facilitate the achievement of these objectives, the Civil Service Commission agreed to second a senior employee from its staff to the staff of the Auditor General to handle his staff and administrative matters.

The Committee expressed its satisfaction at this arrangement whereby the Auditor General will in future be permitted to recruit and manage the staff of his Office, with the approval of the Treasury Board, and asked him to advise the Committee whether or not this arrangement is functioning to his satisfaction and enabling him to recruit such officers and employees as are necessary for him to perform his duties.

Comment by the Auditor General: The arrangement made on November 22, 1963 with the Civil Service Commission was not implemented until January 20, 1964 when the Civil Service Commission seconded the senior employee to my Office.

It will be recalled that the establishment approved for my office for 1963-64 is 179 employees whereas the actual working strength at November 30, 1963 was 159. The latter figure dropped to 157 because of two resignations but increased to 161 early last month when four new appointments were made. Consequently, we are still short 18 auditors.

This unsatisfactory situation is largely due to delays which developed in the procedures of the Civil Service Commission and the Treasury Board in

connection with the recommendations made by the Commission that revised rates of pay and new classes be established for the existing Auditor strength. This was not cleared finally by Treasury Board until May 4th last, while similar changes respecting my audit supervisors or directors have not been cleared yet.

I hope these delays will soon be behind us and we can recruit our staff up to its much needed strength.

The Form of the Public Accounts

The Committee expressed satisfaction that the Public Accounts volumes for the fiscal year ended March 31, 1961 had been arranged in the manner recommended by the Committee in its Fifth Report 1961 and that this arrangement had been continued in the Public Accounts for the year ended March 31, 1962.

The Committee noted that further consideration might be given to summarizing or reducing a number of the detailed listings in the Public Accounts so as to present more significant and relevant information to Parliament. It also felt that consideration might usefully be given to the inclusion of additional important information suggested by the Auditor General. However, as time had not permitted consideration of this by any sub-committee convened for the purpose, the Committee recommended that this be undertaken during the next session of Parliament.

Comment by the Auditor General: The Public Accounts volumes for the fiscal year ended March 31, 1963 (tabled on February 19, 1964) continued to be arranged in the manner recommended by the Committee in 1961. As I informed the House of Commons in my 1962 and 1963 Reports, additional important information should, in my opinion, be disclosed in the Public Accounts. Examples of this would include a more informative disclosure of accounts receivable due to the Crown and inclusion of financial statements covering departmental operating activities.

In my 1962 Report I suggested that explanatory statements should be given in the Public Accounts with respect to each remission granted by the Governor in Council. I am pleased to report that this suggestion has been adopted and in the Public Accounts for the year ended March 31, 1963 the remissions granted during that year have been reported in greater detail than in previous years.

The Form and Content of the Estimates

It will be recalled that a Sub-Committee was appointed by the main Committee on November 15, 1963 under the chairmanship of Mr. Ian G. Whan to confer with officers of the Treasury Board and the Auditor General to review the form and content of the Estimates, including a report addressed to the Chairman on September 30, 1963 by the Secretary of the Treasury Board outlining changes proposed by the Treasury Board in the number and nature of votes in the annual Estimates. The Sub-Committee submitted its report on December 16, 1963 and on this basis the Committee made its Third Report to the House.

In its Third Report the Committee made the following immediate recommendations under paragraph 3:

(*a*) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

(*b*) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the

public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.

(c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:

(i) the number of employees actually on the payrolls at the latest date available during the course of the Estimates preparation; and

(ii) brief notes explaining proposed major increases in the size of establishments.

Your Committee recommends the adoption of as many of the foregoing improvements as is practicable in the Main Estimates for 1964-65.

Comment by the Auditor General: The Main Estimates for 1964-65, tabled by the Minister of Finance on March 3, 1964, included adoption of the revised vote pattern proposed by the Treasury Board and approved by the Committee in its Third Report 1963 under (a) above. The major improvements I had suggested to the Committee in this vote pattern were adopted by the Treasury Board.

Supplementary financial information regarding Crown corporations and other public instrumentalities, recommended by the Committee under (b) above, and presentation of additional staff information called for under (c) above, were not included in the Main Estimates for 1964-65.

Second Class Mail

Paragraphs 15 and 16 of the Fourth Report 1963 have reference to second class mail. The Committee noted that the revisions of second class rates which had been made were confined to two areas and would not result in more than one million dollars additional annual revenue. It was further stated that the deficit in second class mail was currently exceeding $26 million per annum. The Committee further noted that this deficit cannot be reduced without a general upward revision of rates of postage on Canadian publications or by means of an annual grant from Parliament in an amount sufficient to cover the loss to the Post Office in handling second class mail.

The latter was a recommendation of the Royal Commission on Government Organization. The Committee stated that it believed early consideration should be given by Parliament to these alternatives and requested that the Auditor General keep the matter before Parliament in his annual Reports in order that subsequent Committees may give consideration to it.

Comment by the Auditor General: In accordance with the Committee's direction to me on this subject, I shall deal with it in my next Report to the House of Commons.

Prairie Farm Emergency Fund Deficit

In its Fifth Report 1961, the Committee, having regard for the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, recommended "that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund."

In reiterating this recommendation, the Committee in its Fourth Report 1963 expressed the hope that an amendment along these lines will be placed

before Parliament at an early date. In the meantime, the Committee requested that the Minister of Finance seek parliamentary approval by means of an Estimate item to cover any advances to the Prairie Farm Emergency Fund (that is, the deficit resulting from the Fund's operations) that are to be written off to expenditure for the year.

Comment by the Auditor General: In paragraph 46 of my Report to the House of Commons for the year ended March 31, 1963, I reported that the amount of such advances for that year, $7,295,000, was treated as a deficit and had again been charged directly to expenditure. I again recorded my view that Parliament should be requested to appropriate funds to cover these deficits and thus provide an opportunity to Members of the House to review results of the Fund's operations.

It is accordingly gratifying to note that in Supplementary Estimates (E) for the year ended March 31, 1964 tabled on March 6, 1964, provision was made for the Fund's operating loss in that year as follows:

> Vote 175e—Estimated amount required to recoup the Prairie Farm Emergency Fund to cover the net operating loss for the fiscal year ending March 31, 1964—$1,940,000.

This item is included in Appropriation Act No. 2, 1964, assented to on April 6, 1964.

Reimbursement to Servicemen for Lease Termination Payments

In its Fourth Report 1963 the Committee had noted the recommendations made in its Fifth Report 1961 that the maximum period with respect to which reimbursement is made to members of the Forces for lease termination payments should be reduced to the equivalent of one month's rent in future. While the Committee took note of information received from the Department of National Defence that a guide was being issued for unit commanding officers, in the counselling of Service personnel with regard to the leasing of accommodation, it remained of the opinion that a further and more detailed inquiry should be made by the Committee at the next session.

Comment by the Auditor General: In response to my inquiry as to what action had been taken by the Department of National Defence on this matter, I was advised by the Deputy Minister of National Defence on April 3, 1964 as follows:

> I refer to the requirement itemized in paragraph 58 of Votes and Proceedings of the House of Commons No. 115 of 19 December 1963, wherein each Deputy Minister is called upon to advise the Auditor General as to what action has been taken on matters on which the Standing Committee on Public Accounts has made recommendations in its Fourth Report.
>
> The single recommendation in the report applicable to this Department is found at paras. 22-25 and concerns reimbursmeent to servicemen for lease termination payments. In this connection, the Department has issued a tri-service order which is a guide for unit commanding officers in the counselling of personnel in matters related to lease liability, and as well has amended regulations which provide for discretionary powers to be exercised by administrative officers in dealing with individual cases.

I first drew the attention of the House of Commons to the regulations governing reimbursement to servicemen for lease termination payments in my 1960 Report, noting that such outlays were being made up to a maximum of three months' rent.

The 1961 recommendation of the Committee that the maximum period be reduced in future to the equivalent of one month's rent was not adopted by the Department of National Defence. The general practice has continued to be to make reimbursement on the basis of the permissible maximum of three months' rent and, as stated in my last Report to the House, the outlay for these lease termination payments during the fiscal year 1962-63 amounted to $670,000.

Advances to the Exchange Fund Account

At its last meeting the Committee had been informed by the Deputy Minister of Finance that the report by the Minister of Finance, originally requested by the Committee in its Fifth Report 1961, had been drafted and approved by the then Minister. However, because of subsequent developments with respect to the valuation of the Canadian dollar, it appeared that the information contained in this report was out of date, and in addition the Deputy Minister felt he would like to see additional information included in such a report. Accordingly the Committee agreed that consideration of this item be deferred until the next meeting of the Committee.

Comment by the Auditor General: I am informed by the Deputy Minister of Finance that he expects to place a report by the Minister on this subject before the Committee during the current session.

Unemployment Insurance Fund

In its Fourth Report 1963 the Committee expressed the hope that when the Report of the Committee of Inquiry into the Unemployment Insurance Act (tabled in the House on December 20, 1962) is considered by Parliament, action will be taken to implement the Committee's earlier recommendation that the preparation of annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission, and that the statements should be reported upon by the Auditor General.

Comment by the Auditor General: No action has yet been taken. The Chief Commissioner of the Unemployment Insurance Commission has advised me that the Report of the Committee of Inquiry is still under study by the Government and that the Commission is awaiting the revision of the Unemployment Insurance Act which is expected to result from this study to provide the necessary legislation regarding the preparation of the annual financial statements for the Unemployment Insurance Fund.

In the meantime and pending provision of such a statutory direction, the annual financial statements of the Fund, approved by the Chief Commissioner, are being presented by him to me for examination and certification.

Departmental Operating Activities

In its Fourth Report 1963, the Committee reiterated its belief that it would be desirable if financial statements reflecting the financial results of departmental trading or servicing activities were included in the Public Accounts, provided this could be done without undue cost or staff increases. It requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committe in due course.

Comment by the Auditor General: In accordance with the Committee's direction, I am continuing to keep the development of this objective under close surveillance and will deal with it in my next Report to the House of Commons.

Board of Grain Commissioners

It will be recalled that ever since 1961 the Committee has expressed its concern that in each year since 1953-54 the expenditures of the Board of Grain Commissioners have exceeded its revenues by more than $1,000,000, and the Committee recommended "that steps be taken to bring revenues and expenditures into balance". The Committee requested the Auditor General to keep this matter under review and to report to it in due course.

Comment by the Auditor General: The Deputy Minister of Agriculture has advised me that the question of revising fees for the mandatory inspection and weighing services has been a matter of continuing study. As a result the Board of Grain Commissioners for Canada has issued Circular No. 310 dated April 20, 1964 which in part states, "that effective August 1, 1965 the Board of Grain Commissioners proposes to amend its Regulations to increase inspection and weighing fees by fifty per cent, in order to enable the Board to meet expenditures involved in providing these services". I was further informed that the Board had in mind a revision of these fees in the present crop year, but due to the very narrow margin in which the grain trade was operating on contracts under the current international agreements, it was not considered equitable to announce changes after those contracts had been entered into.

Subsidies

Consideration was given by the Committee at its last meeting to a listing prepared annually by the Treasury Board officers for the information of the Board showing the provision in the Estimates for grants, subsidies and special payments for the period 1959-60 to 1962-63, inclusive. The Committee requested that the figures on this listing be brought up to date by the officers for consideration at a subsequent meeting.

Comment by the Auditor General: I understand that the Secretary of the Treasury Board has brought the figures on this listing up to date and that they will be made available to the Committee during the current session.

The Canada Council

In its Fifth Report 1961 the Committee noted that it had been informed that profits realized and interest earned on the University Capital Grants Fund had not been allocated to the provinces or to the universities and recommended that the Council seek to conclude this matter without further delay. The Committee was informed by the Chairman and members of the Council that the Council, following advice from legal counsel, proposed to accept the 1956 census as a basis for distribution of the accumulated profits and interest earned, and also to accept the 'hotch-pot' or trust fund approach for this distribution.

Having been informed of the doubts expressed by the Auditor General and other legal counsel as to the propriety of the forgoing under subsection (2)(b) of section 17 of the Canada Council Act, the Committee postponed further consideration of this matter until the next session, at which time consideration would also be given by the Committee to its 1961 recommendation concerning the Council's need for increased resources for purposes of its work.

Comment by the Auditor General: I am informed that the Council is now using the 1956 census and the 'hotch-pot' or trust fund approach as the basis for the distribution of the accumulated profits and interest earned on the University Capital Grants Fund, and that this will be reflected in the accounts of the Canada Council for the fiscal year ended March 31, 1964.

AUDITOR GENERAL'S REPORT, 1961-62

Summary of Employees Authorized for the Public Service, by Departments, Crown Corporations and other Instrumentalities

The Committee expressed interest in this summarized listing showing the numbers of employees authorized for the public service, by department, Crown corporations and other instrumentalities at the close of each fiscal year in comparison with the numbers at the close of the preceding year, and commended the Auditor General for assembling and furnishing such an informative listing for the purpose of explaining the second largest object of expenditure in federal spending.

In its Fourth Report 1963 the Committee requested the Auditor General to continue to prepare this comparative listing annually and, effective with his Report for the fiscal year 1963-64, to include therein a more detailed breakdown of the various departmental and Crown corporation establishments by divisions and sub-divisions together with the numbers of employees actually on strength at March 31st, for the purpose of showing the size of each establishment's organization on a still more informative comparative basis.

Comment by the Auditor General: A comparative listing prepared along the lines directed by the Committee will be included as an appendix to my Report to the House of Commons for the fiscal year ended March 31, 1964.

Internal Financial Control

The Committee expressed interest in the comments of the Auditor General regarding the importance of adequate internal financial control in departments and Crown corporations, particularly the need for more effective use being made of staffs engaged in internal auditing work.

In its Fourth Report 1963 the Committee requested the Auditor General to continue his examinations into this important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

Comment by the Auditor General: In accordance with the Committee's direction, I am continuing my examination into this important area and will be reporting to the House of Commons further on the subject in my next Report.

Government Contributions not Made to Superannuation Accounts

The Committee was concerned to note that no contributions had been made to the Public Service Superannuation Account, the Canadian Forces Superannuation Account or the Royal Canadian Mounted Police Superannuation Account as required by their respective Acts to provide for increases in benefits payable as a result of salary and pay increases during the fiscal years 1960-61 and 1961-62. Evidence was given by the Deputy Minister of Finance to the effect that the Department felt that such increases were not in the nature of general pay increases as set out in the Statutes. As a consequence, no charges with respect to these liabilities were made to expenditure and the present considerable actuarial deficiencies in these superannuation accounts have continued to mount.

In its Fourth Report 1963 the Committee stated that it felt steps should be taken promptly by the Executive to remedy this situation and it urged the Minister of Finance to give the matter his early attention.

Comment by the Auditor General: In a statement to the House of Commons on March 6, 1964, the Minister of Finance mentioned several adjustments being made in the accounts for 1963-64 with regard to accumulated actuarial deficiencies in the various superannuation accounts. I addressed some questions concerning these adjustments to the Deputy Minister of Finance on April 27th last but have not yet received a reply to my letter.

Errors in Public Service Superannuation Account Pension and Contribution Calculations

The Committee noted with concern that a high incidence of error had continued in the Superannuation Branch of the Department of Finance involving both overpayments and underpayments of pensions on a continuing basis and also incorrect charges for contributory service. The steps that were being taken by the Department of Finance towards remedying this state of affairs were noted. The Committee requested the Auditor General to keep Paraliament informed as to the progress being made.

Comment by the Auditor General: I shall continue to keep Parliament informed as to the progress being made in remedying this situation.

Interest Charges on Loans to the National Capital Commission

The Committee noted that the National Capital Commission remains in the position where it is required to pay interest on loans obtained from the Government of Canada for the purpose of acquiring property in the National Capital Region, and that funds to meet the interest payments themselves must be provided through parliamentary appropriations because the property held does not yield sufficient revenue. It further noted that parliamentary appropriations may be required to provide funds through the National Capital Fund in order to pay off the amounts of the loans made.

Since outlays on properties such as these are expenditures of the Crown rather than income-producing investments, the Committee believed that it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years, and it recommended that the Executive review the present practice with the National Capital Commission with a view to placing the financing of the Commission on this more realistic basis.

Comment by the Auditor General: I am informed by officers of the National Capital Commission that they are not aware of any such review having been commenced yet.

Indirect Compensation to Chartered Banks

In considering the question as to whether or not the balances maintained by the Government of Canada with the chartered banks interest-free to the level of $100 million constitute indirect remuneration, the Committee was assisted in its deliberations by the Deputy Minister of Finance who outlined the arrangement which has been in effect since January 1, 1957 whereby the banks pay interest to the Government of Canada on the amount by which minimum weekly balances are in excess of this sum.

The Committee in its Fourth Report 1963 stated it was in agreement with the view of the Auditor General that this arrangement does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act. The Committee believed that if the banks are to be compensated for services provided to the Crown,

consideration should be given to the most equitable manner in which this may be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

Comment by the Auditor General: Notice was given by the Minister of Finance in the House of Commons on April 13, 1964 concerning the introduction of a measure to amend the Bank Act to extend by one year to July 1, 1965 the authority to carry on business for the banks to which this Act applies.

In a statement to the House of Commons on May 6, 1964 the Minister said it was his hope that a Bill relating to the decennial revision would be presented in the late fall of 1964.

Living Allowances to Federally Appointed Judges

The Committee noted that in cases where federally-appointed judges are appointed from time to time as conciliators or arbitrators on boards, they are paid living allowances of $60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs.

The Committee stated in its Fourth Report 1963 that it was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It therefore recommended that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought.

Comment by the Auditor General: Although I have not been advised directly by the Deputy Minister of Labour, I am informed that living allowances of $60 per day continue to be paid by the Department to judges appointed as conciliators or arbitrators on boards in addition to their actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs.

Unemployment Assistance

In the course of its consideration of the problems arising from the administration of the Unemployment Assistance Act, the Committee was assisted in its review by the Deputy Minister of Welfare who referred at length to the problems encountered in administering this legislation across Canada.

The Committee stated in its Fourth Report 1963 that it shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them, and to remove ambiguities in the present law which have resulted in varying interpretations. The Committee believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

Comment by the Auditor General: As the Members of the Committee are aware, changes in the legislation governing the federal-provincial public assistance programs administered by the Department of National Health and Welfare have been under consideration for some time. On February 14 and 15, 1964, in compliance with recommendations in the joint communique of the conference of the Prime Minister and provincial Premiers in November 1963, the Deputy Minister of Welfare and the provincial Deputy Ministers of Welfare met as a working group in Ottawa to consider problems over the whole range of federal-provincial shared welfare programs.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Public Accounts, Volumes I, II and III (1962)

TUESDAY, JUNE 2, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

20881—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Beaulé,
Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cardiff,
Chaplin,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Eudes,
Fane,
Forbes,
Frenette,
Gendron,
Grafftey,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
O'Keefe,
Pigeon,
Pilon,
Regan,
Richard,
Ricard,
Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Skoreyko,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

WEDNESDAY, June 3, 1964.

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

SECOND REPORT

Your Committee recommends:

1. That it be granted leave to sit while the House is sitting.

2. That it be empowered to appoint sub-committees, to fix the quorum of any such sub-committee and to refer to such sub-committees any of the matters referred to the Committee; that any such sub-committee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the House is sitting, and to report from time to time to the Committee.

Respectfully submitted,

G. W. BALDWIN,
Chairman

(*Note—This Report was concurred in by the House on the same day.*)

20881—1½

MINUTES OF PROCEEDINGS

TUESDAY, June 2, 1964
(3)

The Standing Committee on Public Accounts met this day at 10.05 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Côté (*Chicoutimi*), Crouse, Drouin, Fane, Forbes, Harkness, Lessard (*Saint-Henri*), McLean (*Charlotte*), Muir (*Lisgar*), Pilon, Rinfret, Rock, Ryan, Southam, Stefanson, Tardif, Wahn, Winch (20).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Douglas, Crowley, Chapman, Laroche, Laframboise and Millar of the Auditor General's office.

The Chairman referred to the cancellation of the sitting scheduled for Thursday, May 28, as Room 371 was not available.

On motion of Mr. Fane, seconded by Mr. Tardif,

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

On motion of Mr. Fane, seconded by Mr. Rinfret,

Resolved,—That notwithstanding the resolution of May 26, the committee sit at 9.30 a.m. on Tuesdays and Thursdays.

The Committee then resumed consideration of the "Follow-Up Report by the Auditor General on the action taken by departments and other agencies in response to recommendations made by the Committee in 1963".

Mr. Henderson supplied additional information and was questioned thereon, assisted by Mr. Douglas.

Mr. Henderson agreed to supply at the next sitting answers to questions by Mr. Winch relating to paragraphs dealing with "The form and content of the Estimates" and also "Prairie Farm Emergency Fund Deficit".

The Committee completed consideration of the Auditor General's Follow-Up Report and the Chairman advised that at its next sitting the Committee would further consider the 1962 Report of the Auditor General.

At 11.55 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 4.

M. SLACK,
Clerk of the Committee

EVIDENCE

TUESDAY, June 2, 1964.

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

I have one or two very brief matters to bring up. Firstly, may I apologize for having cancelled the last meeting. This particular room is the nesting ground of the caucus of Her Majesty's loyal opposition. There was a meeting here last Thursday and unfortunately we could not obtain another room; also, the defence committee was meeting, so I had to cancel our meeting. I apologize for having to do that.

Secondly, you may recall the resolution passed at the last meeting. The committee authorized the report to be made to the house calling for the appointment of subcommittees along the lines of our discussion. I take the responsibility for the fact that in suggesting the resolution we included in it a provision that the subcommittees should have the power to sit while the house is sitting. Our main committee does not have that power, and I would suggest, with your approval, that you might like to amend the resolution to give the main committee power to meet while the house is in session. We did not find it necessary to use that power last year, and the only reason we suggest it is in the event we have witnesses here who are unable to complete their testimony in one sitting. Last year we did not sit at all while the house was in session, except on the occasion when we were preparing our report. This also is my hope this year.

According to your request, I was in touch with the chief government whip with regard to a meeting of the chairmen of committees to see whether we could integrate and arrange the respective committee meeting times so that there would not be too much overlapping. So far, such a meeting has not been held, but I believe such a meeting will be held. In the meantime, I did have a meeting with Mr. Hahn, the Chairman of the defence committee. A number of our members also are members of that committee.

Subject to your approval, he suggested, and I think it is a good idea, that the public accounts committee might meet from 9.30 a.m. until 11 a.m., and the committee on defence would meet from 11 o'clock on; in other words, one committee would follow the other. This would permit members to attend both committees. It would also mean that one room would be available in the morning for two committees. This is a small step we have made in an effort to permit members to attend both committees.

Mr. FANE: May I so move?

The CHAIRMAN: I would be glad if you would. There should be two separate motions; one with regard to meeting while the house is in session, if necessary, and the other with regard to the sittings.

Mr. LESSARD (*Saint-Henri*): Would the power to sit while the house is in session be for the subcommittee?

The CHAIRMAN: It would be for the main committee if required. Last year we did not have to do so, and I hope we will not have to do so this year; but it might be advantageous to have this power for the main committee as well as for subcommittees if such are established.

Mr. WINCH: As I think you know, I am most interested in the public accounts, but also in the defence committee. Is it my understanding that as

a result of your discussion with Mr. Hahn, the meetings of both will be held in the same committee room so that we can go from one to the other?

The CHAIRMAN: I think this is the general understanding. I have not looked at the *Votes and Proceedings* to see whether or not that has been carried out; but the idea is that we would meet from 9.30 a.m. until 11 a.m., and the defence committee would carry on in the same room as soon as we completed our sitting at 11 o'clock. I believe they would sit from 11 a.m. until 1 p.m. This is an attempt to work out some reconciliation of our conflicting times.

Mr. WINCH: What is the position now? The defence committee is called for 11 o'clock, and I believe they are meeting in a different room today.

The CHAIRMAN: I understand that their next meeting will be in the same room as ours.

Mr. FORBES: Out of some 265 odd members in the House of Commons, I think there should be sufficient members to go around so that there would be a quorum on all the committees without one group of members being the group which attends the committees. I believe this is an important committee. I know the last time I was on it, there was not enough time spent on this subject. I think this committee is important enough that we should meet a ten o'clock, be here at ten o'clock, and meet until 12 o'clock, or whatever hour is necessary in order to do a proper job with regard to the matters which come before us.

The CHAIRMAN: Might we have a formal motion that we ask the house for permission to sit while the house is sitting?

Mr. FANE: I so move.

Mr. TARDIF: I second the motion.

Motion agreed to.

The CHAIRMAN: Now, we might have a motion, or discussion first, on the subject of the times of our meetings. You have heard my comments and those of Mr. Forbes.

Mr. FANE: I would like to move that we sit at 9.30 a.m. on Tuesdays and Thursdays.

The CHAIRMAN: Would you suggest that be from 9.30 a.m. until 11 a.m.?

Mr. WINCH: Yes.

Mr. SOUTHAM: Mr. Chairman, there is considerable merit in what Mr. Forbes has said, but owing to the fact that this year we find ourselves in the position where members are sitting on both committees, I think we must compromise as you suggest. Possibly in the next session of parliament we might try to arrange it so that the same members do not have to sit on two committees on the same morning.

Mr. RYAN: In addition to having the meeting of the defence committee at the same hour, there will be inconvenience to some of us who have French lessons between 9 a.m. and 10 a.m. on Tuesday and Thursday mornings. Ten o'clock would be far more convenient, at least for a few of us.

The CHAIRMAN: Are there any further comments?

Mr. RINFRET: I second the motion.

The CHAIRMAN: The motion is that we sit from 9.30 a.m. until 11 a.m. on Tuesday and Thursday mornings.

Mr. Ryan, since you were not here when I mentioned this, I might explain that following a direction from the committee at the last meeting, I had a discussion with Mr. Hahn, the Chairman of the defence committee, in an effort to arrange for a staggering of the times of these two committees. This is the suggestion, and as I understand it, it has been approved by the defence committee. I said I would put the suggestion before the public accounts committee today for its approval. This is a suggested compromise. Is there any further discussion on this motion? Are you ready for the question?

Motion agreed to.

The CHAIRMAN: Now, there is one more thing before I call on Mr. Henderson. It has been brought to my attention by Mr. Forbes that a circular letter has been sent to members from the parliamentary secretary to the Minister of Public Works to the effect that next Thursday at ten o'clock there is a tour arranged by the National Capital Commission. I do not know whether or not it is your view that you wish to pass up this committee meeting in order to attend this tour, or whether you are prepared to carry on with our meeting. I mention this now so that if anyone thinks this should be discussed, we can do so.

Mr. TARDIF: I suggest, Mr. Chairman, that those who have not taken that tour before do so, and that the others attend our meeting.

The CHAIRMAN: I assure you that as much as I like to go on tours I will be here.

Mr. WINCH: I received this communication and I acknowledge it expressing appreciation of the invitation but saying that I thought there would be a meeting of the public accounts committee, and I declined the invitation.

Mr. FANE: I did the same thing.

Mr. RYAN: I did also.

The CHAIRMAN: I am glad to hear these expressions of loyalty to the public accounts committee. Perhaps we might proceed on the basis that the committee will be sitting on Thursday, and that we will have a quorum.

Gentlemen, Mr. Henderson and his officials are with us again. As you will recall, we had proceeded to discuss with him his follow-up report on our report the house last year, and had discussed the first item. We had got as far as the item appearing on page 2 which deals with the form and content of the estimates.

At this point I will call on Mr. Henderson to bring that matter up to date and tell us what has happened and what has been done.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. Gentlemen, on page 2 of the follow-up report at the bottom of the page you will find the next subject, namely the form and content of the estimates. If you would turn over to page 3, in the comments section I advise you of the action taken. You will recall a subcommittee was established for the purpose of examining the form and content of the estimates, with particular reference to looking over the proposed adoption of a revised vote pattern which the treasury board had brought to the committee. These matters were discussed in the subcommittee under the chairmanship of Mr. Wahn. I now report to you that the major improvements I suggested to the subcommittee with regard to this vote pattern were adopted by the treasury board in the presentation of the main estimates for 1964-65.

This adoption relates to your recommendation under (*a*). With regard to (*b*), and (c), calling for supplementary financial information regarding crown corporations and other public instrumentalities, and the presentation of additional information in the estimates concerning staff of government departments, this information was not included in the main estimates for 1964/5.

I think Mr. Wahn will recall that the secretary of the treasury board said it might not be practical to include these improvements in the main estimates for 1964-65; but I remain with the understanding, and I believe that would be your understanding, that the treasury board will be giving effect to these in the 1965-66 estimates. At least, that was the basis of the discussion. Is that your recollection, Mr. Wahn?

Mr. WAHN: Certainly the subcommittee recommended that. I cannot recall whether or not there was any commitment given by Mr. Steele on behalf of the treasury board, but certainly the subcommittee recommended that this presentation be carried through immediately, and the others in the future.

Mr. HENDERSON: Yes. There was a longer list of other changes which are dependent on the introduction of the program budgeting project, but these probably are not yet possible. In the meantime, the presentation of the supporting financial information regarding crown corporations might be brought in in some detail in the estimates. I am hoping treasury board will be able to do something along these lines in the 1965-66 main estimates when they bring them down.

The CHAIRMAN: Are there any questions on this particular item?

Mr. WINCH: With regard to the comment by the Auditor General in respect of the estimates, might I ask whether he has any authority to look into the purchases made under the estimates, which are then declared surplus and turned over to the crown corporation, without being used and sold, for about 10 per cent of their value? Does he have any check on that with regard to expenditures which are made after estimates are approved.

Mr. HENDERSON: Are you referring to sale of property?

Mr. WINCH: No, I am referring to the sale of any goods which have been purchased if they are included in the estimates. My point is with regard to estimates. If certain purchases are made and then the goods purchased are turned over to the Crown Assets Disposal Corporation without having been used, is the Auditor General able to check this?

Mr. HENDERSON: Where any instances of that nature come to our attention we certainly check them in the course of our test work. I am not very clear as to what you are referring to.

Mr. WINCH: I am referring to purchases made by government which must be authorized through estimates.

Mr. HENDERSON: That is right.

Mr. WINCH: Whether this year or going back over the years, if purchases are made on the authority of the house through the estimates, and if the equipment is not used and is then turned over to the Crown Assets Disposal Corporation unused and sold by Crown Assets Disposal Corporation, do you have any check on the purchase price authorized through the estimates and the selling price obtained by Crown Assets Disposal Corporation.

Mr. HENDERSON: Where we find transactions of that nature we most certainly check them and follow them through. We would not have any control, so to speak, over altering any of the bases of the transaction but we would certainly take note of them and if a loss were incurred we would doubtless draw attention to it. If there were cases in which material was not used we would follow it through.

Mr. WINCH: Perhaps I could put it in a different way. Does your auditing branch check sales of the Crown Assets Disposal Corporation on the purchase of something authorized through estimates which is declared surplus?

Mr. TARDIF: Is a check made by your department, for instance, of the difference between the cost of the material when purchased and the sale price when disposed of? I think that is Mr. Winch's point. Do you check to see whether the sale price is reasonable? Is that it, Mr. Winch?

Mr. WINCH: I am referring to materials authorized under the estimates.

Mr. HENDERSON: Yes, sir, we would check these. We would follow them through. If we found a sizeable loss had been suffered under that procedure we would ask questions about it.

Mr. HARKNESS: In transactions of that kind is the situation not that if the goods to be disposed of have a value of anything more than a fairly small amount they are put up for public tender?

Mr. HENDERSON: You mean by the Crown Assets Disposal Corporation?

Mr. HARKNESS: Yes.

Mr. HENDERSON: Yes, they do that but we are certainly interested in the source of all material that the Crown Assets Disposal Corporation is offering to the public because we are the auditors of the Crown Assets Disposal Corporation and, in going over their records, we are able to identify the material and see where it comes from.

Mr. WINCH: I am sorry if I have not made my point clear. This is relevant to estimates. I am referring to estimates which have been carried as a result of which purchases are made. Is there any follow up by you in regard to the Crown Assets Disposal Corporation if those materials that were bought under the authority of parliament are sold unused and brand new by the Crown Assets Disposal Corporation?

This matter is particularly in my mind because in the last three or four months I have been noting some of the sales by Crown Assets Disposal Corporation of goods which were bought under the authority of the estimates approved by parliament. It has come to my attention—if I may give you an illustration—that 32 pieces of laboratory equipment which were completely unused were sold for 10 per cent of their value. They were completely unused.

I think Mr. Harkness knows my point. What check do you have on the passage of estimates for the purchase of material which is sold when brand new by Crown Assets Disposal Corporation?

Mr. HENDERSON: My supervisor, Mr. Smith, who is in charge of this particular work is not here today; but with your permission I would like to follow this up and give you a statement on it at the next meeting. Would that be satisfactory? I see now precisely what you mean.

Mr. WINCH: The point to which I am referring is that I have in the last few months been reading a lot of the tenders sent out on material for sale. I would say that I have personally read about 150 pages and I have found brand new material being sold at sacrifice and junk prices. I am trying to tie it in now with the estimates and any follow through that your department might make. What is your follow through procedure between purchases made under the estimates and the sale of new material by the Crown Assets Disposal Corporation?

Mr. WAHN: Through you, Mr. Chairman, may I put a question to Mr. Winch? You have emphasized that this is new equipment that is being sold by the Crown Assets Disposal Corporation. Are you concerned that, or do you wish to be assured that, the Crown Assets Disposal Corporation is following proper procedures in selling assets turned over to it, or are you concerned with the possibility that new equipment is being bought under the authorization of the estimates, equipment which obviously was not required at all? It is obvious that it was not required because it was turned over unused to the Crown Assets Disposal Corporation. Is that your concern? In other words, are you concerned about the procedures followed by the Crown Assets Disposal Corporation generally in disposing of property, new or used, or are you concerned about the possibility that under the authority of the estimates equipment is being bought which really is not needed? Or are you concerned about both?

Mr. WINCH: I am concerned, Mr. Chairman, with what is before us; that is, the position of the Auditor General of Canada. Does he follow through purchases that have been made which were unnecessary or surplus—

Mr. HENDERSON: —or not required.

Mr. WINCH: I am referring to new equipment that is sold at junk prices, material that is sold at around 10 to 33 per cent of the price the Canadian taxpayers paid, material which was unnecessary to begin with. I am speaking

wholly and solely, sir, of the position of the Auditor General. Is there any follow through on what he finds? Does he find that new equipment bought by the government of Canada is being sold unused as surplus and that it has been bought unnecessarily? It is the Auditor General's point of view I am discussing at the moment.

Mr. HENDERSON: I appreciate your bringing this up. The problem is of direct interest to us as examination of such cases is my responsibility.

As a result of that I would like to discuss the matter with my supervisor, who is responsible, and then to report back at the next meeting, if that will be satisfactory to you.

The CHAIRMAN: May I make a suggestion, Mr. Winch? At the moment we are really concerned with the form of the estimates rather than the detail of them. During the course of the Auditor General's report dealing with Crown corporations we will be touching upon or at least we will have the opportunity to touch upon the Crown Assets Disposal Corporation itself. That might be the appropriate time for a more searching examination of this topic.

Mr. WINCH: You see my point, Mr. Chairman?

Mr. HENDERSON: Yes, it starts with the estimates.

Mr. WINCH: My point is that unnecessary purchases are being made and the goods purchased are then being sold through the Crown Assets Disposal Corporation, unused.

Mr. HENDERSON: Yes.

The CHAIRMAN: You are filing a caveat now as to your intentions in this matter?

Mr. WINCH: I would be very happy to give examples if required.

The CHAIRMAN: I feel it might be appropriate to deal with this when we are discussing this particular corporation among the other crown corporations.

Mr. HENDERSON: It perhaps goes a little further than that corporation, Mr. Chairman. I am very grateful to Mr. Winch for raising this question because it is just the sort of things we like to hear, and when we do hear of such things we like to take a particularly close look at them. The opportunity to report back will be very helpful.

Mr. HARKNESS: May I ask Mr. Henderson if this will be included among the supplementary financial information regarding crown corporations which were mentioned in his comments and which were not included in the main estimates for 1964-65.

Mr. HENDERSON: Only in total figures, Mr. Harkness. That supplementary financial information principally consists of the budgets which are prepared by the crown corporations supporting their total request for money.

Mr. HARKNESS: A matter of this nature would not come into that?

Mr. HENDERSON: Their intention to purchase would be contained in the figures but the figures would of course be only total figures. This is solely for the purpose of providing the members with some idea of what is behind the large figures that are sought by the crown corporations from parliament. It was felt that they could be usefully shown in the estimates detail in order that the members might be better informed.

Mr. MCLEAN (*Charlotte*): Will the Auditor General be interested in the crown corporation if the crown corporation sells anything at public tender? You would not be interested in that, would you?

Mr. HENDERSON: In cases in which we are the auditors for the crown corporation we naturally carry out test checks to satisfy ourselves as to the propriety of the transactions and the source of the material they are selling.

Mr. FANE: Mr. Henderson, would you in your checking look to see why such material became surplus, why it was sold as new material and why it was over-bought in the first place?

Mr. HENDERSON: Yes, sir, we would do that through the medium of examining files and following the material back to source.

In the event that there was a case which I felt should be advised to the House of Commons it would appear in my report.

Mr. FANE: Very good, thank you.

The CHAIRMAN: Are there any other questions on that?

Mr. WINCH: If this is policy, then of course the Auditor General will so inform me; I am referring to your last comment dealing with the main estimates and then the second paragraph dealing with supplementaries.

Has any consideration been given to the possibility of a plan whereby purchases should be considered by the Auditor General with regard to their necessity before the House of Commons receives supplementaries and in cases where the House of Commons has laid down a specific amount?

Mr. HENDERSON: If I understand your question correctly you are asking if the treasury would submit such supplementary estimates to me for verification and report back to them. The answer to that is no; I have never received such requests.

Mr. WINCH: Because you only audit whatever has been spent?

Mr. HENDERSON: My audit is a post-audit.

The CHAIRMAN: Are there any other questions on that topic?

Mr. WINCH: I think I have a good idea there, Mr. Chairman!

Mr. HENDERSON: You suggested that I perhaps should not comment on policy, sir.

The CHAIRMAN: Are there any other questions on this item? May we pass to the matter of second class mail. I believe Mr. Forbes was about to ask a question.

Mr. FORBES: In view of your explanation I will leave it until we come to the Post Office Department and will then ask for my information in more detail.

Mr. HENDERSON: I shall be dealing with this in my next report to the House of Commons, which is what the committee asked me to do. You will recall that the deputy postmaster general was a witness before the committee last December.

The CHAIRMAN: Are there any further questions on that?

Mr. HENDERSON: With regard to the prairie farmers emergency fund deficit you will note my comment at the top of page four which indicates that action has been taken to implement my own recommendation and the committee's recommendation in its last report. I think you would probably regard this as a satisfactory solution of a subject that was rather long drawn out.

The CHAIRMAN: Members will recall that this was debated when the Minister of Agriculture brought down his supplementary estimates.

Are there any questions on this item?

Mr. WINCH: Just one, Mr. Chairman. I am not quite certain whether this is the correct time at which to introduce it. I would like, with your permission, to ask the Auditor General whether he audits the books of the farm fund relative to certain payments having been made which are now being challenged. Does he audit the books of those farm payments in the prairies? Does he audit those books and does he check whether or not the payments are in order?

Mr. HENDERSON: Yes. The audit of that fund is my responsibility.

Mr. WINCH: Do you check to find out whether the payments are in order?

Mr. HENDERSON: Yes, we make test checks of payments. We do not check them all but we make test verifications to the extent to which we are able.

Mr. WINCH: May I ask through you, sir, what was the result of the spot checks in the last two years of that fund?

Mr. HENDERSON: Mr. Winch, I do not have my supervisor, Mr. Stokes, who is responsible for this work, here this morning. I should like to discuss that with him before answering your question if I may.

Mr. WINCH: I note there is no report on that phase of expenditure of public funds. Do you anticipate that it will be in the next report? Is there a reason why it is not in this report?

Mr. HENDERSON: Yes, I would have reports in my office of the extent to which those checks have been carried out and results obtained.

Mr. WINCH: Will they be available to this committee?

Mr. HENDERSON: With your permission I would like to make a statement on this at the next meeting.

Mr. MUIR (*Lisgar*): Mr. Chairman, I think it would be rather hard to check. These payments are made after the recipient swears an affidavit to the effect that what he has said is true. I do not think one would go into the field and check these, would one?

Mr. HENDERSON: That would depend on the type of program that we carry out, Mr. Muir. I will deal with that in the report that I propose to give to Mr. Winch on this matter.

Mr. TARDIF: Under what title are these payments referred to?

Mr. MUIR (*Lisgar*): Prairie farm assistance.

Mr. HENDERSON: Prairie farm assistance payments.

Mr. TARDIF: Are they acreage payments?

Mr. MUIR (*Lisgar*): No.

Mr. TARDIF: I do not know too much about prairie farming.

Mr. HENDERSON: The nature of the payments is fully described in both my 1962 and 1963 reports.

Mr. FORBES: How would the auditor determine the validity of the payments?

Mr. WINCH: That is a point in which I am interested because the Auditor General is responsible to the House of Commons for the correct expenditure of public funds which are authorized. That is the reason I asked whether he had made the check or whether he had any report.

Mr. FORBES: I am asking the Auditor General how he does it.

Mr. HENDERSON: That will be contained in the report I propose to give to Mr. Winch after I have discussed it with the supervisor who is responsible for this matter.

Mr. WINCH: You appreciate that to members of the House of Commons this is a most serious matter. We would appreciate having a report from the Auditor General who is responsible to the House of Commons.

Mr. HENDERSON: Yes, sir.

The CHAIRMAN: Are there any further questions on this topic?

Mr. HENDERSON: Mr. Tardif may like to know that on page 16 of my 1962 report I give an outline of prairie farm fund operations.

Mr. MUIR (*Lisgar*): For Mr. Tardif's information, this is the prairie farm assistance fund which is made up of one per cent of the sales of all the grain

in western Canada that is delivered to the elevators. Any deficit is paid from the treasury.

Mr. WINCH: I want it clearly understood that I am not questioning the act itself or its authority. Can the Auditor General tell us whether or not they are being made in accordance with the act?

The CHAIRMAN: I think when we come to the Auditor General's report we will be dealing with 1962 and 1963.

Mr. HENDERSON: I propose to make a report in respect of Mr. Winch's question.

The CHAIRMAN: Are there any other questions on this item? May we pass to the item reimbursement to servicemen for lease termination payments which appears on page 4.

Mr. HENDERSON: Mr. Chairman, the members of the committee will recall that this committee felt that possibly more detailed inquiries should be made into this matter in the now current session. I received a letter from the deputy minister of national defence on April 3, the text of which I quote in my comment. This is a matter which I have brought forward since 1960, and the committee has in the past expressed its views on this, particularly its recommendation in 1961 that the maximum period be reduced in future to the equivalent of one month's rent. However, as you will observe, this has not yet been adopted by the Department of National Defence.

Mr. WINCH: Over the years since 1960 there always has been a definite recommendation from this public accounts committee, and under the circumstances I feel we should ask a responsible person from the Department of National Defence to appear before us to explain why since 1960 the unanimous recommendation of this committee has not been adopted.

The CHAIRMAN: I would certainly think this should be done. There will be this and other items that the Department of National Defence will be interested in, and we would hope a responsible person from that department will appear before us.

Mr. WINCH: This is one of the most important committees of the House of Commons, and surely when over the years a continuous recommendation from this committee is not adopted, the committee is entitled to know the reason therefor.

The CHAIRMAN: Are there any further questions on this item?

Mr. SOUTHAM: I think Mr. Winch has a very valid suggestion. This topic was under considerable discussion last year; I think I, myself, commented on it. In the meantime I have discussed this with personnel of the armed forces themselves in order to have their comment. I believe they are in agreement that in peacetime there is no necessity to have this. They are in a sort of frustrated position when, at the last minute, they have to move, are transplanted and not given an opportunity to make plans in connection with their family life, and so on. They feel that at least three months' notice should be given to the members of the armed forces before a move is made. This would give the Department of National Defence time to make arrangements, and consequently the payment of two months' rent would be unnecessary. I think this is something which should be followed up.

The CHAIRMAN: Is there any further discussion on this point? Mr. Winch, you are on the steering committee, and certainly we will take steps to consider a suggestion to the main committee that at the appropriate time we call someone from the department to appear here.

Mr. WINCH: And that an explanation be given of why they defied the authority of this committee.

The CHAIRMAN: Shall we pass to the item advances to the exchange fund account on page 5?

Mr. HENDERSON: This paragraph, Mr. Chairman, had reference to the statement made by the deputy minister of finance last December to the effect that he was hopeful of being able to bring forward a report on this subject by the minister during this now current session. From what he has told me, I believe he is readying that report to bring it to the committee.

The CHAIRMAN: Are there any questions on this item? We will go on to unemployment insurance fund.

Mr. HENDERSON: As you will see here, that although the act has not yet been amended, I am proceeding to examine the annual financial statements of the fund, and I am attaching my certificate to them and they are appearing on that basis in the public accounts. All we are waiting for here is the formalization of this as a part of the statute itself when the act is opened up for amendment.

Mr. WINCH: What kind of a check do you make on the unemployment insurance fund in its application? In other words, what is the spot check that you take of the hundreds of persons who draw from it in an effort to ascertain whether or not it is being abused?

Mr. HENDERSON: I am glad to say I can give you an immediate answer on this. I would like Mr. Douglas to speak on the matter.

Mr. JOHN R. DOUGLAS (*Audit Director, B Branch, Office of the Auditor General*): Mr. Chairman, every year we do a spot check on adjudication in the various local offices that we examine to see that it is in line with the provisions of the act and the regulations; but we do not approach recipients to see whether they have given correct information, or whether they have made fraudulent statements. We leave this to the investigators of the Unemployment Insurance Commission.

Mr. WINCH: About how many spot checks would you make in a year?

Mr. DOUGLAS: Of the local offices?

Mr. WINCH: Yes.

Mr. DOUGLAS: I do not have the information before me, but if I recollect correctly, we covered some 65 or 66 offices in the last fiscal year. We have been able to step up our coverage considerably in the last two or three years.

Mr. WINCH: Your inspection of the Unemployment Insurance Commission is based wholly on the legal aspects and perhaps not on the personal or welfare reason they may have done something.

Mr. DOUGLAS: Yes. We cover the system of internal control, payments, and so on, as well as the legal aspects.

Mr. HENDERSON: I might add that at the conclusion of each spot check a report is addressed to the chairman drawing his attention to all of the points noted in the course of our work, and in practically all cases we ask questions why this was done, why that was done, and he replies to each one.

Mr. WINCH: Do I understand that although you make spot checks, you, Mr. Auditor General, are responsible for the auditing of the books of the Unemployment Insurance Commission?

Mr. HENDERSON: That is right.

Mr. WINCH: Is it your responsibility in any way whatsoever when you note a fluctuation or deficit in accounts to make any recommendation to the government, or is your responsibility just in respect of the actual expenditure?

Mr. HENDERSON: There are two lengthy comments in both my 1962 and my 1963 report in respect of the Unemployment Insurance Commission; one which

is a lengthy two page comment dealing with its administration while the other has to do with the fund itself. I would suggest that you might care to peruse these and ask me your questions after that.

Mr. WINCH: What I am driving at is, is there any responsibility on you as Auditor General, if you find on your auditing a financial difficulty, to draw this to the attention of the responsible government official or the treasury board?

Mr. HENDERSON: We take this responsibility, yes, and I do that.

Mr. WINCH: If as a result of your audit you find a financial difficulty, do you have a responsibility to pass on any information or make a recommendation either to the minister or to the treasury board?

Mr. HENDERSON: That depends on the nature of the financial difficulty we find. If it is merely the fact that the fund has run into a deficit position, the government, namely the treasury board, is as fully aware of that as I am. I also bring it to the attention of the House of Commons by giving a detailed statement in my report. In fact each year, over the years, my reports have included statements showing what has happened to this fund.

Mr. WINCH: You have the authority to do that?

Mr. HENDERSON: Yes, sir.

Mr. WINCH: And you do it?

Mr. HENDERSON: Yes, sir. On the other hand, if it were a financial difficulty, say, stemming from maladministration, or something of that kind, then that immediately would be the subject of a special report from me—after having discussed it with the chairman of the commission—to the Minister of Finance and the Treasury Board asking for their reasons.

Mr. WINCH: I have one more question which I think will clear the air a great deal. Have you found it necessary in any way whatsoever to report to the treasury board or the minister that you found any maladministration of the Unemployment Insurance Act?

Mr. DOUGLAS: I would say no, sir.

Mr. HENDERSON: I think not.

Mr. WINCH: Thank you. I think that will clear the air a lot on this issue.

Mr. MUIR (*Lisgar*): Is the same procedure used in respect of the administration of the Prairie Farm Assistance Act and the unemployment insurance fund? It seems to me there is a parallel there and that what we are concerned about is the fact that the fund in each case has been abused, or that there is a possibility of this. How can we check through the audit whether or not either one of these funds has been abused?

Mr. HENDERSON: As the auditor for both funds it is my responsibility to bring any such cases to attention, and I have not hesitated to do so where I have found them. We have to bear in mind that my examination of necessity is a test examination. As Mr. Douglas just explained in the case of the unemployment insurance fund, he has been able to cover only 65 of the offices. How many offices are there?

Mr. DOUGLAS: Roughly about 200 odd local offices.

Mr. HENDERSON: Across Canada?

Mr. DOUGLAS: Yes.

Mr. MUIR (*Lisgar*): I do not think you will find maladministration. What you are going to find is that the affidavits, and so on, are not correct. I think this is well known throughout Canada, particularly in respect of the unemployment insurance fund.

Mr. HENDERSON: The unemployment insurance fund has its own inspectors who deal with the public, and of course deal with any question with regard to the validity of the statements made to them. In the course of our work we see those statements. We have questions about those statements. We do not go to the public recipients direct, but we discuss them with the officials of the fund, and we ask many searching questions. In point of fact, as I explained earlier, these questions are contained in our periodical reports on our examinations of the different phases. We are punctilious in reporting on each phase of our work, and in asking questions. In many cases this leads up to the officials improving their approaches, taking greater care, and so on.

Mr. MUIR (*Lisgar*): There is not too much you can do about collusion between the employee and the employer if they want to rifle the fund.

Mr. HENDERSON: We are only watchdogs; we are not detectives. If we see a case where collusion appears to have taken place, and the officials confirm that is their view or suspicion, then it becomes a matter for investigation possibly by the police.

Mr. DOUGLAS: I might add that if we do in the course of examining the files note any incomplete statements from employers with regard to the reason for discharge, for example, that would have a bearing on drawing benefits, then we will investigate, and we have done this on a number of instances.

Mr. WINCH: Only on the legal aspect?

Mr. DOUGLAS: In this instance it would go beyond the legal aspect, where for example, we have found inconsistencies in information by examining the files, or where we found that the employer had not given a satisfactory reason, or had been vague in his reason for the discharge. We would follow this up, and in some instances find that benefits have been improperly paid.

Mr. HENDERSON: I might direct your attention, Mr. Muir, to paragraph 72 in my 1962 report on the unemployment insurance administration at page 26. If you would look over on page 27, you will see in the paragraph before the last a full description of what we do. This perhaps is more in answer to Mr. Winch. In paragraph 200 on page 137, there is given the full picture of the out-turn of the fund and its general operation leading up to its financial statement which I certify at the close of each year.

Mr. WAHN: Mr. Chairman, does the Auditor General feel that the tests he is carrying out are adequate in view of the amount of criticism there has been in recent years of people, both employees and employers, abusing the fund; or does he feel that additional authority is required to enable him to carry out a more searching inquiry?

Mr. HENDERSON: I would like to see us carry out more searching inquiries, but I consider that the manner in which Mr. Douglas is handling this particular work, in the light of our staff limitations, is the best that can be done under the circumstances.

Mr. WINCH: There is the difficulty that the defence committee is meeting at 11 o'clock and, under a previous arrangement, certain questions which I want to discuss are coming up. I hope I will not be breaking the quorum if I leave.

The CHAIRMAN: We are doing all right so far. I hope at the next meeting you will be able to attend the full meeting of both committees.

Mr. MCLEAN (*Charlotte*): The trouble with the unemployment insurance fund is that it is mixed up with social secuirty. Should not the unemployment insurance fund be unemployment insurance, and the social security be divorced from that; would this not be much easier?

Mr. HENDERSON: That is taking us into the realm of policy, and I do not know to what extent the members might wish me to discuss that. Have you any views on that, Mr. Chairman?

The CHAIRMAN: I suppose, the policy having been determined, it is Mr. Henderson's duty then to audit and check based on the policy which has been established by the government and parliament. As an individual he may have his own private views, but I think it would be difficult for him in his capacity as Auditor General to express views with regard to government policy when he is reporting to parliament. I am not stopping him from doing so, but I would imagine this is the case.

Mr. TARDIF: I do not think it has even been publicly admitted that it is being used for social security measures. I think everyone knows it has been so used on many occasions but it is not publicly admitted.

Mr. MCLEAN (*Charlotte*): What is the point in our criticizing? I think criticism from us at this stage is pointless.

Mr. HENDERSON: This committee dealt with this subject at great length in 1961, at which time Mr. Murchison gave evidence. The committee brought down strong recommendations which, I think it is fair to say, may have had something to do with the employment of the Gill commission to examine these abuses. Statements were made and facts were produced to show that the practice was actuarially unsound, that they were going beyond the apparent requirements of straight unemployment insurance. It was following that particular report of the committee that, I believe, the Gill commission was set up. That is correct, is it not, Mr. Douglas?

Mr. J. R. DOUGLAS (*Supervisor, Auditor General's Office*): That is correct, sir, yes.

Mr. SOUTHAM: I think the discussion we are getting into this morning is expressive of the concern we, as members of parliament, feel in regard to the administration of the fund and particularly in regard to the policy. Of course, we indicated this concern when we set up the Gill commission to make a study of the matter. We will be participating in legislation from the House of Commons that will tighten up this act so it can be policed more efficiently.

I can appreciate Mr. Henderson's point of view; he cannot be expected to answer questions here this morning indicating what policy we should follow. His chief function as I see it, and I think all members will agree, is to see there is no maladministration so far as the practices themselves are concerned.

The prairie farmers assistance fund is another example of malpractice which is due to the weakness of individuals in cases where they have had opportunities to make false affidavits and so on and in cases in which they have been able to stretch the procedure to take advantage of it. I think this is the point at which, when the debate comes up in the house for amendments to the act, we can make recommendations that will tighten the strings a little so we do not find these discrepancies creeping into the administration itself but casting no reflection upon the people who are administering the fund.

The CHAIRMAN: It is quite competent for the members of the committee at the appropriate time to deal with this, and that will be when we come to the Auditor General's report and his detailed statement. If the committee then feel they want to ask any of the officials of the Unemployment Insurance Commission to appear before them they may do so. It has been done before with useful results, as Mr. Henderson said. It will then be a matter for your own decision at that time. I am sure those officials will be only too glad to appear if you so desire.

Mr. HENDERSON: It is because of the importance of this whole program and the attention that has been directed to it that, beginning in 1962, I inserted a special section in my report dealing with the unemployment insurance administration, as distinct from the operation of the fund. I gave Mr. Tardif the numbers of the paragraphs. In my 1963 report that is up-dated and it appears in paragraph 63 on page 33. There I have sought to bring out the

size of the Unemployment Insurance Commission because I doubt that this is generally known or realized. For example, its administrative expenses alone amount to some $48 million a year. Those expenses went up to $48 million in 1962-63 from $45 million in the previous year. Its full time staff ranges around 9,000 people with about 1,900 casual employees. This is big business.

Mr. TARDIF: That itself should eliminate unemployment!

Mr. HENDERSON: I took the opportunity of going over this in my reports in order to up-date the members on the proposals of the special committee of inquiry. Whatever individual views there may be on these, they did seek to come to grips with this whole business. I felt that this committee would be very interested in it, and my feeling is re-enforced by the way you have been expressing yourselves now. I think the committee can take great credit from its 1961 detailed examination of this program. That stemmed from a comment in my earlier report—the one the committee was examining at that time—which showed the extent to which these abuses were creeping in, the very point that Mr. Tardif raised a little earlier.

As the Chairman has said, however, we will come to these paragraphs in the 1963 report and it might be that at that time you will feel it desirable to call the chairman before the committee to question him on some of these points and to ask him where the fund is going.

The CHAIRMAN: And where the cost of administration is going.

Mr. HENDERSON: I think the cost of administration is certainly high. It is becoming a very high built-in cost.

Mr. TARDIF: You could practically use the term "staggering".

Mr. WAHN: I am not quite certain that I understand the difference between what this committee recommended and what is actually being done. The report that we have in front of us states that in its 1963 report the committee expressed the hope that action would be taken to implement its earlier recommendation that the preparation of annual financial statements for the Unemployment insurance fund should be made a statutory responsibility of the Unemployment Insurance Commission, and that the statements should be reported upon by the Auditor General. The Auditor General comments that no action has yet been taken for reasons given, but he says:

> In the meantime and pending provision of such a statutory direction, the annual financial statements of the fund, approved by the chief commissioner, are being presented by him to me for examination and certification.

I find it very difficult to see what there is in addition to that that we can want to be done.

Mr. HENDERSON: May I just explain this very briefly. The unemployment insurance fund is a fund within the consolidated revenue fund, and in the past the detailed statements have always appeared in the public accounts prepared by the treasury showing the income and the outgo. Another schedule showed the securities. It used to have a large portfolio of securities, as you may recall.

One of the recommendations I had made back in 1960 was that there should be proper, complete financial statements showing the entire operations of the fund which, if prepared in the form of a balance sheet with the securities and everything else tied in, I would be prepared to certify in the same way as I certify the financial statements of the crown corporations. It was simply a matter of tidying up the manner in which they had been reported, in the past. This suggestion found favour, and in the case of the Unemployment Insurance Commission they proceeded to revamp their accounting practices to prepare formal orthodox statements. They presented them to me and I am now cer-

tifying them. These appear in the public accounts. We think this is quite a step forward.

However, it is necessary—and I am sure you will agree—in all these cases to have that made a requirement of the act in the same way as it is a requirement in many of our other statutes that financial statements will be certified by the auditor and placed before the shareholders or parliament, as the case may be.

This is awaiting discussion in the House of Commons of the whole Gill report. This is one of the recommendations of the Gill commission. The chairman saw the merits of this suggestion in the course of the committee hearings, and it is contained in that report.

We are getting on with the job here but we do not have the statutory authority to do it yet.

Mr. WAHN: Mr. Chairman, then I gather that although there is no statutory authority you are actually doing it.

Mr. HENDERSON: Yes, the officials of the Commission saw the merits of it and immediately went ahead in quite a constructive way. We are examining and certifying their financial statements each year now.

Mr. RYAN: Why would it be necessary to have legislation? Why could the procedure not be just adopted?

Mr. HENDERSON: That is a good question, Mr. Ryan, except that if the unemployment insurance act were to provide for the preparation of financial statements consisting of—and spelling out those things of which they should consist—revenue, expenditures and a balance sheet, and that these statements shall be certified by the Auditor General and laid before the house—

Mr. RYAN: I think you would feel better if it was made a requirement.

Mr. HENDERSON: I think it makes for a more orderly and orthodox procedure and is in line with what parliament has instructed the majority of its other agencies to do.

Mr. RYAN: When you say that no action has yet been taken, do you mean in respect of this feature only?

Mr. HENDERSON: Yes, that is right.

The CHAIRMAN: Are there any other questions?

Mr. FORBES: Mr. Chairman, it seems to me that what the committee is looking for is some sort of report upon the amount of payments that have been made to people who are not justified in receiving these payments.

The Auditor General has referred to the commission having inspectors on the job. However, this is a case where the inspector would have no report: I am referring to the number of prosecutions taking place of people collecting unwarranted amounts. He would have no report on that, would he? This is where the loss is incurred in connection with the unemployment insurance fund; it is not at the administrative level that we find the loss but rather with people collecting money who are not entitled to it. Is that not the case?

Mr HENDERSON: Yes, and you might be interested if I were just to read an excerpt from page 34 of the 1963 report in which I say:

> In appraising the validity of benefit awards, no attempt is made by the audit office to verify the accuracy or completeness of information regarding claimants, contained in the records of the commission and provided to it by claimants, employers or others, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the commission's own investigation enforcement staff.

Although operating at a slightly lower level of strength during 1962-63, this staff achieved a slight increase in the number of investigations completed over that of the preceding year.

Notwithstanding this increase, penalties imposed on claimants for false or misleading statements were fewer in number, totalling 20,367 compared with 22,650 in 1961-62, a drop of 10 per cent.

This is the type of comment which I am making in respect of the administration of the Unemployment Insurance Commission because I think it is important to see how its administration is proceeding.

Mr. FORBES: I think that is where the problem lies.

Mr. MCLEAN (*Charlotte*): I do not think the problem is there. The company with which I am associated has quite a lot to do with the unemployed people. We find the unemployment act works well and that they do cut people off, and so on.

What is wrong with the act is that certain segments of our economy have been put in there, segments which should not be in there. The trouble is not with the little claims that come in and are turned down or passed; that is just administration of the business and it will not affect the deficit in the unemployment insurance fund. The aspect of it that will affect the deficit is the addition of segments of our economy which are not justifiably included in this act, you might say, on an actuarial basis.

Mr. HENDERSON: That is what I brought out in my 1962 report. We sought to show precisely where the abuses lay, and it was as a result of the committee's consideration that you called in the officers.

Mr. MCLEAN (*Charlotte*): It seems to me that we should have figures showing what is paying and what is not paying.

Take the workmen's compensation, for example. In that case if there is a segment of the economy that is not paying its way, up goes the rate. It has to pay its way. The rates are all the same in this case and we have part of our economy that is not paying its way. When we started out it was apparently paying its way and we had a surplus in the fund, but we will never have a surplus in the fund as long as we include segments of the economy which do not pay their way. It seems to me we have to find out what it is and put the fund on a sound financial basis. We must ensure that the government gives grants to these other parts which do not pay, and then we will know where we are.

Mr. FORBES: Would Mr. McLean care to name some of the segments to which he refers who should not be benefited?

Mr. MCLEAN (*Charlotte*): I do not say they should not be benefited. We have a situation in which this fund is not working on the basis on which it started out. Take fishing, for example; if we are going to include that industry special grants should be given from the government rather than trying to blame the unsound financial basis upon the unemployment insurance.

Mr. SOUTHAM: We saw the weaknesses in the act as presently set up, and this is why the Gill commission was requested to investigate and bring in the recommendations. I do not think we are serving any useful purpose by discussing all these aspects of this particular phase this morning because Mr. Henderson cannot be expected to make comments on policy; this is our duty.

The CHAIRMAN: If it is the wish of the committee we will have someone from the Unemployment Insurance Commission before us and then, in our capacity as members of the committee, we can direct questions to him. Having received information in that way we can, as members of the House of Commons, use the information we have obtained here to express our views as members of the House of Commons when questions of policy come up in the house.

Are there any more questions? I suggest the steering committee will take note of the committee's views with regard to calling someone from the Unemployment Insurance Commission before us at the appropriate time.

If there are no more questions on this topic we may proceed to the next item, which is concerned with departmental operating activities.

Mr. HENDERSON: This is a subject we discussed last December. You approved of my objective and asked me to continue to keep the development of the objective under close surveillance and to report to the committee. This I am doing, and I propose dealing with it in my next report to the House of Commons.

The CHAIRMAN: The next item in the report is that of the board of grain commissioners. We now go back to western Canada.

Mr. HENDERSON: As you will recall, your consideration of this stems from the facts regarding the operation of the board of grain commissioners which indicated that its expenditures were exceeding its revenues by more than $1 million. You asked me to keep this matter under review and to report to you in due course.

I am now able to tell you that I have been advised by the deputy minister of agriculture that it is intended to move on this matter. In point of fact, as recently of April 20 last the department issued a circular stating that they proposed to amend their regulations to increase inspection and weighing fees by 50 per cent in order to enable the board to meet expenditures involved in providing these services, but not to do so until August 1, 1965.

I was further informed that the board had in mind the revision of these fees in the present crop year, but the deputy minister said that owing to the very narrow margin on which the grain trade was operating on contracts under present international agreements it was not considered equitable to announce changes after those contracts had been entered into. Therefore we have a case here where your recommendation is in fact going to be implemented, and I believe we have here a copy of the circular which went out and which states that the rates will go up because of what I have been saying in my reports.

Mr. FORBES: Mr. Chairman, you recall in 1961 we had a short crop year and the charges of the board of grain commissioners were on a bushel basis. We had a short crop that year, but let us compare this with the last year when they had a heavy crop in western Canada. I fully expect the board of grain commissioners will pay its own way and have a surplus this year.

Mr. HENDERSON: That could be so.

Mr. FORBES: It is difficult to estimate from time to time what should be charged. One does not know what kind of crop one will be handling.

The CHAIRMAN: Is there any more discussion? Are there any more questions on this point? If not may we turn to the matter of subsidies, which appears at the end of page 6?

Mr. HENDERSON: Mr. Chairman, I have to tell you I believe I was not strictly correct in my comment here. Mr. Long and I checked this with the office of the secretary of the treasury board only the other day, and we find that the listing in question was actually updated before the committee rose in December, and copies of this updating in fact, were made available to the members on December 5. I apologize for having treated this as an outstanding item. The extent to which the committee members may want to have it still further updated is something else again. The secretary of the treasury board most certainly carried out your requirement last December.

The CHAIRMAN: I do not know whether or not members will recall, but there was a 49 page statement distributed which was broken down in detail showing all the subsidies, grants and special payments made by the government starting in 1959 which aggregated a total of $1,606,000,000, and by

1963-64 $2,228,000,000. While we have no determination with regard to how these are made and the purpose of them, we are interested in having before us, at the request of the Auditor General, a fairly concrete and synopsised form, in one document, all the payments by the Government to other individuals, and so on, so that anyone interested could put his finger on these and see how these figures are growing. The treasury board did bring this up to date. The members may recall that at our last session we had some discussion with regard to whether or not this could be put in a form more acceptable. I do not think our discussion proceeded beyond that at that time.

Mr. MUIR (*Lisgar*): What is the cut-off date of that?

The CHAIRMAN: It is brought up to 1963-64 showing a total at that time of $2,228,000,000 as an aggregate of all the grants.

Mr. SOUTHAM: I would like to commend the departmental officials for having prepared this. I think it is in a concise form and contains a good deal of the information we require and would like to discuss.

Mr. RYAN: This is dated December 2, 1963, and is prepared by the staff of the treasury board.

The CHAIRMAN: Yes. As I understand it it was not prepared under any statutory requirement, but the treasury board have it for information purposes. It was made available to us, and we have had an opportunity to review it. It is purely for purposes of information. It is for the committee to decide whether or not it wants to deal with it.

Mr. MUIR (*Lisgar*): Would it be possible to have this prepared on an annual basis?

The CHAIRMAN: Does the treasury board keep this up to date each year?

Mr. HENDERSON: I believe so. I believe they could meet your request, if you would like to have it on an annual basis.

Mr. MUIR (*Lisgar*): You can find it in the estimates, but it would be easier to have it in this form.

The CHAIRMAN: Is it the view of the committee that we should have this up to date each year and presented in due course to the committee?

Agreed.

Mr. HENDERSON: The next is the Canada Council. This reference had to do with the appearance of officers of the Canada Council at the last meeting, and the members will recall they postponed further consideration of the problem involved until the now current session. In the meantime, as my comment indicates there has been no change in its approach to the handling of the distribution of the accumulated profits and interest earned on the university capital grants fund. I would suggest, Mr. Chairman, that you might care to defer this item until the officers of the Canada Council appear before you in connection with our review of the 1962-63 accounts, because you have this as a specific reference to the committee.

The CHAIRMAN: Yes. I have been in touch with an official of the Canada Council, and they have asked for the opportunity to appear so that we might have a full discussion, not only of this item, but also of their 1962-63 financial report, and the statements in the reports of the Auditor General. Are there any other questions at this time on this point?

Mr. HENDERSON: On page 7, we now turn to the matters we covered in my 1962 report. The first item followed the discussion of the summary, that I have placed in my report to the house, of employees authorized for the public service, by departments, crown corporations and other instrumentalities. In accordance with your request, I am preparing a comparative list along the lines discussed for inclusion as an appendix in my report to the house for the year just ended.

Internal financial control is a subject on which I have commented over the past several years in my reports to the house, and again I am continuing my examination into this area, and will be reporting to the house further on the subject in my next report.

On the next item, government contributions not made to superannuation accounts, you will recall the committee felt steps should be taken promptly by the executive to remedy the situation I brought up and to urge the Minister of Finance to give it his early attention. I indicate here that the Minister of Finance dealt with this subject in his statement to the house on March 6. He mentioned several adjustments being made in the accounts for 1963-64 with regard to accumulated actuarial deficiencies in the various superannuation accounts.

Since submitting this follow-up report to you I have received a reply to my letter to the deputy minister of finance. In point of fact, he sent it to me on May 25, although it had been dated earlier. Therefore, at the moment I have not been able to complete my study of it sufficiently to make any further comment. However, as this matter will be coming up in your consideration of my 1962 and 1963 report, it might be that you would wish we hold it over until then.

The CHAIRMAN: There will be a number of items on which we will require the appearance of the deputy minister of finance.

Mr. HENDERSON: Yes, I would think so. At that time you may have some questions on this subject, because I deal with it quite early in my comments in the 1963 report.

The errors in the public service superannuation account concerning pension and contribution calculations is a subject that you studied last December. In accordance with your request, I shall continue to keep you informed with regard to the progress being made in remedying this situation. This was gone into last December when Mr. Bryce appeared before the committee. I think you would agree it probably is too soon to go into it again. However, I intend to do so later.

The CHAIRMAN: I think Mr. Bryce indicated he was aware of these difficulties, but that it would take some considerable time for them to be able to catch up with them all.

Mr. HENDERSON: Yes, sir.

The CHAIRMAN: The next item is interest charges on loans to the National Capital Commission.

Mr. HENDERSON: We had a lengthy discussion on this during Mr. Bryce's appearance before the committee, and it will be recalled that the committee recommended steps be taken to review the present practice of the National Capital Commission with a vew to placing its financing on a more realistic basis. However, I do not have any further advice in respect of this, and I have not been informed what steps have been taken to implement it.

The CHAIRMAN: Have you any indication from the deputy minister that he feels the suggestion made by you to the committee should be carried out?

Mr. HENDERSON: I think he still retains definite views on the subject, Mr. Chairman. It might be useful if, on the occasion of his next appearance before the Committee, this subject could be discussed further.

The indirect compensation to chartered banks has to do with the point made in my 1962 report concerning the interest paid to the government by the chartered banks, because, as you will recall, balances up to a level of $100 million are interest free. I suggested that this represented indirect remuneration which would be contrary to the Bank Act, and you agreed with me in this view, and added that you felt consideration should be given to the most equitable manner in which this could be done with statutory sanction being given by

means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

The only comment I have on this is the fact that this decennial revision, apparently, is going to commence in the late fall of 1964, or in 1965 based on the minister's recent statement in the house. I shall follow this up.

The CHAIRMAN: On this next item, was anything done in respect of our recommendation?

Mr. HENDERSON: I have not received any advice on this point from the deputy minister of labour, although my officers were aware that the living allowances continued to be paid. At the time of my original comment in my 1962 report, the living allowances were being paid at the rate of $60 a day. I felt that this included an element of remuneration which would be contrary to subsection 1 of section 39 of the Judges Act. Folowing the discussion in this committee, you agreed with my view and made your recommendation that if additional remuneration is to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of parliament for payment of the additional remuneration should be sought. I have not received any advice from the deputy minister of labour, but we have noted that under an order in council dated May 7, 1964, the rate of $60 a day has been increased to $100 a day. That is the only progress I have to report, Mr. Chairman.

The CHAIRMAN: So, not only did the department ignore what we recommended, but rather they increased the amount by $40. Therefore, if they were wrong at the amount of $60, they are $40 further wrong today.

Mr. ROCK: And on top of this, they also receive travelling expenses.

Mr. HENDERSON: Yes, sir.

Mr. TARDIF: And on top of that they reveive their regular salary?

Mr. HENDERSON: Yes.

Mr. TARDIF: You should not be an auditor; you should be a judge.

Mr. SOUTHAM: I think we should earmark this item for particular consideration when we are discussing the 1963 report.

The CHAIRMAN: I am sure the committee would want to have some representations, not only in view of the fact that our recommendation was ignored, but that on the contrary action has been taken to increase the amount. I think we should make sure we have before us an appropriate official, and I think this would involve both the Department of Justice and the Department of Labour.

Mr. DOUGLAS: Officially it comes under the Department of Labour.

Mr. HENDERSON: The Department of Justice naturally is very interested in it, and the deputy minister has spoken to me about it, more in the context of one of my coments in respect of isolation allowances paid to judges in the 1962-63 fiscal year. He indicated to me he would be prepared to appear before the committee to discuss that item when it is called. You will also recall that at the last meeting the Minister of Justice himself addressed a letter to the committee, making the case for the $60 a day being necessary for the judges for a living allowance to cover their hotel room and meals. It is quite possible that Mr. Driedger would wish to make some statement to you on the subject. However, as Mr. Douglas says, this comes under the Department of Labour officially, and it is the Department of Labour in whose name the order in council of May 7th to which I have referred was passed.

Mr. FORBES: Is this allowance exempt from income tax?

Mr. HENDERSON: I believe it is reported on T-4 slips.

Mr. DOUGLAS: Yes.

Mr. HENDERSON: Which means that a judge presumably would claim for his actual expenses and presumably pay income tax on the net.

Mr. FORBES: What brings this to my mind is a case which came up before the income tax department in Winnipeg a couple of weeks ago regarding a man from Grandview, Manitoba, who went to another town to get a job and the income tax department would not allow him to deduct the cost of his board while he was away from home getting employment. This may be compared with the $100 a day, because these fellows need to live at a hotel.

Mr. RYAN: Is there any surrender, by a federally appointed judge acting as arbitrator or conciliator, of his regular stipend?

Mr. HENDERSON: I think not.

Mr. ROCK: In this paragraph here it says "out of pocket expenses for transportation, parlor and pullman car accommodation and taxicabs". This does not include hotel bills in the city; it does not include meals, and all that. It is just during travelling that the expenses are paid on top of the $60, which now is increased to $100 a day.

Mr. HENDERSON: The actual wording is that a per diem living allowance of $100 and actual out of pocket transportation expenses, including parlor and pullman car accommodation and taxicabs is to be received by the federal judge in adition to his judicial salary while engaged as a member and chairman of the said board for which the usual detailed accounts are to be submitted.

The CHAIRMAN: Mr. McLean.

Mr. MCLEAN (*Charlotte*): Would this $100 apply to arbitrators other than judges?

Mr. HENDERSON: As Mr. Long was just saying to me, Mr. McLean, the point here is that the judges act prohibits them from receiving additional remuneration. So far as it might be applicable to others who might be appointed for this work, they would be free to receive it.

Mr. MCLEAN (*Charlotte*): I was wondering if additional remuneration was paid to other arbitrators. If it was, then we would have to pay the judges the same.

Mr. HENDERSON: If they want to have them serve they probably have to make it attractive, but we are up against the wording of the Judges Act which, in my opinion, is specific on this point.

The CHAIRMAN: What you have in mind is that $100 includes elements of remuneration? You have in mind that the $100 would include more than just the out of pocket expenses?

Mr. HENDERSON: The $100 in the context of the act as we read it is a living allowance to cover the cost of their hotel room and meals. The other expenses are paid on the out of pocket basis. Therefore it becomes a matter of opinion whether $100 per day covers those expenses. Suites and that type of thing are expensive. I think this was the point made by Mr. Chevrier in his letter to the Chairman last December.

Mr. MUIR (*Lisgar*): This applies to legal counsel on commissions as well. Over and above their remuneration they receive their $100 just the same as the judges.

Mr. HENDERSON: The $100 rate is paid in other cases, as you know, to people serving on boards and commissions. The directors of some of the crown corporations, I think, receive a per diem rate at this level, and they are taxable.

Mr. FORBES: Is this not a maximum of $100? If it only costs $25 he would not be putting in a bill for $100.

Mr. HENDERSON: He would receive $100. If it cost him $25—and he presumably files his hotel accounts with the income tax department—then he would pay income tax on the remaining $75.

Mr. ROCK: Your concern is not with the amount? You are concerned with the legal implication?

Mr. HENDERSON: Yes. As I have stated, it is because of the fact that additional remuneration would be contrary to subsection 1 of section 39 of the Judges Act, which prohibits it.

Mr. ROCK: You have no facts available to show that the difference between what the hotel costs and the balance of the fee has been recorded in their income tax as additional income? You have no facts to prove they have included this in their income tax reports as additional income?

Mr. HENDERSON: No, that would be a matter for each judge in his own personal relationship with the income tax department. We see the T-4's which are issued by the Department of Labour and sent to the income tax department showing the amount paid.

Mr. ROCK: I believe if this is considered as a living allowance, as has been stated, then they are not required to include it in their income tax report at all, but only the salary itself.

Mr. HENDERSON: All I can say, Mr. Rock, is that we know that the T-4 slips as required by the Income Tax Act are issued by the Department of Labour in respect of the amounts paid to each judge. The extent to which each individual reports them to the department is something I have not checked.

Mr. TARDIF: If a T-4 slip is issued, they do not have much choice but to report it, do they?

Mr. HENDERSON: That is generally the case. Living allowances generally are taxable, so that is why the department issues the slips.

Mr. ROCK: I do not think any person working for any company or any school commission or municipality, a person who is for example an alderman or mayor or who holds any public post or is a functionnaire for any government department, would ever report an additional living allowance obtained from extra work and travel, in their income tax returns, because this is strictly something additional for expenses. I believe in this case it is an additional expense incurred by the person who receives it, and I believe it is considered as such. I do not think it has anything to do with being included in the income tax report. I think this is where our complication arises.

Mr. HENDERSON: If the cost of the hotel and meals equals $100, then there is no remuneration, and thus no problem.

Mr. TARDIF: If it costs $100 a day to eat he has a very good appetite!

Mr. ROCK: If they received $100 and it cost $60 are they obliged to hand in a report of the hotel bill? If they are not obliged to hand in a report, can we question this fact of their expenses other than the travelling expenses?

Mr. HENDERSON: Perhaps Mr. Long can answer that question.

Mr. G. R. LONG (*Supervisor, Auditor General's Office*): I think if you checked the Income Tax Act you would find that living allowances are taxable if they are non-accountable allowances. If a person were only reimbursed for his actual expenses, there would be no question of tax. However, when he receives a living allowance he must include it in his income, but he can offset against that the actual expenditures which he has incurred. I think the department would be required to assess him on it unless he showed the actual cost to be equal to the allowance.

The CHAIRMAN: To refresh your memory, perhaps I might say that we filed the letter written to me by Mr. Chevrier, then Minister of Justice, dated July 9, 1963, and it appears at page 219 of the proceedings and evidence of the standing committee last year.

Mr. ROCK: This is a beautiful looking book. Can members of the committee obtain it?

The CHAIRMAN: I do not know. This came from the library.

Mr. HENDERSON: It is the minutes of the last committee.

Mr. ROCK: We have it in cut up form only.

The CHAIRMAN: I am advised it is not on the free distribution list.

On page 219 at paragraph 4 you will see that Mr. Chevrier says this:

> With regard to paragraph 71—

—which is paragraph 71 in Mr. Henderson's report.

> —commenting on living allowances to federally appointed judges, I understand that allowances are taxable under the Income Tax Act.

This, I presume, is on the advice of members of his department.

Mr. MCLEAN (*Charlotte*): Then, Mr. Chairman, what about members of parliament?

Mr. ROCK: Our concern is to make this additional income legal? We have to have parliament make it legal?

The CHAIRMAN: That is what we recommended last year, Mr. Rock.

Mr. ROCK: And we will come back to this again during our future meetings?

The CHAIRMAN: We hope to have someone available from the department, and we can ask him what has been done.

Mr. TARDIF: I think we should be careful that the wording shall be correct this year for fear they might increase it further!

The CHAIRMAN: If there is nothing more on that may we pass to the next item? When we have completed that we will have completed Mr. Henderson's follow-up report and will be free to embark upon the balance of his financial statement at the next meeting.

The last item appears at page 9 and concerns unemployment assistance.

Mr. HENDERSON: One of the committee's witnesses at the last meeting, you will recall, was the deputy minister of welfare who referred at some length to the problems encountered in administering the unemployment assistance act across Canada.

My comment at the top of page 10 was merely to update this situation following a short talk that Mr. Douglas and I had with the department. Is there anything you would wish to add to this, Mr. Douglas?

Mr. DOUGLAS: I do not think there is too much to add except to say that meetings have been held and that the government is in the process of considering the problem, together with the provincial officials.

Mr. HENDERSON: Dr. Willard was very appreciative of his opportunity to outline something of his problems to the committee, and you were good enough to make some observations in your report. This explains why I gave recognition to it here in the follow up report. I do not think I have anything more to add to that, Mr. Chairman.

The CHAIRMAN: We can assume, probably, that what was said was reflected in the discussions in the federal-provincial conference?

Mr. HENDERSON: Yes.

The CHAIRMAN: Are there any further discussions at this point?

Gentlemen, this concludes our discussion of the Auditor General's follow-up report. We thank him very much for his appearance with his officials, and we look forward to renewing our acquaintance with him when we start to discuss the 1962 report which we did not conclude in our last meetings. If you recall, gentlemen, we went some distance into that 1962 Auditor General's report but left some of it to be completed. It was for that reason that the government, in its order of reference to this committee, included the 1962 report as well as the 1963 report. I hope when we send round the committee notes I may be able to include the particular point at which the 1962 report will be taken up next Tuesday.

Mr. HENDERSON: We will be comencing at paragraph 75 on page 29 of my 1962 report which deals with the Department of National Defence. There are a number of comments that follow having to do with that department.

The CHAIRMAN: Thank you, gentlemen. If there is no further business I would ask for a motion to adjourn.

Mr. TARDIF: I move that we adjourn, Mr. Chairman.

The CHAIRMAN: It appears that that motion is unanimously adopted.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

THURSDAY, JUNE 4, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

20883—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Beaulé,
Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cardiff,
Chaplin,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Fane,
Forbes,
*Francis,
Frenette,
Gendron
Grafftey,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
O'Keefe,
Pigeon,
Pilon,
Regan,
Richard,
Ricard,
Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Skoreyko,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

* Replaced Mr. Eudes on June 3.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, June 3, 1964.

Ordered,—That the Standing Committee on Public Accounts be granted leave to sit while the House is sitting and that it be empowered to appoint sub-committees, to fix the quorum of any such sub-committee and to refer to such sub-committees any of the matters referred to the Committee; that any such sub-committee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the House is sitting, and to report from time to time to the Committee.

WEDNESDAY, June 3, 1964.

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

Attest.

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

20883—1½

MINUTES OF PROCEEDINGS

THURSDAY, June 4, 1964.
(4)

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

Members present: Messrs. Baldwin, Côté (*Chicoutimi*), Fane, Forbes, Hales, Harkness, Mandziuk, McLean (*Charlotte*), Pilon, Regan, Ryan, Southam, Tardif, Winch.—(14).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Millar, Laframboise, Laroche, Crowley, Chapman, Douglas, Sayers, Smith, Harris, of the Auditor General's Office.

The Auditor General made a statement in reply to a question by Mr. Winch on June 2nd relating to the Prairie Farm Emergency Fund and was questioned thereon.

Mr. Henderson also replied to a question by Mr. Winch on June 2nd relating to surplus material and was questioned thereon, assisted by Mr. Millar. Mr. Henderson undertook to supply a more detailed report at a later sitting, and the Committee agreed to hear witnesses on this subject.

The Committee then proceeded to the consideration of the Report of the Auditor General for the fiscal year ended March 31, 1962.

On paragraph 75, *Education costs incurred by the Department of National Defence,* Mr. Henderson made a brief statement.

On paragraph 76, *Loss of Aircraft due to negligence,* the Chairman referred to correspondence exchanged last year on this subject.

On paragraph 77, Mr. Henderson commented briefly and was questioned thereon, assisted by Mr. Millar.

On paragraph 78, *Renovation of remote transmitter Station, Halifax,* after questioning, Mr. Henderson suggested that witnesses be heard on this subject.

The questioning of Mr. Henderson still continuing, at 10.55 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, June 9, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 4, 1964

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

While it was announced at the end of our last meeting that we would be commencing with item 75 of the auditor's report, Mr. Henderson has the answers to two questions asked him and I going to ask him to give those answers now.

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, at the last meeting Mr. Winch put two questions to me but owing to the absence of my directors in charge of the particular phases of the work I begged your indulgence to speak to them today.

The first of these questions, you will recall, had to do with my responsibility, authority and the scope of my work with regard to the audit of payments made from the prairie farm emergency fund. You may recall I explained that Mr. Stokes, my director in charge, was absent through illness and asked that I be allowed to speak to the matter at today's meeting.

A short answer to Mr. Winch's question would be for me to repeat that I regard it as part of my audit responsibilities to satisfy myself that all expenditures made by the prairie farm emergency fund are in accordance with the provisions of the Prairie Farm Assistance Act. However, as we discussed last Tuesday, we in the audit office are not in a position to investigate by outside inquiry statements made or information given by public applicants for assistance. This is the responsibilty of the administration, whose procedures require that such investigation be made by inspectors appointed under the act. On the other hand, if information furnished by the applicants and seen in the course of our work appears to us to be out of line or for example, to suggest collusion between the inspector and applicant, we institute immediate inquiries of the responsible officials and follow the points through.

I now come to the audit coverage that we have been able to give to the fund's expenditures over the past few years. I wish to be quite frank in saying to the committee that this has, in my opinion, fallen considerably short of what should have been undertaken. I am going to describe this to you in some detail because the circumstances illustrate only too clearly what I have stated in my last two reports to the House of Commons, namely, that owing to staff shortages over the past several years in my office there have been too many instances where we have been unable to carry out our test examinations with sufficient frequency or in sufficient depth to achieve even the minimum standard required by modern accepted auditing practice.

Verification of expenditures of this fund must be made in the offices of the Prairie Farm Assistance Act administration in Regina and also in Edmonton. Up until May, 1960, I had only one officer stationed at Winnipeg to handle all of my federal government responsibilities in the two provinces of Manitoba and Saskatchewan, while those in Alberta were handled by my Vancouver representative working out of that point who had a staff of two assistants at that time.

My Winnipeg representative had carried out a test examination of the P.F.A.A. Regina office in 1957. Having finally obtained an assistant for him in the spring of 1960, we made a further test check of Regina office expenditures

in that year. Neither of these audits revealed evidence of any improper payments, although it is possible that if any existed they might have been brought to light had we been able to carry out our work in greater depth.

Early in 1962 we were able to add another assistant to the Winnipeg staff. It was then planned to devote 12 man-weeks to the audit of payments under the P.F.A.A. and P.F.R.A. in the 1963-64 fiscal year. However, this schedule could not be met and the time available for these two jobs was first of all reduced to five man-weeks and then, because of the relatively much greater expenditure under the P.F.R.A. including expenditures on the south Saskatchewan river dam, all of this time was devoted to this work, thus postponing any test checks of the expenditures under the Prairie Farm Assistance Act for that fiscal year. This is what happens when your staff is spread too thinly.

No test audits have been made of the prairie farm assistance payments in the province of Alberta because my Vancouver representative was and still is faced with insufficient manpower to do all the work that should have been done in British Columbia and Alberta.

Last March my Winnipeg representative was unfortunately hospitalized. In sending a senior man from Ottawa to take over his duties in his absence, Mr. Stokes and I issued special instructions to him, as one of his first duties, to make a detailed review in the Regina P.F.A.A. procedure relating to the processing of claims for assistance under the act and the existence of internal control measures so that with a full understanding of the situation plans could be made for proper auditing on an effective cyclical basis.

Pursuant to these instructions he sent a detailed report to us at head office early in April covering the P.F.A.A. administration in Regina, covering operations of its board of review; the procedure for processing claim applications; the pre-auditing carried out by treasury representatives there; the processing of eligible claims; the final audit and payment by the treasury; consideration of the ways in which fraud could be perpetrated; the extent to which fraud could be detected in the audit, together with observations of weaknesses we had found to exist in the system of internal control. As a result of our consideration of this report, my Winnipeg representative is hoping to assign sufficient time in his 1964-65 audit schedule to carry out a comprehensive audit of the Regina office.

Similar work we hope can be undertaken for the province of Alberta in Edmonton where we have recently established an officer. In fact we plan to provide this officer with a trained assistant shortly.

In the same way I consider that the size of my responsibilities in the province of Saskatchewan is sufficient to justify the permanent establishment in Regina of at least one man, depending on the approval of my staff plans for 1965-66 by treasury board. We thus propose to undertake an annual examination in future of payments made under the Prairie Farm Assistance Act and to carry it out in sufficient depth to ensure that irregular payments can be detected unless they represent collusion of the type I have mentioned.

This completes my remarks on Mr. Winch's first question, Mr. Chairman, and I shall be glad to deal with any questions which members may have on my statement.

The CHAIRMAN: Are there any questions?

Mr. HALES: I believe you have two representatives now in Winnipeg, have you not?

Mr. HENDERSON: We have three now.

Mr. HALES: Do they have other audit work to do out of that office or do they just do P.F.A.A. work?

Mr. HENDERSON: They have auditing responsibilities on instructions from head office here in respect of the operation of all federal government department operations in the two provinces of Manitoba and Saskatchewan.

Mr. HALES: And how much money would be handled in those two provinces by P.F.A., that is in Manitoba and Saskatchewan?

Mr. HENDERSON: Mr. Long has some figures here.

Mr. HALES: Just give me a rough figure.

Mr. G. R. Long (Acting Assistant Auditor General): In 1962-63 the estimated expenditures were just over $11 million. I believe this was slightly below what might normally be the expenditure. It was a good crop year.

Mr. HALES: So this government finds itself spending $11 million and we do not seem to be able to afford one full time auditor to look after that much money. We do not have a full time man to do this. I cannot conceive of any business where the turnover of $11 million would not warrant a full time auditor for the year round.

Mr. HENDERSON: As you recall, recruitment was the problem and still is.

Mr. HALES: I think it is just a matter of saying, "We have to have a man", and go out and get him. I think it is ridiculous that $11 million is involved and we are not auditing it.

Mr. FORBES: It seems to me that if there were any irregularity in connection with payments under the act, the auditor would not find it. This would take place at the farm level where the inspector would make someone eligible for a payment who would otherwise not be eligible. The officials of the P.F.A. office are very competent men.

Mr. HENDERSON: That is correct.

Mr. FORBES: I doubt whether you would find anything wrong with their statements or accounts. The thing that Mr. Winch had in mind, and a great many other people have in mind, is whether every farmer who is paid P.F.A. is legally entitled to that payment. This is where any irregularity might take place, and an auditor would not find it because you do not go out into the field to reinspect what the inspector has found.

Mr. HENDERSON: We may see something in the reports which would cause us to query them and thus institute enquiries which would disclose a situation like that, but the prime responsibility for it must always rest with the administration.

I think I should add, Mr. Forbes, that I do not believe that the allegations that have been made, have been proved yet; I think they are being studied by a commissioner. Is that not correct, Mr. Harris?

Mr. A. Harris (Auditor General's Office): It is.

Mr. FORBES: There is a latitude under the P.F.A.A. I received P.F.A. and I was not entitled to it but I just happened to be in that block. Of course, nobody would turn down a government grant. Another fellow, living across the line, did not get it and he was entitled to it.

Mr. TARDIF: You should have given him your payment.

The CHAIRMAN: We extend parliamentary immunity to Mr. Forbes.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, would not the inspectors be more or less classed as auditors in a way, and do they not check what is being paid out as well as its legality, and so forth?

Mr. HENDERSON: The administration has extensive procedures which it applies to these applications, beginning with, I think, the cultivation acreage report which is looked over by the inspector who checks the farmer, and presumably the inspector has some farming education and is able to express an

opinion on it. The papers then are examined by the treasury office representatives in Regina, and so forth, right up to the time of payment. However, I doubt whether you could classify the inspectors as auditors in the orthodox sense.

Mr. McLEAN (*Charlotte*): I know that in business you have an internal audit and an outside audit.

Mr. HENDERSON: That is the treasury check. Perhaps Mr. Long could say something about this from our reports.

Mr. LONG: The comptroller of the treasury office in Regina does check these payments before they are made as an internal audit or a pre-audit measure, but their difficulty, of course—if there happens to have been any collusion in the field and an inspector did not do his job right—is to find it. The only way of doing this is if they slipped up somewhere and there was some glaring inaccuracy in the information on the return which would alert you to it.

Mr. McLEAN (*Charlotte*): But you might say that yours is not the only audit.

Mr. LONG: There is a pre-audit. The comptroller makes these payments and he does check them before they are made.

Mr. McLEAN (*Charlotte*): And you check the comptroller?

Mr. LONG: That is right.

Mr. TARDIF: It is evident that the major problem there is that you should get sufficient staff. Even if you do not get permission to have your staff, then pressure should be brought to bear to get the civil service to find the necessary staff. Eighteen months is more than sufficient time to complete the filling of all the vacancies in your department.

I do not disagree with what has been said about a $11 million corporation, and the fact that there should be a permanent auditor. I would say it would even be an improvement if there were an auditor for two months, and then another auditor for another period. I do not say that the inspectors are dishonest, but it is possible for them to make mistakes. It should not be the farmers' opinions which decide what payment is to be made. If the inspector is not as efficient as he might be, there are times when an auditor will find conditions which exist; not necessarily conditions of dishonesty, but perhaps a lack of efficiency or an improper method of assessment in respect of the money which is to be spent.

I believe this committee should insist that this staff should be filled to the capacity necessary. I do not think there is any excuse for this not having been done in the past 18 months. Eighteen months is a sufficient period of time for the Civil Service Commission to find an auditor. While auditors may not be in great quantity, I am sure sufficient auditors could be found for the purposes of the Auditor General's office.

Mr. WINCH: Mr. Chairman, I think the last speaker basically has said what I was going to say. First of all, may I express my thanks for the detailed manner in which the Auditor General has answered the question I asked last Tuesday. May I also add that I think the Auditor General is to be commended, because, if I interpret his statement correctly, he is admitting that a job which should have been done by his office is not being done. It is understandable; if we go over the staff which he has outlined from Winnipeg to Vancouver—even to the extent of almost one year in Alberta—we will find that no spot check has taken place because his man is stationed in Vancouver and has not been able to do it.

I believe the answer to the question we have just been given by the Auditor General is so important and so significant with his explanation that when we reach the point of drafting our report we should make a special note

of the information now given to us and emphasize the need for action in respect of the staff in the Auditor General's office.

The CHAIRMAN: Thank you, Mr. Winch.

Mr. HALES: It would appear that the inspectors in the field are the key men in this whole situation. Has the audit department called in the inspectors to give them any course of instruction with regard to what they should do and watch for, and brief them? Would your representative in Winnipeg call in these inspectors in a group before they go out and lay down some rules and regulations?

Mr. HENDERSON: No, sir. That would be the responsibility of the P.F.A.A. administration because that administration employs the inspectors. These cultivation acreage reports, as I believe they are called, first are looked over by the inspectors in the field, so to speak, and then they are processed right up the line towards payment. Mr. Long has a detailed summation on this.

Mr. LONG: I do not spot it in this report. I think one difficulty here is that this is more or less seasonal work. These inspectors cannot be employed the full year, if I am correct. This means you have new people, and naturally they are going to vary.

Mr. FANE: Mr. Chairman, I am wondering, since Mr. Long does not have all the details about how the prairie farm assistance works in a province, whether you would like somebody to tell you. I believe that at least the Edmonton office of the P.F.A.A. is operated very efficiently. Also, I believe that if one office had to be left out from the inspections, it very well could be that office. I have had a very great deal to do with that office, and have found they are very meticulous in their work. They do slip up sometimes because the inspectors have a lot of difficulty getting reports. The whole thing is that the inspectors are in the field and they receive their instructions. Usually these inspectors are farmers themselves; they receive instructions about what they have to do, and they have no part in the making of the decisions concerning what happens; that is done by arrangement in the local office and the head office of the Prairie Farm Assistance Act in Regina.

Every payment that is made under the Prairie Farm Assistance Act, at least in the province of Alberta, has to be authorized by the treasury department of the P.F.A.A. in Regina. No money can be paid without a submission to and approval by that office. I think there have been cases where mistakes have been made, but most often the mistakes are mistakes of omission because certain land has been left out of a block that perhaps should have been paid. However, according to the rules of the Prairie Farm Assistance Act, an area which can be paid must consist of at least 12 connected sections in a rectangular block. This makes it very difficult for people, such as Mr. Forbes' friend who is just across the road, to get paid sometimes. I have been in the same position as Mr. Forbes was at times but I also did not send back the cheque.

I think that concludes what I have to say at the moment, but I do commend the Auditor General for his comprehensive report in respect of this matter.

Mr. FORBES: I just want to clear up one point in Mr. Hales' question. There are two supervisors in the province of Manitoba. These are men who have had years of experience in P.F.A.A. work. I might say that the individuals, as Mr. Fane has suggested, are hired as casual inspectors and they are called together in a school, as Mr. Hales has stated, where they are given instruction. I have attended these schools myself.

The thing that creates some suspicion in respect of the P.F.A.A. is the method which requires that these payments be made within blocks.

Mr. HENDERSON: Yes, I understand.

Mr. FORBES: Payment is based on units of zero to four, four to eight and eight to twelve. There could be a farmer in that block with 30,000 bushels to the acre but in view of the fact he is in that block he may get paid as well as the farmers who have low yields. I think this has been worked out as best it can be worked out according to the act under which it operates.

Mr. SOUTHAM: Mr. Fane and Mr. Forbes have almost covered what I intended to refer to, but in one answer to Mr. Hales question I thought there was some confusion.

The point I wanted to make is that we do have schools to instruct these inspectors. As someone mentioned, this inspection involves casual work and is only done on a seasonal basis particularly when there is a crop failure. In Saskatchewan we have seven supervision districts I believe, because in the whole province we have a greater wheat acreage generally than in Manitoba. Mr. Hales indicated that there were two supervision districts in Manitoba.

The supervisors call in their appointed inspectors perhaps in the fall before the survey has taken place, to instruct them in the specifics of making these checks on yields.

The reason some problem arises as far as payments are concerned is that the people who are appointed as inspectors, as Mr. Forbes has mentioned, are farmers who go out to the farm to inspect the grain under specific instructions to go out and measure the bins. They are provided with charts which indicate as a result of the number of feet of grain in a bin approximately how many bushels they contain. Quite often these inspectors inspect the same farms year after year and eventually take the farmer's word rather than moving away from the kitchen tables where they are filling out forms, into the field to look into the bins. There is a human tendency on the part of anyone to become a little careless, and I think this is where some of the difficulty lies.

Mr. HENDERSON: These points have been brought out by Mr. Harris of my staff, who is here today, in his very detailed report on the situation which we have and which will be the basis of the work which, as I explained, we intend to carry out.

I should just like to say one word about the staff matter which Mr. Tardif touched upon and of which Mr. Winch spoke. It is to say that the recruitment situation at the present time is better. We are still short, I think the figure was 18, at the end of April. We discussed this situation at the opening of the meetings. We are doing everything in our power to bring the establishment up to its proper level.

I thought perhaps if it was agreeable to the committee, Mr. Chairman, that at one of our later meetings when we move to a consideration of the 1963 report we could have a short discussion on this phase because in view of the qualification I have made as to the scope of my work it will come up again for the same reason I gave today. Would that be satisfactory?

The CHAIRMAN: Yes. I believe Mr. Winch has a question.

Mr. WINCH: I do not know whether this could be termed a question or a statement in clarification of a situation which I feel exists.

As a member of the public accounts committee I am not interested in the act, the regulations, the administration, the experience or otherwise of inspectors. I am only interested in one thing and that is, the report of the Auditor General which indicates to us that in one year he was not able to do the audit work he felt it was his duty to do in respect of one $11 million expenditure. It is the audit with which I am concerned. I appreciate, as I have said before, the fact that at a lower level there was an $11 million expenditure made in respect of which on behalf of the citizens of Canada and the authority of parliament the Auditor General has not been able to do the job of auditing

which he feels is essential. That is the only thing with which I am concerned, Mr. Chairman.

Mr. TARDIF: Mr. Chairman, now that it has been admitted that very often the farmer's word is taken for the calculation I think there is ample indication that an audit of that particular branch is very important.

Mr. WINCH: It is more important than ever before.

Mr. TARDIF: I think the Canadian government is very lucky in that the western farmers are 100 per cent honest.

The CHAIRMAN: Before we leave this point and move on may I make this suggestion as Chairman. Last year we waited until the end of our deliberations before bringing in a report covering a great deal of matters. It has been my hope that we may bring in one or two earlier interim reports rather than wait to the end of our considerations, assuming that this session run through its allotted course.

Mr. WINCH: That is an excellent proposal.

The CHAIRMAN: You are a member of the steering committee, as are others here, and probably at some time before the conclusion of our deliberations we can consider with Mr. Henderson the idea of bringing in a third report which might, depending on the circumstances which exist at that time, pay some attention to that particular subject matter.

I think we might now move on to the other question which was asked and which Mr. Henderson has prepared himself to answer dealing with the Crown Assets Disposal Corporation.

Mr. HENDERSON: This matter related to Mr. Winch's question to me on Tuesday in regard to the method followed by departments declaring surplus material which might subsequently be sold at substantially less than its original cost as provided for in the estimates.

One of the requirements of the Financial Administration Act, as you know, is that the Auditor General examine in such manner as he may deem necessary the accounts relating to public property and to ascertain whether in his opinion essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Public property, in the context of Mr. Winch's question, consists of public stores and materials purchased by government departments with funds provided for by parliament under departmental appropriations or through the medium of revolving funds. It will be appreciated that this embraces a very wide array of material ranging from minor supplies on one hand to the vast quantities of equipment purchased in the defence and related fields.

In the discharge of our responsibility we take as our starting point the internal control procedures maintained by the various departments with respect to procurement, receipt, custody, issue and control of the material. We make periodic examinations of these procedures both at headquarters and at field depots for the purpose of satisfying ourselves in respect of the effectiveness of the procedures in effect. In the course of our work the quantities of material purchased are noted in relation to departmental need based on the responsibilities and policies of each department. The extent to which such materials might prove to be in excess of needs is evident from the extent to which they remain unused in the inventory. In reporting to departmental managements on our test examinations of stores, we bring to attention our findings in this regard for the purpose of satisfying ourselves that commodities are likely to be used ultimately for the purposes for which they were acquired or will be disposed of by transfer for use elsewhere in the department, or declared surplus.

To the extent that such supplies prove surplus; that is, in the opinion of the department they are no longer needed and are declared surplus, declaration of

such surplus is made to Crown Assets Disposal Corporation. While this is frequently the case with the Department of National Defence, it may interest you to note that no unused material, for instance, was declared surplus at all during the year 1963-64 by two of our major procuring departments, namely, the departments of public works and transport. On the other hand, in the year 1962-63 the Department of National Defence reported as surplus unused or usable materials having a cost of approximately $39½ million. These declarations, numbering about 2,600 together with others relating to scrap and material in need of repair which were not priced, accounted for approximately 8,500 separate declarations made by the department during the year. It may interest you to know that the Crown Assets Disposal Corporation in its annual report for that same year stated that they had under review during the year some 12,000 reports of surplus. That is, they had received 12,000 declarations of surplus, so these 8,500 from the Department of National Defence represent a large chunk of the total. The declarations here in the 8,500 indicated the condition of the surplus materials, that is, unused, scrap, etc. Changes in defence policy, technological improvements, initial overprocurements, and residues of construction materials, were contributing causes to declarations of unused and usable material. Our examination of the 8,500 declarations in this fiscal year was limited to a test check covering approximately 800 declarations. That is to say, something less than 10 per cent.

The function of Crown Assets Disposal Corporation primarily in dealing with such surplus declarations is to obtain the best price it can in the market and it is not to inquire of the departments the reasons underlying the declaration of large surpluses. That remains a departmental responsibility.

From time to time in our reports we bring up instances where cases like this have occurred. I will be frank in admitting there are not many, but, for example in my 1961 report which, incidentally, was not examined by this committee, in paragraph 86 subparagraph 11 at page 41, I deal with the Pigeon River houses. I might say they have since been declared surplus during the now current fiscal year. These were houses built by I think the Department of National Revenue for customs officers at Pigeon River.

In my more recent 1963 report which you will be examining, I have a paragraph, number 84 at page 52, having to do with radar equipment acquired but not put into service. This was not declared surplus but I mention this by way of citing instances of the use of public property which I feel should be brought to the attention of the House of Commons.

The CHAIRMAN: Thank you Mr. Henderson.

Mr. Winch, do you have a question?

Mr. WINCH: This is hardly a question, sir, but I think it is rather astounding information which has just been given to us by the Auditor General and perhaps indicates the reason for my question last Tuesday. What was the figure in respect of material declared surplus by the Department of National Defence for one year?

Mr. HENDERSON: The figure is $39,500,000 represented by 8,500 declarations.

Mr. WINCH: There was $39,500,000 worth of materials declared surplus in one year.

I have been making a study within the past three months of this matter and this is the reason I feel this situation should be brought to the attention of the members of this committee, with the hope that perhaps Mr. Henderson will be able to give us some explanation of the authority he has in respect of investigations. May I say very briefly that I have studied hundreds and hundreds of bids reviewed by the Crown Assets Disposal Corporation from only one depot and find that there are 32 pieces of brand new lavatory articles and

on the bid it states "New and unused". I find there is a brand new unused marine engine. I found brand new and unused pieces of electrical welding equipment. I found thousands upond thousands of dollars worth of electrical fixtures new and unused. I found not thousands but perhaps hundreds of thousands approaching millions of expensive brass screws. I might point out that on the bid if there are 47 and 47 brass screws of a certain type and size the bid says 47. If there are 400,069 brass screws then the bid says 400,069 brass screws.

Whether these have been surplus from the last war or not I do not know. If they are surplus from the last war I should like to know why it took 20 years before declaring them surplus. If they are not surplus from the last war but have only been held for three months, for example, before being declared surplus I should like to know the reason for the purchase of these articles.

I think we are now preforming a very important function in inquiring into this situation and I should like Mr. Henderson to indicate whether his authority and responsibility allow or require him to make a check to find out why these things were held before being declared surplus or why they were purchased in the first place, as well as to look into the circumstances generally in respect of the articles being turned over to the Crown Assets Disposal Corporation.

Does the Auditor General also have the authority and responsibility to make a check of the prices received for these surplus articles, whether they are ten per cent, 33 per cent or 50 per cent of the original cost of the new and unused materials? If the Auditor General's authority does allow him to go that far, then I should like to ask again whether this situation is being considered seriously by the Auditor General and his staff and whether there is a possibility of some of his staff being delegated to make a thorough study of purchases being made which are at some later stage declared surplus.

Mr. HENDERSON: In answer to your question and proposal, Mr. Winch, I have no hesitation in saying to you that my authority does extend that far and indeed it is my responsibility to do this. My work is carried out on a test examination basis and as we have discussed earlier in the case of the prairie farm matter, it is too frequently that the extent of the work to be done has to be determined by the staff available. However in light of what you have said I most definitely wish to make an examination along the lines that you have suggested and then report back to this committee at its pleasure.

Mr. WINCH: I have just one further question, Mr. Chairman. Mr. Henderson, when it was drawn to your attention, as it must have been, that billions of dollars worth of material was declared surplus by one department, did you undertake any special investigation to find the reason for that extraordinary situation?

Mr. HENDERSON: No, sir. As I explained before, of the 8,500 declarations, we examined approximately 10 per cent as a test check without having found anything there which we felt necessary to bring to the attention of the House of Commons. That perhaps explains why no reference was made in my report.

Mr. WINCH: Were you flabbergasted when you received that information?

Mr. HENDERSON: The figures generally are of such a size in the course of my work. I was certainly very surprised.

Mr. MANDZIUK: Mr. Chairman, I do not think we can blame the Auditor General for not going into the question when the surpluses arose. I think, as has already been stated, that the reason for it might have been a change of policy or some technological changes which have arisen. The amount of any material that is purchased is the responsibility of each department.

I take it that the $39½ million surplus which the auditor has just mentioned is the original cost of these surpluses. My question is: What percentage of this is salvaged by disposal of it by Crown Assets Disposal Corporation, because the general impression in the country is that these surpluses are practically given away for next to nothing? Have you any tabulation or any figures on how much of this $39½ million surplus would be realized when disposed of by Crown Assets Disposal Corporation? If we almost get our money back, then there is no harm done.

Mr. HENDERSON: That is quite right. I think I am correct in saying that we do not have that figure. However, it would be obtainable and should be obtainable.

Mr. MANDZIUK: It would be very interesting to the country.

Mr. HENDERSON: I would like to see it, and it should and could be obtained in answer to the request that Mr. Winch has made that this be undertaken. It will take some time, and it will have to be conditioned by the staff I have available. That would be the core of following through on the disposition of the $39½ million worth of equipment in that fiscal year.

Mr. MANDZIUK: Publicity should be given to that, and we would then realize that best efforts were made to salvage what can be got out of the equipment or out of the supplies that cannot be used, probably through no fault of any department or any minister or anyone down the line.

Mr. WINCH: I hope that that will be done because that is my very point. I mentioned these thousands of dollars worth of electrical equipment. I followed that through until it was sold, and the price they received was eight per cent of the purchase tax. I know of others where they get 60 per cent, but the whole question should be studied.

Mr. REGAN: I have two or three questions arising out of this discussion. First of all, I presume that this example of $39½ million in the national defence department for 1962-63 is an extreme example. You chose this as an extreme example of the worst year.

Mr. HENDERSON: That happens to have been the year we looked at in examining this question yesterday in response to Mr. Winch's question the day before.

Mr. REGAN: I see. The fiscal year 1962-63 would begin and end on what dates?

Mr. HENDERSON: Beginning on April 1, 1962 and ending on March 31, 1963.

Mr. REGAN: Mr. Henderson, while in national defence there would be every reason for higher figures on equipment which became obsolete because of technological change, would there be any reason why there should be greater amounts of initial over procurement in national defence than there would be in other departments?

Mr. HENDERSON: I would suggest, that you have rather answered the question yourself because the sheer size of national defence buying, the rapid technological changes, and the difficulties in estimating, so far ahead on what they are going to need, and the possible changes midstream are factors which must make procurement a very difficult proposition in this department. It is possible that Mr. Harkness could elaborate on that point, but that would be my assessment of it. They have perhaps the most difficult job of any of the government departments.

Mr. HARKNESS: I think this particular sum, or at least a proportion of the amount you mentioned, is really a disposal consequent upon the Glassco commission's report which, as you may remember, reported surpluses of a great deal of underwear which had been bought during the second world war and

which had been held in store since that time, and quite a lot of other things along that line. It was then decided to get rid of that stuff. I would suggest, in connection with this, that perhaps the deputy minister of national defence should be asked to give evidence in connection with what these things were. We could perhaps get at it more rapidly than if Mr. Henderson and his staff were to go into it and bring it back to us.

Mr. REGAN: I have not quite completed my questions. I should like to ask whether your test check of 800, of the 8,500 declarations, indicated what percentage of the equipment was unused, what percentage was equipment which had been in use for some period of time and which was no longer needed by the department. I think these figures would be of some importance because while we put a label of $39½ million on the initial cost, if some of the equipment was used for quite some period of time, then obviously the country received some value in return for the use of this defence equipment over that period. Again I think this ties in with the point that Mr. Mandziuk made to the effect that the amount that was obtained by Crown Assets Disposal Corporation on sale is another factor to be considered. When one considers the amount of usage that was obtained from the item and one adds to this the question of the disposal of value, then we are able to see what you might call the net loss to the public—it would not be $39½ million but something considerably less.

Mr. HENDERSON: That is right. That would be the way to do it, to carry out the work the way Mr. Winch proposed, and with which I agreed.

Mr. WINCH: Particularly on unused equipment.

Mr. HENDERSON: In the end result we would also have the computations you suggest. However, I am attracted by the suggestion of Mr. Harkness that perhaps when the deputy minister of national defence does appear before us, as I think it is planned on some of the items, he be asked to give a rundown on the type of thing that is occurring and the reasons for it.

The CHAIRMAN: We could probably conduct a more intelligent and searching examination at that time. The deputy minister and an official from his department are going to be before us with respect to a number of other matters, and if it is your wish I will have the Clerk send him a copy of the transcript of today's proceedings, and we might also deal with both aspects. Later on, when we deal with the Auditor General's report, we will have to deal with his report in connection with the Crown Assets Disposal Corporation, and it might be considered that we should have an official from his department at the same time, so you will have both ends of the picture. This is something which we will take up with the steering committee and at an appropriate time try to have one, or possibly both, officials here at the same time.

Mr. RYAN: I have a couple of short questions, Mr. Chairman. I would like to be clear on one point: Is this form of declaration standard in all the departments of government?

Mr. MILLAR: I do not know whether they are standard for all departments but I think so.

Mr. RYAN: Is it standard in all the departments you inspected? Do you get a good history of the article or the goods, and do you get the date of the original purchase?

Mr. MILLAR: The reason for the procurement is unknown. We find that on many declarations.

Mr. RYAN: Sometimes you find it is merely a certificate that it is surplus but no other explanation.

Mr. MILLAR: That is about it, on many of them.

Mr. RYAN: We should check these declarations, particularly in respect of unused articles. I might suggest that the steering committee consider that a subcommittee be set up to check this matter.

Mr. WINCH: May I suggest that you consider asking for a supply, of a general nature, of bids as sent out by Crown Assets Disposal Corporation. In particular I would like to get those which I saw in the last two or three months, because it would really open the eyes of the members of this committee.

Mr. MANDZIUK: My question is: who signs these declarations and who countersigns them, what official in any particular department? Do they ever reach the deputy minister or his deputy?

Mr. MILLAR: It is usually signed by authorized officers, as far as national defence is concerned, and then it is reviewed by the deputy minister's office. It is then approved by the deputy minister's office before it goes to Crown Assets Disposal Corporation.

Mr. TARDIF: Are there no regulations which force officers responsible to declare why this has become surplus?

Mr. MILLAR: There are explanations given where it is possible to do so, but in many cases their material is so old that the history of it has disappeared.

Mr. TARDIF: If they had a $39 million surplus to dispose of, this may have been an unusual year, as Mr. Harkness stated.

Mr. HARKNESS: I am sorry I was not here earlier but I had a dental appointment this morning. Is the $39 million all equipment or is part of that land?

Mr. HENDERSON: The Department of National Defence made 8,500 declarations of surplus to Crown Assets Disposal Corporation, the dollar value of which was $39½ million during the year 1962-63.

Mr. HARKNESS: Part of that could be land?

Mr. HENDERSON: Yes.

Mr. MILLAR: Yes.

Mr. HARKNESS: Because in that period, again consequent upon the Glassco commission's report, they considered that the Department of National Defence had quite a bit of land which was really surplus to their requirements.

Mr. WINCH: In 1962-63?

Mr. HARKNESS: There was some disposal of this which entered into it, as well as old equipment which had been sitting there ever since the second world war, immediately following the Korean war period. That is why I think the best way to get at this is if the deputy minister and officials in his department outlined what these things were.

Mr. WINCH: I am a bit worried. I understand Mr. Harkness has just come from a dental appointment—would that make him more biting than ever?

Mr. HARKNESS: Less at the moment, I would think.

The CHAIRMAN: We are being very reasonable, I think. In addition to what I said before, if we had an official from Crown Assets Disposal Corporation here, then the question which you raised, Mr. Tardif, might be taken up by them.

Mr. TARDIF: I did not finish my questions. I guess Mr. Harkness' contribution was more important and I was listening to it. Would it not be a good idea for this committee to recommend that a standard form be used in all departments for this purpose, and that we emphasize the necessity of giving a reason for the surplus? If they are going to buy $39 million worth of equipment—if this is a standard year, and I do not think it is—if there is going to be that kind of surplus every year, then the history should be put on the article when it is bought because eventually some of it will become surplus.

The CHAIRMAN: That is one way we might make our contribution in connection with this report.

Mr. TARDIF: And a standard form should certainly be used by all departments.

The CHAIRMAN: Are there any more questions on this? We are not through with it but it is being stood over until we can get the officials here.

Mr. MANDZIUK: Mr. Chairman, while we are on this subject and it is fresh in our minds, could we have the deputy minister or officials of Crown Assets Disposal Corporation come here within a short period of time, or are you going to ask them to come when we reach a certain stage in our deliberations?

The CHAIRMAN: This is a matter for the committee to decide. The steering committee will consider it and bring its recommendations back. You will find, I think, that the Department of National Defence is interested in several matters which we will be approaching in the not too distant future, and some time, from the point of continuity and so as to try to arrange the presence of departmental officials who can be here to cover all these items, we will try to get them all together. However, if the committee wishes to have the officials of these two departments present, we can arrange it, but I think possibly the matter should be brought to their attention and we should probably have other matters dealt with in the meantime. I assure you the steering committee will consider it and will report back.

Mr. HENDERSON: May I make one suggestion if members feel it would help? My suggestion is that I and my staff make a special effort to produce a quick but more detailed report covering these points which we could discuss with the officials and bring to the committee no later than three weeks from now so that you could study it. It is a report to which they perhaps would subscribe also so that you would have the facts in front of you on such things as the liquidation of the $39½ million figure. After checking the records of Crown Assets Disposal Corporation we might have a tabulation to show that. It might not be completely accurate but it would be sufficient for you to see this matter in focus.

Mr. WINCH: I understand that you are going to ask the officials of Crown Assets Disposal Corporation to come before the committee.

The CHAIRMAN: If it is the wish of the committee. They might be present at the same time as the Minister of National Defence.

Mr. WINCH: Would you, in your communication, ask for a detailed explanation of administrative costs and procedure because I am a bit disturbed on that also when I see, as I have seen, let us say approximately one million brass screws being offered for sale on bids and each size being outlined. If we have staff for counting 47 of this, 98 of that and 100,000 of that, then I am afraid the amount we get back is going to be far overcome by the cost of doing it. I would like to have an explanation of this.

The CHAIRMAN: It is the wish of the committee that this be not done until Mr. Henderson has produced his memorandum which will be useful to us?

Mr. HENDERSON: I would propose producing this memorandum in cooperation with officials of both the Department of National Defence and Crown Assets Disposal Corporation in order to pinpoint the subject matter of this discussion. It could be a memorandum to which they would subscribe, and you would then have the facts and be able to direct better questions.

The CHAIRMAN: We will then move on to where we indicated we would commence our review of the Auditor General's report for the year ended March 31, 1962, which is at page 29, item No. 75, which reads:

75. Education costs incurred by Department of National Defence. The department, under executive authority, provides educational facilities for children of personnel of the regular forces and entitled civilians residing in public quarters by (*a*) the establishment and operation of departmental schools, and (*b*) the utilization of nearby civilian school facilities. As of December 31, 1961 the department was operating 75 schools at 48 different locations in Canada to accommodate about 28,750 children, where suitable educational facilities were not available within a reasonable distance, while some 9,750 children were attending civilian schools. In Europe the department operated 22 schools at 13 locations with 7,850 pupils in attendance.

The cost of this function for the fiscal year is not reflected as such in the public accounts; however, financial statements prepared by the department on a memorandum basis for the calendar year ended December 31, 1961 show costs (including $1,390,000 for outlays for new construction and $1,876,000 for non-resident fees paid to civilian school boards) totalling $15,100,000, offset by provincial school grants of $2,400,000—a net cost of $12,700,000.

The largest item of gross expenditure was $6,525,000 for the salaries of the 1,295 teachers employed to staff the schools in Canada. In the course of our examination it was observed that the over-all pupil-teacher ratio in the departmental elementary schools was about 22 to 1, which is considerably below the average ratio for such schools in Canada, generally. Moreover, at about 75 per cent of the schools, the ratio was less than 25 to 1 and at 13 of these it was less than 15 to 1. On the situation being brought to the attention of the department, it undertook to make enquiries into the pupil-teacher ratios at schools where the ratio is less than 25 to 1.

Mr. HENDERSON: With your permission, Mr. Chairman, I will speak to these and perhaps we can move through some of them fairly rapidly depending upon the questions which you may have to ask.

Paragraph 75, on page 29 of my 1962 report, has to do with the education costs incurred by Department of National Defence. This comment is, in principle, informational for the house because it did not seem to me that it was generally realized the extent to which the Department of National Defence operated schools. You will note there is nearly 100 of them in Canada and Europe, and you will note their cost. We also drew attention to the pupil-teacher ratio here which, in about 75 per cent of the schools, seemed to be on the low side although I suppose that is what one might expect in an establishment of this kind.

The CHAIRMAN: Are there any questions on this item or can we move on to paragraph 76 which reads:

76. Loss of aircraft due to negligence. Normally the Auditor General's annual reports do not include comments on losses of defence property and equipment resulting from the ordinary hazards of military operations, even when substantial amounts are involved. However, the following case is noted for the reason that the circumstances surrounding an accident involving R.C.A.F. equipment indicated that there had been undue negligence not only by the pilot but also by the administrative officers concerned.

A reserve pilot serving with a Toronto auxiliary squadron was authorized to fly a service aircraft for local proficiency practice. In violation of regulations, the aircraft was landed at an airfield other than the one of departure. During an attempted take-off from this airfield a strong cross wind, which exceeded the specified limitation for

the operation of the aircraft, rendered it uncontrollable and it crashed through a fence striking five automobiles parked on a road bordering the airfield. The pilot suffered only minor injuries but the aircraft, valued at $125,000, was a total loss (less salvage of $22,000) and damage claims totalling $1,962 were paid to the owners of the automobiles.

Following an official inquiry which brought out that there had been a lack of supervision in monitoring the pilot's training, action was taken to insure a greater degree of supervision over local flying by the reserve air force.

Mr. HENDERSON: Paragraph 76 is a report on the loss of aircraft owing to negligence.

Mr. FANE: Mr. Chairman, is this in the latest report?

Mr. HENDERSON: It is in the report of 1962, at page 30.

The CHAIRMAN: We are carrying on where we left off last year.

Mr. TARDIF: What page?

The CHAIRMAN: Page 30, item 76.

Mr. HENDERSON: Paragraph 76 deals with the circumstances whereby an aircraft, valued at $125,000, was lost owing to lack of supervision and monitoring the pilot's training.

The CHAIRMAN: Might I just say on that particular item that there was a letter addressed to me as Chairman of the committee last year from the pilot who was involved in this particular incident, following a letter from a Toronto solicitor who was his counsel. At that time he asked if it would be permissible for him to appear before this committee. I followed this correspondence up, not knowing if we would reach this item last year, but it appears the reason he wished to appear before the committee was that he felt he had not been given what he considered was a fair opportunity to answer the allegations against him. I believe he had completely misconceived the role of this committee which simply is to inquire into Mr. Henderson's report, and the recommendations he makes. I explained to him by correspondence that anyone who wished to appear with relation to a relevant matter was entitled to do so; but I explained to him that our role was not one in which we could inquire into the question of whether or not there was negligence, and that we were not a court of appeal from the court of inquiry. However, I advised him that if he had any other observations he wished to make which were relevant to our function, he was at liberty to appear; but I heard nothing further from him. I thought I should bring this to your attention.

Mr. REGAN: Is this the same matter we discussed last year?

The CHAIRMAN: I do not believe it was discussed in the main committee. It was discussed at a meeting of the steering committee in the expectation that we might reach this particular item in the main committee which did not happen.

Mr. HARKNESS: I remember this case very well indeed. The pilot concerned was released from the reserve forces. He entered an address of grievance as a result of this. He felt very strongly that he had been discriminated against. In other words, the department took disciplinary action so far as he was concerned, to which he strongly objected, by instituting an address of grievance. Finally, the matter went to the chief of the air staff; he appealed further to me, and then appealed my decision to the Governor General. This case went as far as it could go under our procedures.

The CHAIRMAN: I, in fact, indicated that we did not constitute ourselves as a court of appeal from the Governor General.

Mr. HARKNESS: The point I would like to make is that there was this loss of an aircraft owing to negligence, and the department did take the only action which was open to it.

Mr. REGAN: Mr. Chairman, I could not say in stronger terms that it would be an extremely poor public policy to go after a man such as this pilot for the cost of an aircraft which was lost owing to negligence. The nature of mankind is such that all of us at one time or another are negligent to some degree. If we are going to be in a position to attract persons to operate our aircraft, our ships, or other equipment in the armed forces, then, certainly, we would make it very difficult for a person to be willing to undertake such a career if he had the feeling that through some momentary negligence and the loss of government equipment in his day-to-day occupation he could become involved in a debt in the amount of some hundreds of thousands of dollars. Perhaps there should be some form of insurance carried against the possibility of such negligence. However, in the absence of having carried such insurance over the years, no doubt we have saved a great deal by bearing the expense ourselves.

I believe it would be poor public policy to hold an individual in the armed forces responsible for the loss of government equipment which loss resulted from negligence. Mind you, if it were purposeful destruction of equipment done with malicious intent, this would be a very different matter. Everyone operating a motor vehicle at some time is negligent to some degree if circumstances occur which bring it to light. By the same token, persons who operate ships, or airplanes day by day must run into situations where, the human factor being present, they would be negligent. I believe we should take a strong stand to see that they do not go after this man, or any other man in similar circumstances, for such a vast sum of money.

Mr. TARDIF: I do not think there has been any such recommendation.

The CHAIRMAN: I think what prompted Mr. Henderson to refer to this matter is that he felt there may have been some lack of supervision in the monitoring of the pilot's training. Since then action has been taken to supervise a greater control over local flying by the reserve air force.

Mr. REGAN: Am I not correct in understanding there was a suggestion by you, Mr. Henderson, that the pilot should be billed for this?

Mr. HENDERSON: No. I have pointed out that this case was noted for the reason that the circumstances surrounding the accident indicated there had been undue negligence, not only by the pilot but also by the administrative officers concerned. You will note that following an official inquiry it was brought out that there had been lack of supervision in monitoring the pilot's training. The fact that he was discharged from the air force is the type of action that was taken under the regulations of the Department of National Defence.

Mr. HARKNESS: I might say this was a very tangled case. The individual concerned still strongly feels he has a grievance, to the extent that I believe he has engaged a lawyer in an effort to continue to fight this case.

Mr. WINCH: Where can he go after the Governor General?

Mr. HARKNESS: There is nowhere he can go, but I believe he did ask for permission to institute legal action against somebody. As I remember it, this permission was not granted. As I say, this was a very tangled case, and one in which I do not believe this committee has any change of trying to adjudicate. This is the type of thing we are not set up to go into.

Mr. REGAN: Did the correspondence which you had, Mr. Chairman, indicate a misapprehension on his part that he thought he would be billed for the cost of the aircraft?

The CHAIRMAN: I think what he was more concerned about was that he felt his reputation had been tarnished, and he wanted an opportunity to ventilate his case and bring the fact forward. In reply, I pointed out that our function was specifically limited to what the Auditor General had reported to us. I also replied to his counsel that while we were not prohibiting him from appearing, I did not see how the sort of thing that he wanted to open up properly could be opened up in this committee. He wanted rather to form a court before which he could place his facts.

Mr. HARKNESS: He brought in information concerning the strength of the crosswind, and so on. He claimed he had certain witnesses who could substantiate this. This is the same situation as that which would arise in a civil dispute in which one side claims one thing and the other side claims another thing.

The CHAIRMAN: May we move on to item 77, which reads:

> 77. *Acceptance of inferior coal without adjustment.* While heating equipment can be designed to burn coal having a specified sulphur content, heavier maintenance costs can arise if coal with a substantially higher sulphur content is used. Although contracts for coal for the Department of National Defence state the maximum acceptable sulphur content, no financial penalties are provided for in the event that tests of coal delivered reveal that the maximum has been exceeded.
>
> To illustrate, contracts with the same supplier for the supply of coal to an army camp during the period from 1959 to 1962, amounting in all to $576,000, specified a maximum acceptable sulphur content of 5.7 per cent, but laboratory analyses of the coal delivered indicated that this specification had not been met; in fact, the analyses demonstrated that the sulphur content had varied between 6 per cent and 15.7 per cent. During the three year period abatements amounting to some $17,900 were made from the supplier's billings to compensate for calorific deficiency and unsuitable sizing of the coal delivered. We were informed that excess sulphur contributed in some degree to the calorific deficiency referred to; however, no specific adjustments, financial or otherwise, were sought or made with the supplier to compensate for the excessive sulphur content in the 59,500 tons received, and the contract was allowed to run its course.
>
> The advisability of including a provision for financial adjustment in respect of excess sulphur content in the general specifications applicable to all coal contracts is now under consideration by the department and the Canadian government specifications board.

I would point out, gentlemen, that we will have to make way in five minutes for our successor in this room, the defence committee.

Mr. HENDERSON: Paragraph 77 refers to failure on the part of the Department of National Defence to include provision for financial adjustment in respect of sulphur content in excess of that specified in coal contracts. Although some abatement was made, no specific adjustments had been made by the department for the supplier to compensate for excess of sulphur content in the coal received, and the contract for 59,500 tons was allowed to run its course. I understand that the Department of National Defence contracts now include a sulphur content adjustment clause.

Mr. WINCH: In other words, your recommendation has been accepted?

Mr. HENDERSON: Yes, sir.

Mr. TARDIF: Does this excess of sulphur content deteriorate the equipment?

Mr. HENDERSON: I believe that is one of the results.

Mr. TARDIF: Is that taken into consideration in the new specification?

Mr. HENDERSON: That is my understanding.

Mr. B. A. Millar (Audit Director, Officer of the Auditor General): Unless the equipment is designed especially to burn coal having a high sulphur content, it may become damaged. Before a contract is let for coal with a sulphur content, they make sure the equipment can take it.

Mr. TARDIF: If it damages the equipment is the amount of the damage taken into consideration when the adjustment is made?

Mr. MILLAR: The adjustment now is quite specific. There is a one per cent tolerance over and above the specification, and then there is an adjustment if it goes above the one per cent.

Mr. TARDIF: And the possible damage to the equipment is figured in this adjustment price?

Mr. MILLAR: That was a factor in determining it.

Mr. WINCH: I notice in this report that it deals with 59,500 tons. For information, may I ask how often are tests made on coal deliveries in respect of sulphur content? Here we have 59,500 tons, and I do not imagine a laboratory test is made of each ton.

Mr. MILLAR: At the beginning of each year, the service establishes a test program. They do not test all deliveries of coal, but they make selections. We consider what they have done is quite satisfactory so far as testing is concerned.

Mr. WINCH: Thank you.

The CHAIRMAN: Paragraph 78 reads:

> *78. Renovation of remote transmitter station, Halifax.* In January 1961 a contract for $229,330 was awarded by the Department of Defence Production for renovation of antennae and transmission lines at an air force station near Halifax. The site test drawings indicated the bedrock to be from two to 14 feet below the surface. However, during excavation the contractor discovered that the bedrock was from 18 to 25 feet below the surface in many places. In order to achieve the specified firm bearing of solid rock on which to place the antennae masts and guy anchors, it was necessary to extend the foundations as much as 13 feet below the elevation indicated on the drawings. In order to do this, a complete redesigning of both the layout of foundations and their method of construction was required, and the contract was amended to provide for the additional costs of $287,326 which resulted.
>
> Attention is drawn to this expenditure because the contract was amended to an amount more than double that originally called for.

Mr. HENDERSON: Paragraph 78 deals with renovation of a remote transmitter station in Halifax, and you will note that the circumstances outlined show how the contract awarded for renovation of this transmitter station was amended to an amount more than double the original cost.

Mr. WINCH: Have you made any investigation with regard to the basis of the engineering on which the contract was let without proper information, resulting in a double cost, and did you receive any satisfactory explanation of that?

Mr. MILLAR: No. We had no satisfactory information with regard to why the original information did not disclose the condition of the subsoil.

Mr. TARDIF: Were test borings made before the contract was given out?

Mr. MILLAR: Test borings were made, but whether or not they were satisfactory is a matter which I do not know.

Mr. WINCH: Were any inquiries made by the department in an effort to try to recover anything in the way of a monetary return from the engineering

firm because of a mistake in engineering which resulted in a double cost to the department and to the taxpayers of this country?

Mr. MILLAR: I think the engineering was done by the air force.

Mr. HENDERSON: I had this matter noted as one on which you may care to refer to the deputy minister when he is before the committee.

Mr. REGAN: Assume that it is accepted there was an error in the engineering regarding where the bedrock was, do you feel this was sufficient to cause the contract to be increased to the extent it was?

Mr. MILLAR: I would think so, from the action taken in amending the contract.

Mr. RYAN: Could there have been a simple mistake in measurement; is there anything to point out how or what caused the mistake?

Mr. MILLAR: I do not think so.

The CHAIRMAN: Paragraph 79 reads:

> *79. Benefit paid under the Canadian Forces Superannuation Act to a "divorced" wife.* An air force officer with less than five years service died of natural causes while serving in the United States. Shortly before his death his wife had obtained a divorce in that country and had remarried. As this divorce was not recognized as legal in Canada the woman, as the "widow" of the deceased officer, was paid a cash termination allowance of $3,428 and, in addition, the supplementary death benefit of $5,000. From the legal point of view, these payments are not questioned but they appear to be unrealistic in that they were made to a person who was no longer, in the accepted sense, the wife of the serviceman at the time of his death.
>
> The Canadian Forces Superannuation Act only permits executive discretion in witholding an award from a widow if it appears that for a number of years immediately prior to the serviceman's death she had been living apart from him. Consideration might be given to amending the act to provide for the enlargement of the executive discretion, to deal with unusual cases such as that referred to above.

Mr. HENDERSON: Paragraph 79 describes—

The CHAIRMAN: It is five minutes to 11. I see the other committee members are arriving. We will adjourn now until 9.30 on Tuesday morning.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

TUESDAY, JUNE 9, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

20960—1

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Scott,
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Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 9, 1964.
(5)

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

Members present: Messrs. Baldwin, Cameron (*High Park*), Cameron (*Nanaimo-Cowichan-The Islands*), Côté (*Chicoutimi*), Crouse, Forbes, Frenette, Gray, Harkness, Mandziuk, McLean (*Charlotte*), McMillan, Pilon, Rock, Ryan, Southam, Stefanson, Tardif, Tucker, Wahn, Winch—(21).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Millar, Smith, Douglas, Crowley and Laroche of the Auditor General's Office.

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

On paragraphs 79 and 80: Mr. Henderson made brief comments and was questioned thereon.

On paragraph 81: After a brief comment by the Auditor General, this paragraph was allowed to stand until the Deputy Minister of National Defence appears before the Committee.

On paragraph 82: Mr. Henderson made a short statement and was questioned thereon. The Auditor General undertook to supply the Committee with copies of claims regulations of the Department of National Defence and the general regulations respecting claims.

On paragraphs 83 to 89 inclusive: The Auditor General supplied additional information and was questioned thereon, assisted by Messrs. Long, Millar and Douglas.

The questioning of Mr. Henderson still continuing, at 11.00 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 11, 1964.

M. Slack,
Clerk of the Committee.

20960—1½

EVIDENCE

TUESDAY, June 9, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I would ask the meeting to come to order.

At the end of our last meeting we were about to start paragraph number 79 of the Auditor General's report, 1962, which appears on page 31 of the report.

I would like to ask Mr. Henderson to comment on this particular item.

Mr. A. M. HENDERSON (*Auditor General of Canada*): We are going through the numbered comments which I will refer to briefly as we reach each one allowing time for discussion and questions. Perhaps on that basis, sir, we could move along at a greater speed.

Paragraph 79 on page 31 of the 1962 report explains the circumstances under which the wife of a deceased air force officer, having obtained a divorce in the United States before his death, remarried and thus became eligible for a cash termination allowance paid by the Department of National Defence, which amounted to $3,428, and also a supplementary death benefit of $5,000, the reason being that her divorce was not recognized under Canadian law. As I say in the note, these settlements are not questioned from any legal point of view but I cited the case by way of suggesting that consideration might be given to amending the Canadian Forces Superannuation Act in order to provide for the enlargement of the executive discretion in dealing with unusual cases of this character. We understand that the Department of National Revenue and the treasury board since have agreed to suggest such a revision to this act as or when it might next come up for consideration by parliament.

Consequently, I suppose you might say this is on track toward remedial action.

Mr. Millar, do you have any further information on this point?

Mr. B. A. MILLAR (*Audit Director, Auditor General's Office*): No. Mr. Henderson; that is as much as we know. There is the intention of amending the act in due course.

Mr. MANDZIUK: Mr. Chairman, this might seem like an idle question but who decides the validity or otherwise of this woman's divorce, and did that come into your sphere of interest?

Mr. HENDERSON: No, that would not come into mine, Mr. Mandziuk, but the divorce that the lady obtained was not recognized in Canada and, presumably, the Department of National Defence would have realized that.

Mr. MANDZIUK: To follow this line of questioning up, that matter was pursued after these moneys were paid out. Am I correct in my understanding of this situation?

Mr. HENDERSON: Well, we noticed the payment going out and the circumstances under which it went out and because it seemed a very unusual case we inquired into it, thereby giving rise to this note.

Mr. MANDZIUK: Would it be unusual for the department to pay out moneys in spite of the doubt which someone might have had in respect of the validity of such a case?

Mr. HENDERSON: Provided their regulations permit it, yes. This is what happened here; this was not a divorce within their recognition and, accordingly, she was as eligible as the next person to this settlement.

Mr. MCMILLAN: Did this lady apply for the supplementary benefit or was it paid out automatically?

Mr. HENDERSON: Would you care to answer that question, Mr. Millar?

Mr. MILLAR: It was paid out automatically. It was due to her or the estate, but in this case as she was the wife it was paid to her.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I recall during the war provisions were made for paying allowances to common law wives in many instances. I, myself, have been asked to inquire into such cases and I recall that the position taken at that time was that if it was a permanent, stable, relationship the woman was regarded as the man's wife. Would that apply in a case such as this?

Mr. HENDERSON: I suppose you might say this is the reverse situation because there really was no relationship.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Although there would appear to be a link between the two you are saying that the legality of the relationship is the question in point.

The CHAIRMAN: There was an amendment to one of the pensions acts not so long ago which permitted payments to a common law wife, but they did not apply here; it was restricted to that particular pensions act.

Gentlemen, are there any further questions?

Mr. MCMILLAN: According to this, the executive has the discretion to refuse payment to a wife who is living apart for a number of years. Is there anything definite in respect of the number of years?

Mr. HENDERSON: That is true. Could you comment on this, Mr. Millar?

Mr. MILLAR: The act just says a number of years immediately prior to his death. But, that is the only discretion they have.

Mr. MCMILLAN: How long had this lady had a divorce?

Mr. MILLAR: Just a short time.

Mr. HENDERSON: Yes, it was just a short time.

I think if we might follow up the steps which the department and the treasury board intend to take toward revising this act we then might report back to the committee if, in fact, nothing is done when the act is opened up for amendment. It would seem to me to be the point you would like me to follow up.

The CHAIRMAN: Possibly we could discuss this further when we are dealing with the 1963 report and, in particular, some matters in respect of national defence or this particular act.

Mr. HENDERSON: We will have the deputy minister before us at some time in the future and at that time we can make reference to it, if that is your wish.

The CHAIRMAN: Yes, that would be fine.

Paragraph 80 follows:

> 80. *Aircraft and equipment received under Canada-United States defence agreement.* During the year under review an agreement was entered into between the Canadian and United States governments whereby, among other things, Canada acquired 66 F-101 (Voodoo) aircraft and appropriate support equipment in return for an undertaking to operate and maintain certain Pine Tree radar line stations until 1968 (at a total estimated cost of $170 million). This agreement was announced in the House of Commons (debates, 1960-61, pp. 6179-80).

The aircraft and equipment were recorded, quantitatively, as additions to air force inventories in accordance with normal departmental practice. However, the value of the items was not recorded in the government's central accounts and consequently is not included in national defence expenditures for the year. Neither is there any explanatory reference thereto in the public accounts.

Mr. HENDERSON: Paragraph 80 recites the circumstances under which aircraft and equipment was received by Canada under the Canada-United States defence agreement. Perhaps you will recall this agreement was discussed in some detail in committee of supply in the House of Commons during consideration of the air force estimates in 1961-62.

I have drawn attention to this in my report to show how aircraft and equipment valued at approximately $170 million was not recorded. However, the value of the items was not recorded in the government's central accounts or included in national defence expenditures for the year. Now, it is my opinion that a transaction such as this should have been referred to in the public accounts, if only by a parenthetical note or a reference by the Department of National Defence because it has a bearing on the activities or expenditures of that department, and unless recognition is given to the principle of recording transactions of this character in this way you will appreciate, I think, that the system of internal financial control tends to be weakened.

I do not know whether or not members have any questions on this matter. That was the observation I made at the time, which I considered to be a valid one in the circumstances. I would like to have seen it referred to in the public accounts because I think it had a place there.

The CHAIRMAN: Are there any questions on this particular item?

Mr. WAHN: How would this expenditure be authorized in fact, if it was an expenditure of $176 million for 66 aircraft and paid for by the services? Would this not have to come under some general item in the estimates and receive some parliamentary approval?

Mr. HENDERSON: Well, Canada for its part, as explained in the note, undertook to operate and maintain certain Pine Tree radar stations until 1968, at a total estimated cost of $170 million. That aspect of the expenditures was of course explained in the estimates, and in fact was adopted and passed. I have made reference to which. We received 66 101 Voodoo aircraft and appropriate support equipment. My point is that I think the members should have been advised from the public accounts, which should have reflected the fact that that was what Canada received in return for the $170 million that you voted.

Mr. TARDIF: Would it not have eliminated both by setting forth what we did pay in fact of what we had to pay?

Mr. HENDERSON: That is true; but the nature of the transaction was a swap between Canada and the United States. A parenthetical note of some description is the way I would like to have seen this recorded in the public accounts; otherwise it is lost track of and any system with internal outlays tends to be weakened.

Mr. MANDZIUK: Would the Auditor General question the authority to spend this $170 million?

Mr. HENDERSON: Well, the $170 million was set out in the estimates and passed by parliament.

Mr. MANDZIUK: Oh, yes.

Mr. HENDERSON: We accepted aircraft in payment from the United States.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It seems to me that we spent the $170 million for the upkeep of the Pine Tree line.

Mr. HENDERSON: And in return we accepted the aircraft.

Mr. HARKNESS: In actual fact some of these Pine Tree line stations have been closed, so actually the cost would have been less than this amount.

Mr. HENDERSON: The agreement was explained in detail in the house.

Mr. HARKNESS: And in addition there was another very considerable complex deal which also involved the joint purchase and manufacture at Canadair of approximately 150 104 aircraft for mutual aid in Europe.

Mr. HENDERSON: Yes.

Mr. HARKNESS: That was part of the same deal.

The CHAIRMAN: Would it not be correct to ask if in each year that the moneys were spent for the maintenance of the Pine Tree line there would be an item in the estimates covering that particular amount?

Mr. HENDERSON: That is right.

The CHAIRMAN: But your point is that at the beginning of the whole transaction a note would have been desirable to explain the basis of it.

Mr. HENDERSON: Well, my comment or criticism here is purely on the method of recording this transaction and on no other aspect. It seems to me—and I know business concern who enter into a transaction of this type would realize that it becomes a matter of some importance that it be clearly recorded —that the same principle should be recognized in government. I would like to know if you gentlemen would not agree with me on that point.

Agreed.

Mr. MANDZIUK: In the final analysis Canada was not money out.

Mr. HENDERSON: Oh, no, sir, not at all.

Mr. MANDZIUK: It was just a matter of bookkeeping, wat it not?

Mr. HENDERSON: Well, I did not employ those words, but I think it would be more in keeping with standard accounting practice were such a transaction recorded in the manner which I described.

The CHAIRMAN: Are there any further questions? Shall we move on to paragraph 81.

81. *Financial assistance to the Town of Oromocto.* Vote 247 provided for grants to the town of Oromocto for municipal services and to promote the development of the town, and grants of $1,529,400 were paid under this authority during the year under review.

In 1955 the approval of the governor in council was obtained by the Department of National Defence to develop the proposed town, which was in due course incorporated in 1956 by an act of the province of New Brunswick. The main purpose of the development was to provide municipal facilities to serve personnel stationed at Camp Gagetown, while, at the same time, avoiding the growth of a purely military community. It is administered by a board of seven commissioners, four appointed by the federal government and three by the province.

In order that the town would not start under a heavy burden of debt the department turned over to it, without charge, the roads and services already installed in the service housing area, together with certain parcels of crown-owned land. This assistance was augmented by capital grants totalling $1,500,000 and an arrangement was made whereby capital assistance loans, to be secured by the town's debentures, could be made. As the town did not have the usual type of municipal tax structure, it was also arranged that until it had developed to a point where it could operate normally the federal government would pay annual operating grants, representing the difference between the town's operating expenses and its revenues. In this connection it was proposed that the initial

operating grant should be $100,000 for 1955-56 with annual increments of approximately $25,000 during the next five years, the actual amount of each increase to be approved by the treasury board. While it was anticipated that the assistance by the department during these first few years would suffice until the town could operate normally with the aid of grants under the Municipal Grants Act, this has not turned out to be the case and federal grants towards operating expenses of the town have continued at a very high level. The following table summarizes the outlays of public funds since the town was established:

Year	Capital grants	Capital assistance loans	Operating grants
1955-56	$ 750,000	—	$ 50,000
1956-57	750,000	—	50,000
1957-58	—	$ 1,500,000	350,000
1958-59	—	1,500,000	960,000
1959-60	—	1,000,000	1,656,000
1960-61	—	450,000	1,600,000
1961-62	—	—	1,529,000
	$ 1,500,000	$ 4,450,000	$ 6,195,000

Repayments received in respect of the capital assistance loans totalled $423,000 to March 31, 1962, together with interest amounts totalling $692,000.

The town's operating costs for the calendar year 1961 amounted to $1,602,000 while its revenues totalled only $81,000, including tax revenues of $27,000 and provincial governments grants and subsidies of $9,000. The Department of National Defence owns 1,900 housing units in the town, representing about 90% of the value of all town property.

Attention is drawn to the foregoing because, in addition to the extensive grants and loans made for capital purposes, the operating grants that were required to be made since 1956-57 have greatly exceeded original expectations and there seems little likelihood of the town being able to operate normally in the foreseeable future (see also paragraph 142).

Mr. HENDERSON: Paragraph 81 describes how grants and loans were made to the town of Oromocto, New Brunswick, and the extent to which they have exceeded expectations, with little likelihood that the town can operate normally in the foreseeable future. It might be better if we should withhold discussion of this item perhaps until you have the deputy minister of national defence present who might care to speak on this particular case. However, we can deal with any question that you might have.

Mr. MCMILLAN: I notice that the government owns 90 per cent of the property and that somebody else owns the other 10 per cent, I take it. Do they have a definite tax structure in that town?

Mr. HENDERSON: I believe so, Dr. McMillan. Perhaps Mr. Millar could speak to this.

Mr. MILLAR: There seems to be a definite tax structure because they received certain amounts by way of taxes.

Mr. HARKNESS: Yes, there is a definite tax structure. The whole thing is that the amount of land that is privately owned and subject to tax it is very small. Practically the whole town is D N D housing and associated utilities. The

shopping centre, which is the chief business end of the town, is owned by a crown corporation, but the title of it is under the Department of National Defence also. Therefore you have nothing to tax in the normal sense except this very small amount of privately owned property. And this grant which has been made was made as being the equivalent to what would be granted, let us say, to the city of Ottawa or to any other city where D N D property exists, in lieu of taxes.

Mr. McMillan: In other words, the government pays no other tax than these grants.

Mr. Harkness: They make these grants in lieu of taxes under the Department of National Defence; whereas in most cases it is made by the Department of Finance. For example, I do not know how many millions a year go to the city government of Ottawa in lieu of taxes.

The Chairman: Does the committee feel it would like to stand this item in case any further information is requested when the deputy minister is here at a later date?

Agreed.

Paragraph 82.

82. *Unauthorized use of crown-owned vehicles.* From time to time cases have been observed in the audit where accidents which have been costly to the crown have occurred during the unauthorized use of National Defence vehicles. For example, in the year under review a payment of $14,500 was made to a woman who suffered injuries when struck by a departmental vehicle that had been used without authority in England in 1958. The driver of the vehicle was reprimended and undertook to reimburse the crown $250, a sum equivalent to the maximum recovery permissible under the regulations applicable when vehicles are driven, with authority, on official business.

The Department of National Defence Act provides for imprisonment of up to two years "or to less punishment" for the unauthorized use of departmental vehicles; however, there is no regulation that allows any amount to be recovered from a serviceman where a loss to the crown is involved in such cases.

The treasury board recently called the attention of all departments and agencies to a directive that had previously been issued for the purpose of controlling the non-official use of crown-owned vehicles and urged the tightening up of procedures in view of the increasing number of accidents to vehicles being driven by employees while not on duty.

Important as this is, we believe it would serve as a more effective deterrent to the unauthorized use of crown-owned vehicles were more severe penalties assessed against the offenders.

Mr. Henderson: This note describes the damages required to be paid to a civilian, to the extent of $14,500 where a national defence vehicle was being driven without authority. As the note explains the driver of the vehicle was reprimanded and had to reimburse $250 to the crown, this being the maximum amount recoverable under existing regulations in cases where vehicles are driven without authority on official business. Where vehicles are driven without authority the Department of National Defence Act does provide for imprisonment of up to two years or "to less punishment". However, there is no regulation indicating what is to be recovered from the serviceman when the crown incurs a loss in such cases. In view of what I have said here, we should appreciate having the views of the committee on a matter such as this, because as we see it, it would surely be a more effective deterrent to the unauthorized

use of crown-owned vehicles if more compulsory financial penalties were provided for. In fact it seems to us to be about the only way to stop such a practice.

Mr. WAHN: I would have thought that where a serviceman who is an employee of the Department of National Defence used a vehicle in an unauthorized manner and got involved in an accident in which he presumably was to blame, that otherwise the crown would not be penalized by damages, and that the crown would have a right of action over against that serviceman under the general principle of the law, unless there was something in the National Defence Act which would prevent it. Was the Auditor General informed whether or not the legal opinion had been obtained that the department had no right in regard to this particular serviceman I would have thought it would have had such a right.

Mr. HENDERSON: It is our understanding that the law officers of the Department of National Defence did not feel—and I will be corrected if I am wrong—that the department had that recourse because the National Defence Act itself only seems to provide for imprisonment up to two years or "to less punishment".

Mr. WAHN: I would be very surprised at that. The mere fact that a penalty of imprisonment is provided should not do away with the ordinary right of any employer to recover from any employee for negligent conduct.

Mr. HENDERSON: I would have thought so.

Mr. WAHN: It would deserve inquiry.

Mr. HENDERSON: We took this up with the treasury board and, as you will notice from the top of page 34, the action they instituted was to call the attention of all departments and agencies to a directive they gave before tightening up on the use of crown-owned vehicles because of the number of accidents that were developing while vehicles were being driven by employees who were not on duty.

Mr. WAHN: My suggestion would be to ascertain from the responsible authorities whether or not, under the law as it stands at present, the crown has a right to recover from such an employee because, if it has, perhaps no further legislative action is required. All that would be required would be effective action to be taken, because the paragraph does not indicate that this usual right has been in any way lost as a result of special legislation.

Mr. HENDERSON: I might mention here—and I should perhaps have mentioned it earlier—that we updated this matter in our 1963 report. It says:

> The Department of National Defence considered the matter at length following our drawing the above-mentioned case to its attention. A departmental memorandum in August 1963 reporting on the result of this consideration put forward the view that since payments in respect of claims by third parties are made on an *ex gratia* basis in cases where accidents occur during the unauthorized use of departmental vehicles, regulations for recovery in such cases would not be justified, it being stated that "in view of the extremely limited applications for recovery by the crown it does appear that there would be difficulty in justifying a departure from the common law position that the person who makes an *ex gratia* payment where there is no legal liability on him to do so gains no right of action for recovery from the person whose actions gave rise to the claim". The position of the Department of National Defence therefore remains that while the National Defence Act provides for disciplinary action in such cases, there is no provision for all or any part of expenditure by the crown to be recovered from servicemen involved, except on a voluntary basis.

Mr. WAHN: This indicates that this is not a payment the department was required to make; it was an *ex gratia* payment made voluntarily without any legal obligation.

Mr. HARKNESS: This has always been a difficult area. When a case of this kind has taken place it has generally been felt that there was a moral obligation on the department to reimburse the civilian who happened to be injured and so forth, although there was no strict legal obligation. It has therefore always been a matter of judgment whether or not, an *ex gratia* payment should be made. If the circumstances have seemed to be hard, an *ex gratia* payment has generally been made.

Mr. HENDERSON: While we are discussing this, Mr. Chairman, we might consider this as disposing also of our 1963 note since that report is coming up. What I would like to ask the committee is whether they do not agree with our view in the audit office that further consideration should be given to this matter to the end that there may be uniformity in the penalties imposed in like circumstances on all persons using crown-owned vehicles without authority. Should they not be uniform across the board?

The CHAIRMAN: Would this be the case, that where the serviceman takes the vehicle without authority it immediately raises a doubt whether any legal liability falls upon the department by law? Consequently, when they make a settlement it is made *ex gratia*, and this raises a doutb whether under common law principles there is any real right to indemnity, as Mr. Wahn says, against the serviceman. I suppose your suggestion is that the committee should consider making this a statutory requirement.

Mr. HENDERSON: If the committee would recommend the proposition that consideration should be given to the matter so there is uniformity, then our hands will be strengthened towards pursuing it.

On page 39 of the 1963 report you will note that I say that during the year 1962-63 three instances of accidents involving crown-owned vehicles driven by employees of the Department of Transport—and that is another department involved—while not acting within the scope of their duties, came to attention. In each case the treasury board directed that the employee concerned reimburse the crown to the same extent as is provided by the Claims Regulations in a case where an employee is considered as having been on duty at the time of the accident and to have been negligent to other than a minor extent, the result being that there were assessments of one-third in two cases and one-fifth in the third, of the cost to the crown. When giving its ruling in the third case the treasury board agreed to deal with it on the same basis as in the two earlier cases, but it—the treasury board—expressed deep concern in the matter and directed the department that in like cases in the future full recovery is to be made from the employees involved.

That was the experience in 1962-63, and that supports our view, I feel, that consideration should be given to the matter to the end that there may be uniformity in the penalties imposed in like circumstances on all persons using crown-owned vehicles without authority.

The CHAIRMAN: Mr. Rock, and then Mr. Mandziuk.

Mr. ROCK: Mr. Henderson, your concern is not with the person who is injured and who sues the government for his injury but rather with the person who uses the vehicle without authorization?

Mr. HENDERSON: That is right.

Mr. ROCK: This is clear in your report here but some questions have been asked along the lines of whether the government should pay for the injuries or not, and I do not think that should fit into the picture at all.

Mr. HENDERSON: In the case mentioned in my 1962 report the Department of National Defence had to pay out $14,500 to the woman—

Mr. HARKNESS: They did not have to pay it.

Mr. HENDERSON: —who was struck in England.

Mr. HARKNESS: It was an *ex gratia* payment.

Mr. HENDERSON: That is correct. Of course, the recovery from the man who was responsible was much less than that amount. In the case of the Department of Transport in 1963 the treasury board assessed those employees in a considerable proportion. They based their assessment on the circumstances of the case into which they examined at quite some length.

Mr. ROCK: I feel the committee should agree in its recommendations that the people who are unauthorized should pay for the damages. I do not see anyone speaking to the contrary, Mr. Chairman.

Mr. MANDZIUK: While I agree with Mr. Rock that the employee using the vehicle when not in the course of his duties should be made to repay whatever is the cost to the crown to settle the claim, I feel the department should have some discretion, if for no other reason than that in some cases the employee may have no money and the crown would just make the best deal it could with him.

Do you suggest that arrangements should be made for a follow-up procedure in this connection in order to recover the whole amount?

Mr. HENDERSON: I would agree with that because the department, just as in the case of the Department of Transport here, submitted their case to the treasury board and in their joint wisdom they saw fit to make the best deal they could under the circumstances.

Mr. MANDZIUK: You feel that he should be made to pay as much as he can and if you cannot get the whole loaf half a loaf is better than none.

Mr. HENDERSON: That is the very point. I am asking only that you support a consideration of this.

Mr. HARKNESS: Mr. Chairman, my point is along the same line. Whilst theoretically perhaps it is desirable to have the penalties imposed, particularly the financial ones, uniformly, in actual cases it would be impossible because in the case of the Department of National Defence those who generally do this sort of thing are privates with a very small income, to start with, and with no assets whatsoever. They are people who are not too responsible so there is no practical means really of recovering very much from them, particularly in view of the regulations which state that every soldier has to receive a certain amount of his pay no matter what penalties have been imposed upon him or what fines he is subject to and so forth. That is essential in order that you do not end up with a lot of people without any money whatever as a result of impossible situations.

Mr. MCMILLAN: I was just wondering if the crown carries any insurance or if they have an insurance fund set up for the operation of crown vehicles?

Mr. HENDERSON: No, they do not carry insurance, Dr. McMillan. But, of course the additional point I made here was that when the $250 was reimbursed by the driver to the crown in the 1962 case this amount was reimbursed only because the chap who had been guilty of driving this vehicle agreed to reimburse them. That is the way the regulation is written.

Mr. MCMILLAN: There must be a number of these incidents occurring all the time. Is that correct?

Mr. HENDERSON: Yes. And, in answer to Mr. Harkness I certainly have a full appreciation of the position of privates driving vehicles without authority but I do think irresponsible types elsewhere in departments are equally culpable.

Mr. HARKNESS: My whole point is that while in theory a uniform regulation in this regard might be desirable, in practice it could not be made uniform.

Mr. HENDERSON: I would leave that to the department and treasury board to work out; so long as the principle can be endorsed by the committee I think they are competent to make the best deal they can in each case.

The CHAIRMAN: Did you have a question, Mr. Rock?

Mr. ROCK: No, Mr. Chairman. I was going to mention something along the lines of Mr. Harkness' point, namely, the difference between national defence and the other departments. The fact this exists in the Department of National Defence, where we have a lot of people, such as privates, some of whom are not responsible people, does not mean we actually have the same in every other department.

Mr. HARKNESS: It is not a matter of not being responsible; it is a matter of them having a small income and no assets.

Mr. ROCK: So, we are using different words. We could say financial responsibilities.

Mr. FORBES: Mr. Chairman, I always understood that army personnel were under very strict discipline and I would imagine that anyone who took a vehicle unauthorized would be severly reprimanded or perhaps made to pay for any damages that were created as a result of his using a vehicle. I am somewhat a a loss to understand how someone could get away in a situation such as this.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I gather that Mr. Henderson's point is not so much the hope of recovering whatever damage the crown has to pay but so that it would act as a uniform deterrent.

Mr. HENDERSON: That is exactly right.

Mr. WAHN: As I understand it, from what Mr. Henderson has said, if a serviceman gets involved in an accident when he is on official business and if there has been negligence, then he is obliged to repay the crown a certain amount under the claims regulations, but this is not so when he takes a vehicle without any authorization at all. I gather what Mr. Henderson is recommending is that at the very least he should be under the same obligation when he takes a vehicle without authorization as he is under when he takes a vehicle on official duties. I think this is certainly very reasonable.

The only other question I have is this. Under what authority are these *ex gratia* payments made? I agree that in some cases, even though the crown may not be under any legal liability, it is proper an *ex gratia* payment should be made. But, under what authority is it made?

Mr. HENDERSON: Well, the crown is making a number of *ex gratia* payments all the time. The treasury board are passing them in respect of situations of this type.

Mr. WAHN: But under what authority or what head in the estimates?

Mr. HARKNESS: Under the authority of a treasury board minute.

Mr. HENDERSON: Yes, that is correct, in every case after a full examination into the circumstances and an exhaustive examination, as in the case of the three accidents which occurred to the Department of Transport vehicles which were being driven without authority.

My point is expressed in the last paragraph in my 1963 report. I was hoping that you might support me when I ask that further consideration should be given to this matter with a view to there being uniformity in the penalties imposed in like circumstances on all persons using crown owned vehicles without authority because this matter has been cropping up for some years now. In fact, I think I recall several similar cases quite some years ago when we

had the subject before this committee. It would be very helpful to have you support this proposition in order to see what further results we might be able to achieve toward this uniformity.

The CHAIRMAN: Are there any further questions on this subject.

I wonder if before we consider this further it would be possible to have a minute in respect of the claims regulations and the application of them, and how they might differ. Are these claims regulations very voluminous?

Mr. HENDERSON: Can you speak to that, Mr. Millar? Are the claims regulations very voluminous and would it be possible to distribute copies of them for study of members of this committee?

The CHAIRMAN: It would be helpful to have at least a minute presented to the committee describing the effect or synopsizing it.

Mr. HENDERSON: I think you were speaking of the Department of National Defence ones as distinct from the Department of Transport.

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): There are what is known as the claims regulations, which relate to government departments generally; these are not too voluminous and we could have these prepared for presentation to members of the committee.

The CHAIRMAN: I think this would be very helpful when we are making our decisions in this matter. I think it would help us to have these so that we will know how they relate to the Department of National Defence and how they correspond to the other departments. Is that not correct?

Mr. HENDERSON: Yes. In order that I may have this right, do you also want the claims regulations of the Department of National Defence as well as those relating to claims generally?

The CHAIRMAN: Yes, both.

Mr. HENDERSON: If we furnished these to the clerk they could be appended to the minutes of the next meeting.

The CHAIRMAN: That would be fine. Gentlemen, may we now proceed to the next paragraph, which reads:

> 83. *Indirect contribution towards provincial taxes.* In last year's report (paragraph 73) attention was drawn to an anomaly in the operation of the Hospital Insurance and Diagnostic Services Act in that the federal government, in effect, contributes towards provincial taxes, there being no provision in the Hospital Insurance and Diagnostic Services Act or regulations for the exclusion of these taxes from hospital operating costs shareable under the hospital insurance scheme and claimed by the provinces.
>
> There has been no change in the situation during the past year and our observation therefore still applies. No estimate is available of the amount of provincial tax payments which the federal government may have shared in this manner. This anomaly also exists to some extent in the operation of the Unemployment Assistance Act, 1956, c.26.

Mr. HENDERSON: Paragraph 83 of my 1962 report describes how the federal government, in effect, contributes toward provincial taxes because there is no provision in the Hospital Insurance and diagnostic Services Act or regulations providing for the exclusion of such taxes from hospital operating expenses which are shared under the hospital insurance scheme and claimed by the province. I might say, of course, that this problem is related to the whole field of federal-provincial fiscal arrangements. You might feel it desirable to divert consideration of this question at this time. But, it was a matter I felt should be brought to your attention.

Mr. MCMILLAN: To what provincial taxes do you refer? Are you referring mainly to the provincial sales tax?

Mr. HENDERSON: Yes, that is correct, Dr. McMillan.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will proceed to paragraph 84, which is as follows:

84. *Unemployment Assistance.* In paragraph 74 of last year's report, the Audit Office opinion was restated that the Unemployment Assistance Act, administered by the Department of National Health and Welfare, includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. Our examinations during the year under review have served to confirm this opinion. It is understood, however, that possible changes in the legislation and the use of regulations are currently under study by the department.

OVERPAYMENTS TO CERTAIN PROVINCES.—Of the several overpayments reported last year, the amount owed by the Province of Nova Scotia was determined to be $52,000 and final adjustment was made during the year. Also recovered was the remaining $45,000 owed by British Columbia.

In Quebec the final adjustment in respect of discrepancies referred to in last year's report and which related to the period from July 1, 1958 to September 30, 1959, is still under consideration; meanwhile, $731,000 has been recovered. Overpayments for the period October 1, 1959 to March 31, 1960 are estimated at $338,000. The bulk of the overpayments was caused by confusion in interpreting the sections of the Act and Agreement dealing with homes for special care, either the homes or the inmates not being eligible for a variety of reasons.

A preliminary review of the claims from the Province of Quebec for the period April 1, 1960 to December 31, 1961 indicates that there has been a substantial overpayment, $127,000 of which was recovered in October 1962. In addition to actual disbursements, the province included in monthly claims amounts to cover assistance provided by homes for special care and welfare agencies not yet included by these bodies in their claims to the province. This practice appears to circumvent the provisions of section 13 (*a*) of the agreement under which reimbursement claims from the province are disqualified if made later than six months following the last day of the month to which they relate. Also, under this procedure it would not be possible to comply with section 5 of the agreement which requires each claim to indicate the total number of persons assisted during the month to which the claim relates and the total amounts paid on behalf of such persons.

The arrangement noted last year whereby the audit services division of the office of the comptroller of the treasury has been assisting the provincial auditor of Quebec continues. The practice followed in other provinces whereby the provincial auditors' examinations of claims and certifications in accordance with the agreements precede separate examinations made on behalf of the federal government will, we understand, be implemented once the joint audit has been completed to December 31, 1961.

HOMES FOR SPECIAL CARE.—With regard to the cost of maintaining needy persons in provincial or municipal homes for special care, there continues to be a wide variation from province to province in the elements of cost entering into the calculation of monthly accommodation rates. Also, it has been difficult to determine and apply the limitation on accommodation rates for homes for special care imposed by section 7(*a*) (iv) of the agreement; that is, payments claimed are not to exceed what

an individual might reasonably be expected to pay for accommodation of a comparable kind and quality in the same location. For example, in Quebec considerable confusion has arisen because, under the province's distinctive financial arrangements with homes for special care, it is extremely difficult to determine what a person might reasonably be exexpected to pay. With respect to provincial or municipal homes falling into the category of homes for special care, this limitation is usually replaced by the inmate-day-cost basis. In one Prince Edward Island institution a monthly rate calculated on this basis and shared by Canada was $118; yet until January 1, 1962 when it was raised to $120, the monthly board rate for this institution approved by provincial order in council was $90. The rate shareable by Canada is open to question as it could be contended that the amount a person might reasonably be expected to pay pursuant to section 7(*a*) (iv) of the agreement, and therefore shareable by Canada, is the approved board rate.

Another provision of the act and agreement relating to homes for special care is that unemployment assistance costs may not include payments to or on behalf of inmates of homes for special care who would normally be cared for in certain institutions, and among those listed are chronic hospitals, mental institutions and institutions for incurables. No satisfactory criteria have yet been developed to distinguish clearly between patients who would normally be cared for in such institutions on the one hand, and in homes for special care on the other. Indeed in the administration of this Act it appears doubtful that the term "institutions for incurables" has any precise meaning, and it is not defined.

WORK FOR RELIEF.—In last year's report reference was made to claims by some Ontario municipalities where recipients had been required to work in return for assistance given them. The department concurred in our opinion that such assistance was not shareable under the agreement and during 1962 recovered $32,300 from the province in respect of this assistance. However, after discussions with the province, the department believes that the practice is not widespread and has decided that attempts to determine its extent in some 900 other municipalities throughout the province would not be practicable in view of the expense and inconvenience the province feels would be involved.

SUPPLEMENTAL ALLOWANCES.—In last year's report (paragraph 74) we commented that the department had agreed that supplemental allowances normally excluded under section 4(2) of the act could be regarded as additional relief payments in accordance with section 4(3) (*b*) of the act and section 8 of the agreement when they are based on an individual budgetary assessment of need in which basic expenditures as well as income are considered. We also expressed doubt about the way in which the assessments had been made in British Columbia. Our doubts were confirmed by our review of the accounts for the period from September 1, 1960 to July 31, 1961 and by the findings of the audit services division of the office of the comptroller of the treasury. Their interim report disclosed overpayments estimated at $111,400 which were recovered during the year.

In addition, we noted two different scales of maximum basic assistance being applied, the more generous one being for those eligible for supplemental allowances. Although need may vary to some extent from person to person or from region to region, it would seem that a person's needs should not be considered automatically to increase after eligibility for supplemental allowance has been established. Also, if these allowances are permitted to be claimed as unemployment assistance, the pro-

priety of maintaining the three year residence requirement for former residents of other provinces is open to question, because section 4 of the unemployment assistance agreement specifically excludes length of residence as a condition for receipt of assistance by these applicants. It would seem that uniform standards of assistance should be applied if supplemental allowances are to be considered shareable under the Unemployment Assistance Act.

MOTHERS' ALLOWANCES.—The Unemployment Assistance Act provides for the exclusion of recipients of mothers' allowances, a provincial scheme to assist mothers whose families have been deprived of the wage earner. As it was envisaged that such cases would be shifted from the mothers' allowance program to general welfare and claimed under unemployment assistance, as indeed has happened, provision was made in the agreement for an amount to be deducted from the provinces' unemployment assistance claims to compensate the federal government for sharing in the cost of what was provided formerly through the provincial mothers' allowance program. However, there is a time lag built into the formula for calculating the deduction which results in the sharing of the equivalent of full costs of the mothers' allowances for a year before the deduction becomes fully effective. While the financial consequences may be insignificant if a few mothers' allowance cases are included in the general social assistance caseload, what may not have been contemplated was the effect that would be produced were the entire mother's allowance caseload merged with the general social assistance caseload within a short period, as has occurred in some provinces. If the remaining provinces follow this pattern, unemployment assistance costs will increase very substantially in the year or so before the deduction becomes fully effective.

It has also been observed that in some instances the merger of the two caseloads is artificial in that the mothers' allowance type of case is preserved within the framework of general social assistance and sometimes singled out for special treatment. It is doubtful if this was intended by the legislation.

STRENGTHENING ADMINISTRATIVE CONTROL.—Ambiguities in the act and resulting varying interpretations at the federal, provincial and municipal levels make the department's administration of the unemployment assistance program unnecessarily difficult. Following consultation with officials of the department, we have suggested that the act could be more effiectively administered were the department to assemble its own internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. Such a group, experienced not only in auditing techniques but in the special requirements of this legislation, should be able to provide the day to day liaison with the provincial and municipal governments that the department requires to anticipate and prevent, or resolve, difficulties in administering the program so that substantial overpayments do not arise. This suggestion is in line with the general proposal advanced in paragraph 18 of this report regarding greater use of internal auditing staffs by departments.

Mr. HENDERSON: This paragraph in respect of unemployment assistance, as members may recall, was the subject of extensive discussion by the committee in its meeting on December 9 last, at which time Dr. Willard, the deputy minister of welfare, appeared as a witness. I referred to this when we were considering the follow-up report, so perhaps you might wish to pass it over at this time.

The CHAIRMAN: The matter is still under consideration at the federal-provincial level.

Mr. HENDERSON: Yes.

The CHAIRMAN: Paragraph 85 is next;

85. *Hospital construction grants.* Grants to each province and territory are provided by an annual parliamentary appropriation and are subject to the terms and conditions set out in the estimates details and in the health grants rules approved by the governor in council. The grants thus provided consist of the annual allocations, plus additional funds to cover the cost of completing projects begun in prior years but which has not been completed as planned.

Proposals for individual hospital construction projects are submitted by the provinces and, following approval by the Minister of National Health and Welfare, the relative grants are payable in four instalments as construction progresses.

Vote 260, as supplemented, provided $19 million for the fiscal year 1961-62, the text also including ". . . authority, notwithstanding section 30 of the Financial Administration Act, to make commitments for the current year not to exceed a total amount of $29,660,152". However, it is inherent in this program that commitments be entered into not only for the current fiscal year but also for future years, to the extent that hospital construction plans require. It therefore follows that if there is to be effective parliamentary control a limit should be imposed on commitments that may be entered into for future years as well as the current fiscal year. Actually, at March 31, 1962 such commitments outstanding amounted to approximately $40 million.

Although an annual appropriation is intended to provide sufficient funds to discharge all commitments coming in course of payment during the year, it was noted that at the year-end, after the appropriation had been fully expended, unpaid claims for approved grants in respect of completed construction work were outstanding to a total of $6,000,000. Of this amount, $4,000,000 due the province of Quebec could not have been paid even if sufficient funds had been available in the appropriation because the allocation to this province for the 1961-62 fiscal year had already been fully expended. This situation was the outcome of the practice of approving projects involving instalment payments in excess of the federal government's annual allocation of the grant.

Mr. HENDERSON: This paragraph refers to hospital construction grants. The point made here is that this entire program is one based on a five year period of planning for the purpose of better administration and more effective parliamentary control. It has seemed to me the commitment limits should be for the full five year period rather than attempting to keep it on an annual basis. We in the audit office would like to see the figure for the five year period spelled out clearly in the vote wording. I might say that the Glassco commission dealt with this particular point also in their recent reports and their recommendation was that the present reporting and accounting requirements for health grants be reviewed and simplified and consideration be given to placing health grants programs on a period of years basis.

It would be of assistance to us if we could have the views of the members of the committee on this subject.

The CHAIRMAN: Are there any questions on this paragraph? If not, might we pass on to paragraph 86, which reads:

86. *Irregular employment of doctors and dentists—Indian and Northern Health Services.* For some years the civil service commission,

on behalf of the medical services directorate of the Department of National Health and Welfare, has been unable to recruit sufficient numbers of doctors and dentists to completely staff the Indian and northern health services' hospitals and smaller establishments, which provide medical care to Indians and Eskimos. To fill the gap, unlicensed practitioners, frequently new Canadians, have been used by the department on the understanding that they would seek to become licensed as soon as possible. Not being licensed to practice, these persons do not qualify for the positions of "medical officer" and "dental officer" and the civil service commission will not appoint them to fill vacant positions in the department's establishment. Accordingly the department pays these unlicensed practitioners for their services on a fee basis at regular monthly rates, the payments being charged as "professional and special services". Although not having the legal status of employees, they are treated as such.

Attention was drawn to the need for corrective action in the 1956 report (paragraph 75). However, a review in 1960 revealed that the department was still employing twelve unlicensed practitioners in the manner described above. In June 1961 the Department, the civil service commission and the treasury board agreed that professionally qualified doctors and dentists who were not yet licensed but whom the department desired to employ would be certified as technical officers by the commission on the understanding that they would attain licensed status within a reasonable time and would be subject to replacement by fully licensed medical officers whenever these were available. This solution was never put into operation, and we observed that the services of six doctors and seven dentists, none of whom was appointed by the civil service commission, were used and paid for on a monthly stipend basis as a charge to "professional and special services" during the year under review.

Mr. HENDERSON: I might say we referred to this matter also in paragraph 72 on page 45 of my 1963 report and perhaps we could have a word about it again at that time when it will come forward.

The CHAIRMAN: Is that paragraph 85?

Mr. HENDERSON: Paragraph 85 in the 1962 report and paragraph 73 in the 1963 report. It will come up again.

Paragraph 86 has to do with the irregular employment of doctors and dentists in Indian and northern health services.

Under this note we draw to attention the fact that the Department of National Health and Welfare continues to employ unlicensed practitioners. In fact, it has been doing so ever since 1956 when we first drew this matter to your attention.

Now, while this continues to be the case, as the note describes, the fact remains that the need of the services of practitioners, unlicensed or not, is urgent, and the problem is being met, although not in the orthodox manner.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are these unlicensed persons people who have medical qualifications from other countries and are unable to be licensed by the appropriate medical association here?

Mr. HENDERSON: That is my understanding.

Under note 86 I explain that to fill the gap unlicensed practitioners, frequently new Canadians, have been used by the department on the understanding they would seek to become licensed and, by that, I presume is meant the provincial authority.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It does not imply that they necessarily are unqualified.

Mr. HENDERSON: No sir, I think not.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): No, it does not. They are qualified in other countries.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But they are not legally licensed in this country?

Mr. DOUGLAS: No.

Mr. TARDIF: Well, so long as they are trained personnel and qualified in another country I do not see any great harm in that, especially if they are merely putting in the time so that they can be qualified in Canada.

Mr. HENDERSON: There is no doubt about that. But, this is the type of situation we have to bring to your attention because it is not in accordance with the requirements of legislation. But, I presumed you might not regard it as an overly serious point.

Mr. TARDIF: I do not imagine there are any cases where someone is untrained or unqualified and is serving in that capacity. I presume they are all holding diplomas from some university.

Mr. HENDERSON: Also they are required to be appointed by the civil service commission. But, they are not so appointed because the civil service commission is obliged to appoint only licensed persons. Is that not correct?

Mr. DOUGLAS: Yes, and, accordingly, these people are not employed by the commission.

Mr. PILON: Could you give us some idea of how many of these are qualified to practice?

Mr. HENDERSON: Can you speak to that, Mr. Douglas?

Mr. DOUGLAS: Yes. Of the 11 that we speak of in this note all of them have eith er left or now have qualified. This is ceasing to be the problem it was when this note was introduced.

The CHAIRMAN: Are there any other questions on this point? If not, let us proceed to paragraph 87:

> 87. *Health grants.* Vote 259 authorizes general health grants to the provinces "upon the terms and in the amounts detailed in the estimates and under terms and conditions approved by the governor in council", and the estimates details provide for "general public health grant to assist in extending and improving health services". Section 10 of the health grants rules, 1961, approved by the governor in council, dealing with this grant further provides that "from time to time a province may, as part of a satisfactory plan or program for the strengthening of health services, both provincial and local within such province, including the training of personnel and the conduct of surveys and studies, submit to the minister a project together with a budget therefor".
>
> Lack of precise definition of the terms "general public health" and "health services" has created a problem in the audit of payments charged to the general public health grant. The Department of National Health and Welfare has placed a broad interpretation on these terms and feels that "there are few restrictions in the scope of a program intended to provide assistance to the provinces to deal with the health of the people of Canada". In accordance with this attitude, the department has in recent years approved a number of projects whose purpose is the assistance of research programs at universities through the provision of scientific and technical equipment and furnishings. These research programs may result in advances in the general body of medical knowledge and thus assist in ultimately improving the health of the population generally or of individuals afflicted with specific illnesses, but there is

some doubt that they constitute an extension or improvement of provincial or local health services. The following "projects" will serve to point up the problem:

Project 609-9-112—Research equipment and fittings for the medical science buildings, University of British Columbia: During 1960-61 a total of $104,862 was authorized and spent on research equipment and fittings for the medical science buildings at the university and an additional $41,866 was expended during 1961-62 for the same purpose. The equipment and fittings purchased with general public health grant funds are used in research projects financed by the university and other interested bodies but were not procured specifically to carry out general health grants projects.

Project 605-9-213—Electron microscopes fo rthe University of Toronto. Two electron microscopes were purchased and installed in the Banting and Best institutes, one in 1959-60 at a cost of $28,785 and the other in 1961-62 for $31,979. These microscopes are available to research staffs of the faculty of medicine housed in the two institutes and used only to a limited extent in connection with specific general health grants projects undertaken at the university.

Attention is drawn to the matter because parliament may not have intended the general public health grant to have been given such wide application.

Mr. HENDERSON: Paragraph 87 on health grants shows you the type of projects which are being carried out under the general health grants authorized for this purpose. There are two examples given on page 39 and you will see how far afield the concept of these health grant projects has gone. We would appreciate the opinion of members of the committee on this point because this is typical of questions with which we are often faced. Did parliament intend that general public health grants should have been given such a wide application? You will see the type of projects which are being approved by parliament. The placement of equipment and so on in universities raises quite an interesting point.

The CHAIRMAN: Are there any questions on this paragraph?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I take it that the Auditor General is questioning the propriety of these grants.

Mr. HENDERSON: Well, sir, as I have explained in note 87, it is the lack of a precise definition of terms employed by the governor in council. The general public health, and the health services are left open, and the problem arises about the payments charged to general public health grants. The Department of Health and Welfare has placed a broad interpretation on these terms, and it feels that there are a few restrictions in the scope and program indicated to provide assistance to the provinces, and to deal with the health of the people of Canada. In accordance wih this attitude, the department has in recent years approved a number of projects whose purpose is the assistance of research programs at universities through the provision of scientific and technical equipment and furnishings. These research programs may result in advances in the general body of medical knowledge and thus assist in ultimately improving the health of the population generally or of individuals afflicted with specific illness, but there is some doubt that they constitute an extension or improvement of provincial or local health services.

I cited two projects in order to show you what is being charged up to these votes. I have to be governed by section 10 of the health grant rules, 1961, as approved by the governor in council, which does not appear to me to be as

wide in range as the type of thing they are putting in. On the other hand, parliament may feel—and I think an expression of opinion from this committee would be of inestimable help to us—that it is placing a pretty broad interpretation on this, when it comes to putting equipment of this nature into hospitals.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): These two projects which you cite here are quite definitely limited to the provision and training of personnel and they are attached to faculties of medicine at universities, and surely personnel must include medical personnel.

Mr. HENDERSON: I would like to ask Mr. Douglas who has made a study of this vote, to answer your questions.

The CHAIRMAN: I wonder if you would mind standing up, Mr. Douglas. I have been informed that there is difficulty in your voice carrying to the microphones. If you stood up it would be a little better.

Mr. ROCK: We have no difficulty down here.

The CHAIRMAN: No, I was not referring to you, I was referring to the microphone system.

Mr. DOUGLAS: The point here is that there are a number of grants under health grant rules which are tied into parliamentary appropriations. There is, for example a public health research grant, and there is a general health grant, and the difficulty is that normally the general health grant has been used actually to improve provincial and municipal health services. For example, there is assistance in municipal health units, assistance to public health laboratories, and there is the training of personnel. Then there are grants charged to this in connection with mobile dental clinics, assistance in training sanitary inspectors, and so on, which are normally left out of public health. In this instance we have a case where equipment is simply given to a university with no strings attached, and the question is how broad or how narrow is the interpretation of general public health to be?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You say it has been given with no strings attached. Actually there is an implied string, that it is a specific project for the faculty of medicine at the respective university which is concerned with the training of medical personnel.

Mr. DOUGLAS: Yes, in that broad sense, yes; but the point is it is not specifically related to provincial and municipal health services. It is in a very broad sense true general public health, quite possibly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You realize that there must be adequately trained personnel for the health services.

Mr. DOUGLAS: Yes, quite.

Mr. HARKNESS: It is given to these universities to provide scientific equipment under certain items.

Mr. HENDERSON: That is an excellent way to put it. That has been our feeling. Your discussion I think is of considerable help to us.

Mr. HARKNESS: It would seem to me to be parallel to a case where the Department of Transport might use money voted to improve canals to build docks.

Mr. HENDERSON: I suppose so.

Mr. WAHN: It seems to me that probaly more flexibility is not only desirable but absolutely necessary. Certainly it strikes me that these two examples given are very useful ones.

Mr. HENDERSON: We are not questioning them at all.

Mr. WAHN: It is my understanding that insufficient funds have been provided in Canada for medical research, and that Canada has been dependant on grants from the United States and other countries. Certainly I would have

thought that if there is to be more research in medicine, then equipment is of course essential for that purpose, and that this perhaps would be the most beneficial way in which the money could be spent to improve general public health. Flexibility is needed because parliament cannot be expected at the time it approves the estimates to determine the best possible manner to extend these funds. I think a reasonable discretion has to be given to those responsible. It is important of course that the money should be spent on wothwhile projects.

Mr. HENDERSON: We are not questioning the projects as such. It is because of the difficulty we encounter in our work in interpreting parliament's intentions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How about equipment for treatment purposes such as the X-ray bomb and so on. Do they come under this?

Mr. HENDERSON: I think Mr. Douglas who has just been speaking about it should answer. Dr. McMillan raises the question about the X-ray bomb and things like that to provide hospitals under this vote.

Mr. DOUGLAS: I think that would come under general public health grants, and under the particular grant we are speaking of.

Mr. ROCK: Could the gentleman who just spoke give us an idea of what type of grant the government usually gives to universities and to help hospitals when they are constructed, and to provide beds? What procedure does the government take to grant these amounts of money for such equipment in the hospitals? Personnally I think it is more or less a backdoor sort of thing. I think Mr. Henderson is to be commended for the fact that he has found how this should be done. I think it is irregular too, in the sense that it evidently is not aid at all in the over-all health program of the area in treatment and all that. It is for training in universities, for which possibly grants should have been given from other sources.

Mr. DOUGLAS: Normally assistance to hospitals is given through the hospital construction grant, where I believe it is to be the lesser of two, that is, $2,000 per bed or bed equivalent, and $750 for a bed for living quarters, or one third of the cost, whichever is the less. This is the general principle under which the federal government gives assistance.

Mr. ROCK: What about the universities? Are they not given grants by the federal government?

Mr. DOUGLAS: The hospital grant would not cover universities.

Mr. ROCK: I am thinking of grants given when there is an extension to a university? I believe that sometimes the federal government gives a grant, and the provincial government allows it.

Mr. DOUGLAS: I am not sure, but I do not believe there is any direct assistance given from the federal government. I believe it would come through the provincial government, but I am not certain of the details.

Mr. TARDIF: The same thing applies to the payment of grants by the federal government. It is only given when matched by the province.

Mr. ROCK: I have just found the backdoor.

Mr. TARDIF: Is the grant given by the federal government as a per bed grant and given only when it is matched by the province?

Mr. DOUGLAS: That is one of the conditions, yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is there an appropriate item under which the federal government could make grants for these things which are directed specifically to medical training.

Mr. DOUGLAS: I am not sure about that, but I would say there are some. For example, in the medical research council which, is an autonomous body

within the program of the national research council, money is granted to scientists to purchase major items of research equipment and facilities for training research workers and so on. That is one source that I know of.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is a very broad general category. It is not specifically related to public health or to the development of health services, or medical services.

Mr. DOUGLAS: No, it is not specific.

Mr. SOUTHAM: I think the problem here concerning the Auditor General is well stated in the second paragraph which reads as follows:

> Lack of precise definition of the terms "general public health" and "health services" has created a problem in the audit of payments charged to the general public health grant.

Now, with reference to the comments made by Mr. Rock, I think it is possible that these grants are beneficial and should be considered. I am referring now to the two citations here, the two examples. I know, for example, that at the university hospital at Saskatoon, which is a university centre, they have a school of nursing where they train a lot of nurses, and they go out into the province to help with the health programs carried on in that province. I feel that if we could come to some agreement to help Mr. Henderson to determine the question more specifically under this particular vote, and to clarify the definition of public health service, it might help to solve his problem. I can see how he is a little concerned, because it is certainly somewhat of a fringe area. I would go along with it.

Mr. HENDERSON: The opinions thus far in this discussion are most helpful to us. It is my general impression that your consensus of view is that it is in accordance with parliament's intention. You have a case here where they have left the carrying out of it to the department of Health and Welfare to interpret in their administration, but we are not criticizing their administration sir.

Mr. SOUTHAM: Mr. Chairman, if this definition could be redefined in a little broader scope it would be very helpful, I think, to Mr. Henderson.

Mr. HENDERSON: Possibly a few more details would be helpful with regard to the intentions in the details of the estimates.

Mr. GRAY: Mr. Chairman, if the vote permits the grants to be made on the terms and in the amounts detailed in the estimates and the terms and conditions approved by the governor in council—and the governor in council has used very broad phrasing—I ask with the utmost respect that the Auditor General should try to find a clear definition of these terms.

Mr. HENDERSON: I think it is because we are concerned at all times, and must be, with what parliament intended.

Mr. GRAY: You are not suggesting that at the conclusion of certain studies dealing with specific health grants and projects, for example, if the equipment is not completely used up or amortized in some way there is something wrong with having it provided in the first place?

Mr. HENDERSON: No, sir, that is not our point.

Mr. HARKNESS: Your point really is the control of parliament over expenditures.

Mr. HENDERSON: Exactly, and discussions such as this are of great help to us in studying these matters, as we do year after year.

The CHAIRMAN: Are there any further questions?

Mr. HARKNESS: It would seem to me that the desirability of medical research should not be injected here as, we will say, an excuse for money which has been voted for some other purpose being used for that particular purpose. I would agree with Mr. Henderson that there should be a more precise definition of what is meant by public health grants in this case.

Mr. HENDERSON: If I might just answer that, Mr. Chairman, would Mr. Harkness not perhaps subscribe to the proposition that the vote text might usefully be enlarged in this instance to make it abundantly clear? If the members would subscribe to that it would be a very useful recommendation for us to have.

Mr. HARKNESS: In other words, if the purposes of this grant were put down in more precise terms, as I said, then your difficulty would disappear?

Mr. HENDERSON: Exactly. Thank you very much for this discussion, gentlemen.

The CHAIRMAN: May we pass to item 88.

88. *Doubtful title to property in Newfoundland.* In paragraph 76 of last year's report reference was made to three crown-owned residences in Newfoundland which were taken over by the provincial government when they were vacated temporarily by customs and excise officers in January 1957 and October 1958. As previously mentioned, the Department of National Revenue was of the opinion that these residences were the property of Canada in accordance with sections 33 and 34 of the terms of union, but the province did not agree. The houses are still occupied by provincial officers.

Mr. HENDERSON: If I might be permitted, I should like to ask Mr. Long to speak to the next two or three items because of his close familiarity with the circumstances, beginning with paragraph 88 which deals with doubtful title to property.

Mr. LONG: This paragraph refers to three houses out of a group of four in Newfoundland that were used for customs officials at the time of confederation.

A question has arisen as to the ownership of these houses, and it seems reasonable that this question should be settled in accordance with sections 33 and 34. If the houses are to be kept by Newfoundland, perhaps there should be some settlement made with respect to the expenditures which Canada has incurred during a brief period in which Canadian officials occupied them.

The ownership of these houses is not agreed at the present time. In 1963, when the treasury board was having rental rates set for houses, these were included and rental rates were set for them. In fact, they are being occupied by employees of the government of Newfoundland and, of course, no revenue is coming to the crown. It may be that the Department of National Revenue would like to make some comment on that.

The CHAIRMAN: Are there any questions on this particular paragraph, gentlemen?

Mr. MANDZIUK: Is the situation still the same?

Mr. LONG: It is still the same. This note refers to three houses of four. The fourth house in the group is occupied by an employee of Canada and these three houses are occupied by or are in the possession of the province of Newfoundland.

Mr. HARKNESS: Is this not a case, actually, in which the matter can only be settled by agreement between Canada and Newfoundland? Some arrangement should be made. In other words, this is a very small illustration of exactly what happened so far as the United States military base in Newfoundland was concerned, which was claimed by both Canada and Newfoundland. The dispute went on for years. Eventually a deal was made and it was divided. This is a very small example of the same problem.

Mr. LONG: Yes.

The CHAIRMAN: Mr. Ryan.

Mr. RYAN: I was going to ask why the title was doubtful, but I think Mr. Harkness's question has cleared it up.

Mr. LONG: Under the terms of union it would appear that the houses should have belonged to Canada. This was the interpretation of the Department of National Revenue. The view was held to the extent that at one time they did evict an employee of the province of Newfoundland but, subsequently, when the houses became vacant, Newfoundland took possession. Mr. Harkness's suggestion is certainly one that should be carried out. We have not been able to make any progress in this.

Mr. TARDIF: Was there any evaluation made of these properties, Mr. Chairman?

Mr. LONG: I do not think this has been a factor. Under the terms of union the ownership was determined by the use to which buildings were being put at the time of union. If they were being used by personnel occupied with services taken over by Canada, they were to go to Canada. If the services were retained by the province, then the houses were to stay with the province.

Mr. TARDIF: I think Mr. Harkness is right, and this should not appear again; it is not such a large item.

The CHAIRMAN: Are there any further questions on this, gentlemen?

Mr. ROCK: I do not know in which manner we are proceeding, Mr. Chairman, and it may be that I missed a meeting. We appear to be considering the report item by item, and I notice that after the members of the committee have spoken or have asked questions we proceed to other items. Do you not think we should more or less come to some agreement immediately on the recommendations of the Auditor General and then, instead of coming back to these matters again, make a general report? Do you think in this case, for instance, we should state what we immediately recommend at this moment rather than coming back to these items and wasting all that time?

The CHAIRMAN: This is a matter for the committee. Many of these matters are carried on in the 1963 report of the Auditor General. A large number are also reflected in the follow-up report.

Mr. ROCK: Then, with the 1963 report, how are we to proceed? Are we to make a recommendation immediately or agree with the recommendation of the Auditor General as soon as it is discussed and finished with?

I am just trying to find a short cut in order to save time, Mr. Chairman.

The CHAIRMAN: May we hear from you, Mr. Henderson?

Mr. HENDERSON: My impression has been, Mr. Rock, that as we go along the members have been making some very useful suggestions, such as those resulting from our discussion on the health grants. In this particular case I rather felt that both Mr. Harkness and Mr. Tardif summed up this problem by stating it was a small matter; but small or not they have expressed the hope that it would be speedily resolved. Perhaps, as a result of this discussion in the committee that will be the case. We will be watching it, and I certainly hope the department will be able to resolve it very shortly.

Mr. TARDIF: In many of these items we do not have the power to finalize, in any event. We only have power to make the recommendation, and the authorities will finalize it eventually.

Mr. ROCK: I think the committee itself should, somewhere along the line, make a direct decision. In other words, we should recommend this or that, or just not recommend anything on certain items.

Mr. WINCH: Our procedure over the years, I think, has worked out very effectively. There has been consideration of each item and a notation made through our transcripts of the views of the members. However, a decision

now has to be by way of recommendation and report. After we have gone through the report—according to our past procedure—Mr. Henderson, the Chairman and the steering committee will make a study of all the transcripts and, from the expression of opinion, they will draft a report so that all the ideas and recommendations can go forward to the House of Commons and, through the House of Commons, to the various departments, expressing the thinking of the committee.

As soon as that is done by the steering committee, then it is brought back to a general committee. At that stage there can be agreement or non-agreement or perhaps a certain member may think something has been left out during the work done by the steering committee, and then he may bring it up.

That has been the procedure over the years and I think it has worked very efficiently.

Mr. ROCK: I think there should be a consensus of opinion at the time the item is discussed. Some people ask questions in one way and then they do not feel the same when they have heard the answer, so I believe that as soon as the item is finished with there should be some sort of consensus; and a decision should be taken at that moment so the steering committee can embody the decision in the report.

The CHAIRMAN: Generally, Mr. Rock, we do take the consensus as it goes along. If matters are controversial, I think the usual practice—although it is not sanctified in any way—is for final committee deliberations to be held in camera, at which meetings these are discussed and a resolve is made.

May I also point out that in some of these cases, while we may be passing through them rapidly now—and I think Mr. Winch and other members will agree that this has been the practice followed in the past—we will call departmental officials or give them an opportunity to be heard so we may hear both sides before a final decision is made.

In an item such as this, on which there is a fairly clear indication of the committee's view, this would not be a problem and it would come in the final report.

If we were—and I say this with some diffidence—to pause and take a vote on each item we would in some cases be premature by not giving an opportunity to the members to hear evidence on other aspects of the matter, and we would not be following the usual committee procedure, which is to hold our deliberations in camera.

However, this is something which the steering committee can discuss when it next meets.

Is there any further discussion on this item, gentlemen?

Paragraph 89 follows:

89. *Release of goods under Customs Collector's permission.* Subsection (1) of section 22 of the Customs Act, R.S., c.58, reads as follows:

> Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unlading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

In addition, section 79 of the act reads:

> No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way,

unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

Notwithstanding these statutory directions, it has been the practice of the department for many years to release perishable goods prior to the passing of a customs entry and payment of duty, providing the importer has posted a bond or security as a guarantee of payment of duty. The term "perishable goods" has gradually been extended and now includes a wide range of goods.

There seems little doubt that the practice being followed facilitates the clearing of goods through customs, and benefits both the department and the importer. However, sections 22 and 79 of the act quoted above appear specifically to prohibit what is being done and the act should be amended if the practice is to be continued.

Mr. LONG: Paragraph 89 refers to the release of goods under customs collectors' permission. The situation described in this paragraph is designed to show that although the practice facilitates the clearance of goods through customs and benefits both the department and the importer, it is contrary to sections 22 and 79 of the Customs Act. Accordingly, it would appear that the act should be amended if the practice is to be continued.

The views of the members of the committee on this point of principle would be appreciated.

The CHAIRMAN: Is there any discussion or are there any questions on this particular point?

Mr. GRAY: I think the solution is already contained in the Auditor General's recommendation.

Mr. TARDIF: Except, Mr. Chairman, that I would like to know who decides what is classified as perishable goods—the importer or an officer of the department?

Mr. LONG: The department gives rulings on what is perishable, but the word "perishable" now involves almost everything at some ports I think. Even coal is classified as perishable. This is done in order to get the imports moving.

Mr. TARDIF: I would agree that if it catches on fire it is perishable.

The CHAIRMAN: Any further discussion, gentlemen?

Mr. TARDIF: Before we leave this item may I suggest that this word "perishable" be redefined. If, as you say, coal is considered to be perishable on some occasions, I would suggest that it requires redefinition. This may be a far fetched example you are giving to me, and I hope it is. I could not possibly agree that coal is perishable.

Mr. LONG: Coal is one of the earlier commodities that were so defined. It has been extended beyond that since coal was decided to be perishable. It is purely a device for obtaining clearance without waiting for papers and, with responsible importers, it has led to no problems.

Mr. TARDIF: It could lead to abuse.

Mr. HENDERSON: That is possible.

Mr. LONG: The Customs Act rules out the possibility of this leading to the non-payment of duties.

Mr. TARDIF: On what do they base their opinion that coal is perishable?

Mr. LONG: Perhaps the phrase is "urgently required". It is to avoid delay.

Mr. TARDIF: Based on the season? If it is winter time it is perishable?

Mr. GRAY: It may be considered perishable from the market point of view.

Mr. HARKNESS: The main thing is that the procedures that have been followed have greatly expedited the import of goods. This has been found much more practicable than would have been the case if the officials had stayed within the regulations. Your recommendation now is that the act be amended in order to provide for this, and that seems to me to be reasonable. We should accept that.

Mr. TARDIF: Without adding the term "perishable".

Mr. HARKNESS: One would get away from the term "perishable" altogether if the regulations were amended. One would be doing directly what one is now doing indirectly.

Mr. TARDIF: I have no objection to that, of course.

The CHAIRMAN: It is eleven o'clock, gentlemen, we will adjourn until 9.30 on Thursday morning.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

THURSDAY, JUNE 11, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. Louis Richard, President and General Manager, Crown Assets Disposal Corporation; and Mr. G. R. Long of the Auditor General's Office.

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

20962—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

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Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
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Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
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Rondeau,
Ryan,
Scott,
Skoreyko,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 11, 1964
(6)

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

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Côté (*Chicoutimi*), Forbes, Hales, Mandziuk, McMillan, Pilon, Regan, Rock, Ryan, Scott, Southam, Stefanson, Tardif, Winch—(18).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. Louis Richard, President and General Manager, Crown Assets Disposal Corporation; and Messrs. Long, Laroche, Crowley, Chapman, Douglas, Smith, Millar and Laframboise of the Auditor General's Office.

The Chairman tabled two sets of Regulations respecting damage claims referred to in discussion of June 9 on paragraph 82 of the Auditor General's Report for 1962. (*Identified as Exhibit No. 1*)

Mr. Baldwin referred to previous discussions relating to surplus materials and invited Mr. Henderson to make a statement thereon.

Mr. Henderson referred to his undertaking to provide the Committee with a detailed report on surplus materials and the administrative difficulty in securing this information from Crown Assets Disposal Corporation.

The Chairman then called Mr. Richard, President of Crown Assets Disposal Corporation, who made a statement in connection with the information requested by Mr. Henderson and was questioned thereon.

After discussion, Mr. Richard agreed to provide Mr. Henderson with information required by the Auditor General to make a detailed report to the Committee.

It was agreed that Mr. Richard supply the Committee with a blank declaration form and specimen copies of tenders.

The questioning of Mr. Richard being concluded, the witness was permitted to retire.

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

On paragraphs 90 to 96 inclusive: Messrs. Long and Henderson commented briefly and were questioned thereon.

On paragraph 92: On the suggestion of Mr. Winch, this paragraph was allowed to stand and the Committee agreed to hear witnesses later from the Department of National Revenue, Customs and Excise Branch.

The questioning of Messrs. Henderson and Long still continuing, at 11.00 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, June 16, 1964.

M. Slack,
Clerk of the Committee.

20962—1½

EVIDENCE

THURSDAY, June 11, 1964

The CHAIRMAN: Gentlemen I see a quorum. We will now convene this meeting.

Before we do anything else, I should like to advise the committee that I have here tabled, as requested at our last meeting, two sets of the regulations in connection with damage claims and methods of proceeding where public property has been damaged through the unauthorized use of vehicles. I think all that is necessary is to table these, making them available to the members of this committee. They are fairly voluminous and I hope that we will be content to have them tabled and available so that they will be used, if necessary, before we proceed with this matter.

Gentlemen, there is one other matter we should deal with before we carry on. You may recall that at our second meeting Mr. Winch raised a question in respect of Crown Assets Disposal Corporation and its relationship to the estimates. At that time it was suggested that Mr. Henderson might come back at the next meeting and make a statement in answer to questions, to the extent that he had information available. This was done. This committee then made the suggestion, which I consider was in effect a request to Mr. Henderson, that he prepare a more detailed statement to bring to this committee and when this had been done we would then arrange for the presence of Mr. Richard, or other officials from Crown Assets Disposal Corporation and the Department of National Defence, in order that we might fully go into this question.

Mr. Henderson indicated to me recently that he was not in a position to obtain that information. I have asked him to make a statement to this committee now in regard to his reasons for this inability. Mr. Richard, the president and general manager of the Crown Assets Disposal Corporation, is also present and when Mr. Henderson has completed his statement I am going to ask Mr. Richard also to comment on this particular issue.

Mr. WINCH: Mr. Chairman, I gather from what you have said just now in respect of my request through you to Mr. Henderson that the Auditor General is not able to obtain that information. I hope he will give us some detail in that regard.

Mr. A. M. HENDERSON, (*Auditor General of Canada*): Yes, indeed.

The CHAIRMAN: I believe that is the basis of Mr. Hendreson's statement at this time.

Mr. HENDERSON: Mr. Chairman, I might remind the members that at last week's meeting Mr. Winch inquired as to the extent to which the audit office follows through purchase of equipment and stores originating in departmental estimates to their ultimate use. He was particularly interested as to the extent to which such public stores and materials might be declared as surplus and turned over to Crown Assets Disposal Corporation for sale. In considering this question, members of the committee expressed interest in noting the reasons why public stores and materials of this character would be declared surplus and to know how much in fact would have been realized on disposal of such surplus as compared to the original cost of the material.

In my statement to the committee last Thursday, I referred to the Auditor General's responsibility in examining accounts relating to public property and how the audit office discharges that responsibility. I took the fiscal year 1962-63 and by reference to the annual report of Crown Assets Disposal Corporation cited the corporation's reference on page 6 that during that fiscal year 12,061 reports of surplus were received. I explained that of this number, some 8,500 separate declarations of surplus material had been made by the Department of National Defence. Of this number, approximately 2,600 declarations covered new or otherwise usable materials having an aggregate cost to the Department of National Defence of $39,500,000.

The committee asked me to undertake a special examination of these 2,600 declarations for the purpose of determining the nature of the material, date and amount of its original cost, the reasons for its declaration as surplus by the department to Crown Assets Disposal Corporation, and how much the corporation collected from its disposal. I agreed to undertake this special study estimating that it could be completed within three weeks or by June 30, with the assistance of senior officers and staff both from the Department of National Defence and Crown Assets Disposal Corporation.

The work must be started from the records of Crown Assets Disposal Corporation because it is only from these records that we can identify the declarations making up the 2,600 national defence ones we are seeking and thus determine how much the corporation realized on disposal. However, it appears we are faced with administrative difficulties in extracting this infromation from the records of the corporation under the timetable I gave to the committee last week. It is for this reason that Mr. Louis Richard president of Crown Assets Disposal Corporation, wishes to discuss the matter with you this morning.

Thank you.

The CHAIRMAN: Thank you Mr. Henderson. I am not sure that Mr. Richard, the president and general manager of Crown Assets Disposal Corporation, is known to all the members of this committee. He has appeared at my request after a discussion, not to deal with the main issue which will be referred to later but with what I might call a preliminary problem which has now arisen and which I think has been accentuated by what Mr. Henderson has said today.

Mr. Richard, would you mind discussing this problem with the committee?

Mr. L. RICHARD (*President and General Manager—Crown Assets Disposal Corporation*): Mr. Chairman, Mr. Henderson has approached us recently to ascertain to what extent we can carry out such a study, and I assured him that we would be pleased to co-operate and provide all the information we could from our records, but that the difficulties which arose were primarily those of time and staff. We are particularly pressed at this time of the year and it would be quite a strain to undertake a detailed study. However, if something else must suffer we will do so.

What I should like to point out is that although we state in our report we have received so many thousand declarations in one year, that is our figure. This figure of 8,500 in respect of national defence declarations, and 2,600 for new material, are not taken from our records. Apparently the idea is to match our records with those 2,600 declarations which appear in the Department of National Defence records. The difficulty in this regard lies in an effort to match up these 2,600 with those which appear in our records, and that is where the time would be consumed.

I have suggested that in view of the figures which have been produced by Mr. Henderson, perhaps we could approach the problem from a study of the

declarations which are in our records. We will produce the number, the original cost which is covered by these declarations, and they should be substantially the same as the others. However, we will not have to match up all these declarations of the Department of National Defence with our records. Under these circumstances the work would be much more simplified and would produce substantially the same information, or the same type of information, if the members of this committee and Mr. Henderson are agreeable.

The CHAIRMAN: Thank you Mr. Richard. Are there any questions?

Mr. FORBES: I should like to ask one question for clarification. What does Mr. Richard mean by "declarations"? Does he mean invoices in respect of the material? What does a declaration consist of in this case?

Mr. RICHARD: A declaration represents the first step. It is the receipt of the surplus from the Department of National Defence. After that it goes through all our different processes and ends up with an invoice to the customer.

Mr. FORBES: The declaration then has nothing to do with the quantity of material?

Mr. RICHARD: Yes.

Mr. FORBES: It is an invoice then?

Mr. RICHARD: Both the declaration and the invoice include the quantity of material involved.

Mr. WINCH: In order to pinpoint this a little bit, Mr. Chairman, because I realize the difficulty involved in going through 2,600 declarations, could Mr. Richard give us some general indication in respect of the sale of this new equipment and the amount received as compared with the original cost? I understand you show that information also on the declarations?

Mr. RICHARD: You are asking us if we can cite the average percentage of recovery we make?

Mr. WINCH: Yes, in respect of the equipment turned over to you.

Mr. RICHARD: We do not compute information of that kind, Mr. Chairman, and the prices vary to such an extent the information would mean nothing in any event if we did compute it.

Mr. WINCH: I am sorry, did you say that if you had approximate information regarding the amount received in respect of new equipment compared with the original price that information would not mean anything?

Mr. RICHARD: That information would be based on so many thousand declarations that even if it was 10, 20, 40 or 50 per cent it would not mean anything.

Mr. WINCH: I am sorry, I do not wish to put Mr. Richard on the spot but I cannot understand what he means when he suggests that information in respect of a comparative figure regarding the cost and recovery price of hundreds of thousands of dollars worth of equipment would not mean anything.

Mr. RICHARD: That information certainly would mean something to the taxpayer but it would not indicate anything to us.

Mr. MANDZIUK: Mr. Chairman I am also interested in Mr. Richard's answer to my colleague. Perhaps if Mr. Richard cannot give us a figure regarding the resale price of the new equipment, surely the Crown Assets Disposal Corporation balances its books at the end of the year and Mr. Richard can give the members of this committee information regarding the book value of assets received as surplus and the final receipts for the same after disposal? Are there no bookkeeping systems in effect in the Crown Assets Disposal Corporation at all?

Mr. RICHARD: We do not record the original costs.

Mr. WINCH: The original cost is indicated on the declarations.

Mr. MANDZIUK: You do not have to record the original cost because, as my colleague has pointed out, that cost appears on the invoice or declaration.

Mr. RICHARD: The cost appears on the declaration, that is right.

Mr. MANDZIUK: Do you record the price you receive for the material when it is sold?

Mr. RICHARD: Yes.

Mr. MANDZIUK: We should like to know those two figures. We do have the figure of $39,500,000 and we should like to have the other figure whether it is $500,000 or $2 million, so that we know where we stand.

Mr. RICHARD: We will have a record of the amount of proceeds we have received, but even then that figure will not be broken up as between new and scrap material or otherwise.

Mr. MANDZIUK: I fully realize the difficulty involved in breaking up that figure between new and old equipment. Perhaps that is an impossible task but I am just as interested as Mr. Winch in knowing what the comparison is in order that perhaps the impression generally throughout the country that regardless of whether this surplus is new or used it is sold for practically nothing can be dispelled or confirmed. I think it would be well for us to have information in this regard.

Mr. HALES: Mr. Chairman, I apologize if I repeat some of the questions that have been asked, but as I understand the situation, there has been $39,500,000 worth of new equipment bought by the Department of National Defence and turned over to the Crown Assets Disposal Corporation for resale.

Mr. WINCH: Both new and used equipment is represented by the $39 million.

Mr. HALES: This committee would like to know how much of the new equipment was sold by Crown Assets Disposal Corporation and at what price. Mr. Richard has informed us that there are invoices or declarations in existence. Perhaps he could produce one of those declarations so that we may see what it is.

As I understand the situation, a declaration lists the item and the original cost. We should like to know what the item was sold for. Apparently the Crown Assets Disposal Corporation does not break down the receipts as between new and used equipment, and if that is not being done now perhaps the Auditor General's department could set up a bookkeeping system as a result of which these items could be divided into new and used so that at the end of the year by adding up the original cost column and the price column, representing the amount received when the items were sold, we would have an answer to the question Mr. Winch has asked.

The CHAIRMAN: Do you have a declaration available Mr. Richard?

Mr. WINCH: I have seen hundreds of those declarations and on the declaration there is an indication regarding the equipment being new or used. I think there is an indication on the declaration that the equipment is guaranteed new but not warranted.

Mr. REGAN: Mr. Richard, as I understand the situation, the reason your department does not keep track of whether the equipment is new, or the original cost, is that the concern and purpose of Crown Assets Disposal Corporation is to dispose of goods which are handed to you by the various departments; it is not your concern whether the department should have had the materials in the first place, and it is not your concern why the department handed the material over to you; is that right? I understand your concern is to get the best possible price for the material, and in view of the fact you dispose of the material on a competitive tender basis the original value is of no particular consequence to your information; is that a correct assumption?

Mr. RICHARD: That is correct.

Mr. WINCH: That is of some consequence to the members of this committee.

Mr. REGAN: As Mr. Winch has suggested, this information certainly is of interest to the members of this committee and I think we are all interested in knowing what percentage of the original value of this equipment the government has recovered in order than we can determine whether this is an efficient method of disposing of that extra government equipment, or whether some other system should be devised. Certainly I do not think that Mr. Richard's operation is subject to criticism because of the fact detailed records in this regard are not kept. That is not one of the purposes of the Crown Assets Disposal Corporation. The purpose of that organization is to dispose of the surplus equipment by competitive tender.

Mr. WINCH: May I point out by way of comment that as a result of Mr. Richard's evidence and my perusal of certain of these declarations I know that the new price is known.

Mr. REGAN: Yes, I realize that the original price is known but what Mr. Richard is saying is that it is not the purpose of the Crown Assets Disposal Corporation to prepare a list of thousands of prices in respect of these items. The individual inventory shows the original price and those prices are listed for that purpose, but these records are not compiled into difference groups. Is that right Mr. Richard?

Mr. RICHARD: That is correct with one qualification. We do not always have the original cost price on the declaration. We do have that price in the majority of cases but somes cases do exist in respect of which we have not got that information. Moreover, in respect of goods which are otherwise coded, in probably 100 per cent of them we do not have the original cost.

Mr. HENDERSON: Perhaps I might speak in regard to Mr. Regan's point. We realize that Mr. Richard's concern might not be with the original cost of the material, and that is why I discussed this problem both with Mr. Richard and the deputy minister of national defence, on the basis that using the records of the Crown Assets Disposal Corporation as a starting point we would pick out the appropriate number of the 2,600, which would account for the largest portion of the $39,500,000 and then sit down and examine them. Mr. Armstrong has already designated a senior officer and staff to sit down with us to go over these in order that we can furnish explanations regarding why the items were purchased in the first place, the dates and the costs and why they were declared surplus. That seems to us to be a very integral part of your question. We must have a starting point and to all of us that starting point lies in Crown Assets Disposal Corporation records.

Mr. REGAN: Beyond that, Mr. Henderson, is it not true that we can understand why the Crown Assests Disposal Corporation has not been particularly interested in original prices since it is operating on a tender basis? If we make some determination in this regard we will then go back to the Department of National Defence to find out why these goods were purchased in the first place, why they were disposed of and whether in some cases the items were bought in an unused condition so that we can decide whether the taxpayer is receiving the largest amount possible in respect of the disposal of these goods? Surely the information we are interested in receiving from Crown Assets Disposal Corporation has regard to the size of the lots of goods which are being put up for sale by tender, how they determine whether new items should be tendered separately or not or whether this is done on a lot basis with a great number of different types of commodities included. I think we are also interested in knowing who is allowed to compete for these commodities and what the general overhead or operating costs of Crown Assets Disposal Corporation are.

Mr. HENDERSON: May I answer that question by referring you to our planning memorandum on this assignment? What we hope to get from the records of the Crown Assets Disposal Corporation are the reasons for the declaration as surplus to the corporation, the method of sale by the Crown Assets Disposal Corporation—that is the type of method you described—the date the articles were sold and the prices obtained, and in a final column a calculation of the final profit or loss in each case, which would then give us the disposition of the material in dollars and cents. I think that is the essence of your question.

Mr. REGAN: The method of sale I presume would cover a wide field?

Mr. HENDERSON: Yes, and there will be a considerable amount of additional information supplied with the resultant dollars and cents calculation.

Mr. CARDIFF: Is all this material being sold by advertisement tender or is it sold individually? How is this material sold?

Mr. HENDERSON: Perhaps Mr. Richard could answer that question.

Mr. RICHARD: This material is sold by offer to dealers in the trade. We request those dealers to put in their bids and the material is sold to the highest bidder. The material is offered to dealers in the trade.

Mr. WINCH: It is offered to the dealers in the trade who are on your mailing list at their request; is that right?

Mr. RICHARD: We offer the material to the dealers in the trade who are on our mailing list. I should like to point out that our mailing lists are not restrictive at all but are prepared in order that when we have a specific item of goods to offer the list is readily available and we can mail out circulars asking for bids. It is sold by what is normally referred to as tenders or bids.

Mr. TARDIF: It appears to be the consensus that the committee would like to know just how much of this unused material is sold and what is the difference in price between cost and sale. I do not see what great problem would be created if the department did go to the trouble of keeping at least a list of new materials; it would only be an additional few bookkeeping entries, I would think.

You could also find out whether that restrictive list that was talked about is not more restrictive than it should be. I know people who wanted to bid on some material which was declared surplus who were not only not invited but whose bids were not accepted by the department. I am wondering whether this restriction the department puts on by not accepting bids from anybody willing to bid and willing to pay with legal Canadian currency is not too limited, and I am wondering whether, if we did have a compilation of new material that is sold and the difference in price, it might not induce this committee, for instance, to make recommendations that might be put into effect next year that would be an improvement over the present system.

Mr. MCMILLAN: Mr. Chairman, I would like to know the meaning of the words "new material". Does it mean unused material or does it mean material bought recently?

Mr. HENDERSON: It generally means material which has not been used.

Mr. MCMILLAN: Even though it is 10 years old?

Mr. RICHARD: There are various conditions of material. It could mean, to go to the extreme, material that is new, has never been used, has been in the original packing cases but has been there for years.

Mr. MCMILLAN: Could some of this material included in these 2,600 declarations called "new material" have been purchased some years ago?

Mr. RICHARD: Yes.

Mr. MCMILLAN: Not necessarily recently?

Mr. RICHARD: No, sir.

Mr. WINCH: I am very glad that Mr. McMillan raised this question. I personally know of equipment from the Department of National Defence that was put up for tender two months ago in Vancouver and, to my knowledge, because I am in the construction industry, has been out of date for 15 years, and yet on the tender it was warranted as having been unused. So, this is all part of the problem.

While I am speaking, sir, although it is the general picture that we are after on what can be done, I was most interested in a remark of Mr. Richard a moment ago, that all declarations do not necessarily give the purchase price, although the majority do. I, therefore, have what I think is a logical question. When you put that up for tender, not having known what the department paid for it, how do you decide whether you will accept or reject that tender?

Mr. RICHARD: Largely on the experience of the past when we have offered similar goods to the trade and we know the recoveries we have made in the past. We can determine from that whether the highest bid is acceptable.

The CHAIRMAN: May I interrupt here? Have you that declaration Mr. Richard? Possibly the messenger might pass it around. Some of the members did express interest in it.

Mr. WINCH: There is one further question that I have, Mr. Chairman.

Mr. HALES: Wait until we have this declaration. Have we one or have we not?

The CHAIRMAN: I was going to ask Mr. Richard if he is in a position to comply with the request of the committee.

Mr. WINCH: I would like to ask now that I am certain that Mr. Richard has an idea what the committee has in mind and what is the type of information which we feel as a committee we should have on a most important matter whether he can now, in his opinion, work out with Mr. Henderson a plan whereby it will be possible, at least in a basic sense, to get the data which is required by this committee?

The CHAIRMAN: Maybe you could postpone your answer to that, Mr. Richard, until we find out about the declaration.

Mr. RICHARD: Just before I left my office, Mr. Chairman, I picked up half a dozen files which are not very representative. I would hesitate to circulate any of them to the committee.

Mr. HALES: I simply asked for a blank declaration form so as to see the the standard form. Have you a blank declaration form?

Mr. RICHARD: No.

Mr. HALES: I am amazed that the witness would come to this meeting without this material.

Mr. RICHARD: I was not asked to bring any.

Mr. HALES: We had better not waste any more time on this particular question. I would think the committee has made a request for the information which they want, the Auditor General is prepared to supply the information to the committee if he has the co-operation and support of Crown Assets Disposal Corporation, and I think the committee is entitled to know if the Auditor General has this support, and if not, why not, and then we will proceed with another matter.

The CHAIRMAN: Before we go on, I will go back to Mr. Winch's questions to which we did not get an answer. We should dispose of this question which may be of consequence later. Is your position, Mr. Richard, that you feel you should not disclose the terms of the declarations which have been made, or is it just because the declarations are not representative? I am not concerned

about today, but when you appear later; we should probably settle this thing in advance. What is your view, as president of the corporation, on your rights and duties with regard to presenting to the committee declarations which they may wish to examine following Mr. Henderson's comments?

Mr. RICHARD: I would be glad, if the committee desires, to produce a representative sample of declarations.

Mr. WINCH: That is not the request of this committee. The request of this committee is that this matter is of such vital importance to all members of the committee because of the disclosures which are now coming to our attention, that, as the public accounts committee of the House of Commons, we want to make a thorough examination. We do not want to have any specific or individual copies; we want to know what is the basis of, let us say, one department declaring surplus $39½ million worth of equipment of which, according to Mr. Richard, a great deal was unused. What is the cost and what was it sold for? We want that information right down the line, from beginning to end. I think this is one of the most serious questions that has come to the attention of the public accounts committee in the 11 years that I have been a member of it, and we would be shirking our responsibility if we did not insist on a complete study and an answer in order that we can do our duty in making our report to the House of Commons.

The CHAIRMAN: It comes down to this, Mr. Richard. This is a preliminary discussion now, but during the course of the main discussion, as I understand the feeling of the committee, they may, and probably will, require the production of such declarations as they feel are necessary to continue their study and examination. I think it might be best to settle at this time what your views are. Are you in a position where you feel you must refuse to produce those, and if so on what basis?

Mr. RICHARD: Certainly not, Mr. Chairman.

The CHAIRMAN: So that if the committee calls for any particular declarations, you would be in a position to produce them?

Mr. SCOTT: Should we not be asking for something further than has been asked for? It is my understanding from the discussions that the question we are putting to the witness is whether he is prepared to make all files available for Mr. Henderson's examination, not just a representative number, or an unrepresentative sample which he brought today, by his own words. Are you prepared to produce all files in question for examination?

Mr. RICHARD: Yes, sir.

Mr. ROCK: Mr. Chairman, I came in late, as you know. I want to know what item we are on, and is it in the 1962 report?

The CHAIRMAN: No, Mr. Rock. This is going back to a matter which was discussed at our second meeting, at which time Mr. Winch requested that Mr. Henderson appear at the next meeting to answer a question he raised on the relation between estimates and assets which had been disposed of under the aegis of the Crown Assets Disposal Corporation. Mr. Henderson appeared at the next meeting, and our committee then arranged, as I think it was virtually an understanding, that Mr. Henderson would prepare a preliminary statement for the use of the committee, and when that statement was ready then Mr. Richard and the deputy minister of national defence would both appear here, and with the aid of a statement prepared by Mr. Henderson we would have then a full discussion of this whole problem which was raised by Mr. Winch. What we are now discussing is the fact that Mr. Henderson feels he has been unable to prepare the statement because he and Mr. Richard have not been able to get together on the materials Mr. Henderson feels he requires. This is what we are discussing now.

Mr. ROCK: I thought we were here principally to discuss the report of the Auditor General. What I want to know is what report from the Auditor General we are discussing concerning Crown Assets Disposal Corporation, or is it that any member now can have any beef whatsoever and bring it up to this committee?

The CHAIRMAN: No, Mr. Rock. This is a matter which was properly raised dealing with the matter that came up in Mr. Henderson's follow-up report. The discussion was properly initiated and quite relevant at that time.

Mr. ROCK: What was it all about, where is this report and on what item was it?

Mr. STEFANSON: If you had come in earlier you would have known.

The CHAIRMAN: It appears in the second item in the follow-up report which Mr. Henderson dealt with.

Mr. ROCK: Last year?

The CHAIRMAN: No, of the follow-up report which is produced by Mr. Henderson and which deals with the extent to which the departments of the government have complied with the request which we made last year. We started with that. Mr. Winch asked a proper and relevant question. We agreed that Mr. Henderson should answer that question at the next meeting. As a result of his answer the committee then decided that, following the preparation of the preliminary report, there would be a further meeting some time in the future at which a representative from the Department of National Defence, Mr. Richard and Mr. Henderson, would be here. Now, we have arrived at an impasse. In order for Mr. Henderson to prepare a statement which the committee asked him to prepare, he wants certain information from Mr. Richard, and the inability to secure that information prompted him to come to me as Chairman of this committee. I asked Mr. Richard to appear here so that the committee, which is the proper place to discuss and decide this, should hear both Mr. Henderson and Mr. Richard and come to a decision on it. It is a preliminary point on a matter which the committee has dealt with, and a point for a study later on in the course of our proceedings.

Mr. RICHARD: May I interject here, Mr. Chairman? You speak of the inability of Mr. Henderson to obtain this information. Might I say that we are merely pointing out how large a task it is going to be and how difficult it is to prepare this information on this basis. I would rather use the basis that we start from our own records rather than the records of national defence.

Mr. HALES: I should like to speak to this point. I think the committee has brought up a good suggestion for future comparison, and maybe the books of Crown Assets Disposal Corporation could be set up on the basis that it would be only a matter of ending a column at end of each six months or the end of the year so that in future these figures would be available.

While I am speaking, Mr. Chairman, let me say that I think we have achieved what we wanted, that is to get this on the rails so that the final report can be made. I would just like to say, through the Chairman, that perhaps one way of seeing these declaration forms is to have an appendix attached to the report, or else have a blank declaration mailed to the members of the committee so that we can study it.

The CHAIRMAN: Could you forward a blank of one of these declarations? We can have it appended to our proceedings and printed in today's proceedings. Would that be possible, Mr. Richard?

Mr. RICHARD: Yes.

Mr. WINCH: And a number of specimen copies of tenders.

Mr. RICHARD: Yes.

The CHAIRMAN: This would be useful background material when we have our further discussion. We now come to the question raised by Mr. Winch. Would you be able to repeat your question?

Mr. WINCH: As a result of Mr. Richard hearing the discussion—and I appreciate his appearance here this morning—he must now have a pretty clear understanding of what is in the mind of the committee and why we want this information. Does Mr. Richard now think, as a result of this discussion these last forty-five minutes, that he and Mr. Henderson can now get together so that between them this committee can have the information desired?

Mr. RICHARD: Mr. Chairman, it is a matter of time and of sufficient staff to prepare this information.

Mr. WINCH: Can you do it in a month?

Mr. RICHARD: We certainly feel that Mr. Henderson and I can get together and prepare the information.

Mr. WINCH: That is all we need.

Mr. HENDERSON: May I speak to that, Mr. Chairman, and say this. I think Mr. Richard has agreed with us right along that this job can be done the way you want. However, if we follow the method he described, it would not, in the view of my officers and myself, give you the end result you want.

Now, the real key to this is if he made available a senior man and sufficient staff to enable this material to be taken out of his records. If he is in the position to furnish me with a senior man and the necessary staff to get it rolling, the same way as Mr. Armstrong proposes to do on his side for the Department of National Defence, then we can get the thing under way.

As for the timing, I had hoped that it could be brought to you for your meeting on June 30. What do you think about that, Mr. Richard? Do you feel we can do it in two weeks?

Mr. RICHARD: I am not prepared to state any period of time.

Mr. WINCH: I think we can end it in this way. As I originally raised the question, I can say that we know how important all departments are. We have a definite understanding on how shorthanded the Auditor General's staff is. I am quite certain, as a member of the defence committee, that the defence staff is pretty busy. However, in view of the fact that the Department of National Defence is prepared and has agreed to allocate a senior man and staff, also, in view of the fact that Mr. Armstrong although he is so shorthanded, as we have heard from the Auditor General, is prepared to do that, I am therefore quite confident that, despite all the problems that Mr. Richard has, he will find it possible to tie in with the other two departments and to make a senior man on his staff available. I am quite certain of this, and I have every confidence in you.

Mr. HALES: Just so that we will not overlook the point when we come to make our recommendation at the close of our session, let me say that it has been intimated that these declarations do not all have the original cost on them. I would think this committee would like to make a recommendation that all declarations must have the original cost on them.

Mr. WINCH: You mean on new equipment?

Mr. HALES: Yes, on new equipment.

Mr. WINCH: It would be impossible to have it on all of them in view of the hundreds of thousands of items of Crown Assets Disposal Corporation.

Mr. HENDERSON: May I make a further observation on that interesting point, Mr. Hales? I have wondered for some time, and your comment has

touched on it, why, in the annual report of Crown Assets Disposal Corporation, there could not in fact be a statement with respect to government property that is being sold during the year which was declared surplus, with some notation of its original cost, so that from year to year you would see in the published accounts of the corporation what loss has in fact been sustained during that year's operation. This may not be the end responsibility of the Crown Assets Disposal Corporation as such, but it would provide a very useful disclosure of pertinent information for the government as a whole to the members of the house, I would think.

Mr. PILON: You mentioned the profit and loss statement. Do you not think that it would be very difficult to reconcile the cost price and the residual value after 10 years?

Mr. HENDERSON: I would think the statement that might be inserted in the accounts would carry some descriptive breakdown indicating that aspect.

Mr. WINCH: Why there is a declared surplus of unused equipment that has been held for 10 or 20 years would be a phase of our investigation which does not come under Mr. Richard.

The CHAIRMAN: Any more questions?

Mr. REGAN: Only to comment that when this information is available from Mr. Richard we will be able to look at the original cost and what was realized and we might then want perhaps to ask questions about the method of sale and the size of lots, and so on.

The CHAIRMAN: The matter will be wide open at that time. Thank you very much Mr. Richard. I am sure it has been a very useful and frank discussion and that we will be able to hear that progress has been made between you and Mr. Henderson so that the wishes of the committee will be met in due course. Thank you very much for coming here this morning.

We will now carry on where we left off, which is paragraph 89, which reads:

89. *Release of goods under Customs Collector's permission.* Subsection (1) of section 22 of the Customs Act, R.S., c.58, reads as follows:

> Unless the goods are to be warehoused in the manner by this act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unlading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

In addition, section 79 of the act reads:

> No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

Notwithstanding these statutory directions, it has been the practice of the department for many years to release perishable goods prior to the passing of a customs entry and payment of duty, providing the importer has posted a bond or security as a guarantee of payment of duty. The term "perishable goods" has gradually been extended and now includes a wide range of goods.

There seems little doubt that the practice being followed facilitates the clearing of goods through customs, and benefits both the department and the importer. However, sections 22 and 79 of the act quoted above appear specifically to prohibit what is being done and the act should be amended if the practice is to be continued.

Mr. HENDERSON: I am going to ask Mr. Long if he would continue bringing these next few paragraphs to your attention because you may recall at the last meeting he had already commented on several of them.

Mr. G. R. LONG (*Supervisor, Auditor General's Office*): Paragraph 90 deals with the sale of goods unclaimed at customs. Again, this note refers to a practice which has undoubted merit from the revenue point of view, but nevertheless there should be an amendment to section 23 of the Customs Act if it is to be continued. The views of the members of the committee would be appreciated on this principle.

The CHAIRMAN: Is there any discussion on this point?

Mr. HALES: I do not understand the problem.

Mr. LONG: When goods are unclaimed at customs the law requires that if they can be sold for a sufficient amount to cover the duty and any storage charges which have accumulated, they may be sold. If they cannot be sold for this amount, they must be destroyed. Sometimes the addition of storage charges would mean that goods would be destroyed which are worth something, and they could be sold, bringing revenue to Canada. The department has taken the practical view that as long as they get the duty, it is wise to sell rather than to destroy.

Mr. HALES: Sold by auction with a reserve bid.

Mr. LONG: I am not sure of the exact detail there, but we have never seen anything to indicate that the department does not follow the proper practices in selling.

Mr. WINCH: All you are asking actually, if I read it correctly, is that consideration be given to statutory authority being obtained on what is now a custom. Is that basically what it is?

Mr. LONG: The custom is really contrary to the wording of the act now, but it is a reasonable custom.

Mr. WINCH: Is it that the statute be changed so that they are not doing something illegally which is the proper thing to do?

The CHAIRMAN: Thank you. Are there any further questions?

Mr. HALES: Just before we leave this paragraph I should like to ask whether any of this equipment is destroyed?

Mr. LONG: Unless the equipment can be sold for a sufficient amount to cover the duties and taxes it cannot be allowed to go into use in Canada and must be destroyed. The department has taken the view that if it recovers the duties and taxes then it is good sense to do so rather than destroy the goods.

Mr. SOUTHAM: Mr. Chairman, it has been pointed out that the practice followed in this regard does not comply with the act. If the practice followed is satisfactory to the Auditor General, and I think most of us will agree that the practice as outlined is the most practical method, then perhaps it is desirable to recommend an amendment to the act giving legislative authority for this practice.

The CHAIRMAN: Thank you Mr. Southam. Your suggestion is, in view of what has been pointed out by Mr. Long, the consequential amendment should be made making legal what is a practice. This is something perhaps we can deal with when we come to the considertaion of our report.

Mr. SCOTT: I just wonder whether you can give us some idea regarding the amount of money involved? Is this a large item?

Mr. LONG: The sales result in $60,000 per year revenue.

Mr. WINCH: Have you any idea of the value of goods destroyed?

Mr. LONG: We would not have any record in that regard.

Mr. MCMILLAN: Does the actual physical destruction of certain goods take place? I happen to be aware of an incident regarding a citizen of the United States who moved to Canada and intended to bring his car some months later, but rather than pay the high duty he left the car at the customs office. Would that car actually be physically destroyed?

Mr. LONG: I suppose the answer in that regard is that if the car could not be sold as a usable car it would be sold to a junk dealer as scrap. It would have to be taken away from the customs house because it could not be left there.

Mr. MCMILLAN: I understand it must have been sold at the customs house at some time because it could not be sold to a junk dealer for less than the cost of the storage.

Mr. HALES: Mr. Chairman, would it be sold through the Crown Assets Disposal Corporation?

Mr. LONG: No.

Mr. HALES: Does the customs department have authority to sell such an item?

Mr. LONG: Yes.

Mr. REGAN: I do not quite understand the reason for the principle that if an article cannot be sold for a sufficient amount to pay the duties and other charges it cannot be brought into the country. The original owner has forfeited the goods and does not receive anything from the sale, as a result of which any revenue realized from the sale of an article would be revenue for the department. Why does the amount that it is sold for necessarily have to be sufficient to cover the duty and charges?

Mr. LONG: If we permitted an article to be used in Canada without having collected the duties applicable to such an item we may be allowing an individual to avoid paying the tariff on importation.

Mr. REGAN: You certainly would not allow an importer to operate a profitable business in this way because he would have to forfeit the goods and would not then receive anything as a result of the sale. Only the customs department would receive anything from the sale of such an article. How do you dispose of these goods? I assume you sell them on tender?

Mr. LONG: The original owner may well turn out to be the highest bidder at something less than the duty.

Mr. TARDIF: If an article was sold for an amount greater than the charges against it would the importer receive the difference?

Mr. REGAN: No.

Mr. TARDIF: Would the total amount of the sale be confiscated by the crown?

Mr. LONG: If the importer made such a request I understand he would receive anything over and above the duties and charges.

Mr. TARDIF: Is there any possibility that an article may be sold for an amount greater than the duties and charges against it? Are these goods not put up for sale subject to the duties and charges against them so that if anyone wishes to buy them that is what would have to be paid? Is that not the case?

Mr. LONG: The goods are sold by tender.

Mr. WINCH: Are the goods sold on tender or auction?

Mr. LONG: They are sold by auction and could be sold for more than the duties and charges.

Mr. TARDIF: I take it a reserve bid is placed on the articles?

Mr. LONG: The amount of duties and taxes must be recovered.

Mr. SCOTT: The chance that an article will be sold for more than the duties and taxes is almost nonexistent when you only list against the article the charges of storage and taxes; is that right?

Mr. LONG: When these articles are being sold at an auction the price offered depends on the individuals buying and how interested those individuals are in acquiring the articles.

The CHAIRMAN: Are we now satisfied with that item? Shall we move now to paragraph 91?

Mr. CARDIFF: I think this material should be sold by public auction rather than sold to any particular group of dealers. I think the articles should be advertised for sale so that if someone desires to purchase the article as an individual he has an opportunity of doing so. I do not think the sale should be confined to a certain group of dealers, but rather they should be sold to the general public in order that the department can recover the greatest amount possible.

Mr. MCMILLAN: Are these sales well advertised? I realize there are a number of sales which take place in the Niagara Falls area but I have not seen advertisements in regard to these sales appearing in the local newspapers.

Mr. LONG: I think the sales are advertised locally only.

Mr. HALES: I suggest that a member of our committee, Dr. McMillan, go to the next auction and report back to this committee in respect of the bargains available.

The CHAIRMAN: I do not know whether we have any funds to authorize him to bid for us.

Mr. REGAN: I do not favour the idea that these articles should be destroyed if any revenue can be realized from them. I assume that most of the goods involved are goods brought into Canada from the United States and seized at the border. Is there any procedure in existence whereby, if an article is of such a nature that you cannot realize the cost of the duties and taxes through a sale in Canada, they can be disposed of in the country of origin such as in the United States?

Mr. HENDERSON: The fact is that the goods at that point have been left at the customs house and are unclaimed, and the customs department is interested in those goods to the extent of the unpaid charges and duties. The officers make the best deal they can, and will not permit these goods to come into Canada through the normal channels. They will not allow a car, for example, to travel on Canadian highways.

Mr. LONG: I think you must remember that these things will not be abandoned if there is any possibility of receiving very much for them. I do not think there is very much value to the Canadian taxpayer involved.

Mr. HENDERSON: We have no criticism of the department's handling of this situation but merely of the rigidity of section 23 of the act which, as Mr. Winch has suggested, might well be amended, or considered for amendment at the first opportunity. I gather that is the consensus of the committee.

The CHAIRMAN: May we now move to paragraph 91?

91. *Duties and taxes on surplus United States government property sold in Canada.* By international agreement United States government property located in Canada which becomes surplus to requirements is

disposed of by Crown Assets Disposal Corporation on behalf of the United States government. Much of this property came into Canada without payment of duties or taxes and therefore becomes subject to the applicable duties and taxes when sold in Canada. Because of the great variety of goods and materials, frequently located in remote areas, it is considered administratively impracticable to apply the customs tariff and the normal customs appraisal procedures to these sales. The Department of National Revenue accordingly annually establishes a composite rate (currently 15.25 per cent) which is applied to the proceeds of all sales of the United States government property by Crown Assets Disposal Corporation, the rate being based on the average rate of duty on all imports from the United States for the last completed year for which statistics are available.

The practice being followed seems to be a practical way to meet the problem but, as there is no statutory authority for the establishment of such a composite rate, even with the approval of the Governor in Council, authority should be provided by Parliament if the practice is to be continued.

Mr. LONG: Paragraph 91 deals with the collection of duties and taxes on surplus United States government property sold in Canada.

The practice described in the audit appears to be a practical way to meet the problem but as there is no statutory authority for the establishment of the composite rate referred to, even with the approval of the governor in council, authority should be provided by parliament if the practice is to be continued.

Here again comments of the members of this committee would be appreciated.

Mr. WINCH: I gather the situation in respect of this paragraph is exactly the same as that in respect of the previous paragraph. The practice followed is the correct one but it has no statutory authority.

Mr. HENDERSON: That is precisely the situation.

Mr. WINCH: Perhaps we should make some recommendation in this regard as in the case of the previous paragraph.

Mr. SCOTT: This is the second indication we have had that a practice is being followed by a department for which there is no statutory authority. Now does this situation occur? Do the officials in these departments just make up their own rules for dealing with these situations and then after the rule becomes the practice do they come to us for legislative authority? Is any attempt made to find out in advance whether there is any legality for a specific method?

Mr. LONG: I think the answer to your question probably is that some of these sections in the customs act are very old. This particular situation only arose when the United States government closed bases in Canada and the Crown Assets Disposal Corporation disposed of the material for the United States government. Who is to go and assess the customs duties on hundreds of thousands of dollars worth of material and equipment which is United States owned and has been brought into Canada without being subject to duties and taxes?

Mr. SCOTT: I am not being critical at this time but, as you have suggested, this is the practical method to be adopted and I am curious to know how long this situation has existed.

Mr. LONG: I assume this situation has existed since this section of the act was last considered by parliament.

Mr. HENDERSON: We have had some correspondence, Mr. Scott, with the deputy minister regarding this practice, and you might well be interested in

some of the observations he made at that time. He pointed out that a great variety of goods did naturally involve this type of disposal and that it is practically impossible to appraise these goods in the normal way. To accomplish this he felt would involve a great expenditure of money which in his opinion would constitute a waste of public funds. Accordingly he felt that his department had exercised common sense, which indeed they have, in establishing this composite rate representing duties and taxes, notwithstanding the regulations of the customs act on duties. Accordingly you might feel that this is another case where parliament might want to consider an amendment to the customs act in order to give statutory authority to the practice.

Mr. SOUTHAM: As I understand it, Mr. Chairman, this is a comparatively new practice, and up until this time the officials have not had any pattern to follow. I think Mr. Henderson is quite right, that for our own sake and for the sake of the department, as well as everyone else, something specific should be established in the act to cover this situation so that this composite rate of fifteen and one quarter per cent which is practical is included in an amendment to the act.

Mr. HENDERSON: If that would commend itself to the members of this committee it might be the subject for your recommendation.

Mr. SOUTHAM: It certainly commends itself to me, Mr. Chairman. Mr. Henderson certainly seems to be agreeable to this suggestion. Has the deputy minister indicated his feelings regarding this method being a practical or appropriate one to adopt?

Mr. HENDERSON: We feel this would be a practical way of meeting the problem. You might feel that you should invite the deputy minister of customs and excise as a witness. I may say that the next point Mr. Long will deal with falls in the same class and you may wish to reserve your view until we have heard what he has to say about that paragraph.

Mr. SCOTT: I do not feel strongly enough to make an issue about this situation because in the cases with which we have dealt the practice appears to be the practical one. There is a great danger involved in allowing departments to make rules in the first instance and then come to parliament for legislative authority. I feel that the legislative authority should precede the practice, and if changes in the statutes are needed to provide legislative authority for government departments' actions it seems to me that the logical way of proceeding is to grant that authority before the action is taken. The cases with which we have been dealing are not serious but if we endorse such a procedure I think we leave ourselves open to serious criticism as a result of certain unauthorized practices adopted in the future. I feel that at some stage we should make our feelings known in this regard.

The CHAIRMAN: Mr. Scott, I suppose in some cases the officials of the departments who depart from the authorized practice are not aware of the situation until the Auditor General and his officials make an examination and bring it to light.

Mr. SCOTT: I have sufficient confidence in the ability of the officials to suspect that they know whether or not they have authority or not.

The CHAIRMAN: I was not apologizing for them.

Can we proceed to paragraph 92?

Mr. HENDERSON: Mr. Chairman, I have referred to these situations for exactly that reason, because it is my duty to do so.

Mr. CAMERON (*High Park*): What has the deputy minister said in respect of an amendment to change the situation? Is the deputy minister prepared to recommend to his minister that such an amendment be made, or is there any argument in this respect.

Mr. HENDERSON: I believe the deputy minister has the matter under consideration with his minister. We have had certain correspondence with him in this regard over the past several years. I do not have any progress to report at the moment.

Mr. MCMILLAN: Does the 15 per cent composite rate apply to the depreciated or appraisal value?

Mr. LONG: That per cent would apply to the sale price. These articles again are sold by tender.

Mr. MCMILLAN: I see.

Mr. LONG: The price would be considered as including all customs duties. It would not be practical to do this in any other way. The Canadian government receives 15.25 per cent of the sale price.

Mr. HENDERSON: You might be interested in the deputy minister's comments to me on this particular subject as they appear in a letter dated October 13, 1960 in which he replied to me about this composite rate. Quoting from that letter the deputy minister states:

> As previously indicated, this is a rather abnormal situation, and it may well be that an amendment to the customs tariff could be given study to take care of any doubt that may exist as to authority for the procedure.
>
> Amendments to the customs tariff, as you are aware, are only considered on the recommendation of the Minister of Finance and, in the circumstances I am bringing our correspondence to the attention of the deputy minister of that department for such consideration as he may feel can be given this suggestion.

I believe that is the last word we have had on the matter, Mr. Chairman.

The CHAIRMAN: We are now on paragraph 92, which reads:

> 92. *Determination of "sale price" for sales tax purposes.* In paragraph 59 of the 1960 report, reference was made to the requirement of section 30 of the Excise Tax Act that sales tax be calculated on the "sale price" of goods produced or imported into Canada, with certain stated exemptions, and it was noted that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price. We expressed the opinion that specific authority by parliament is required if the tax is to be computed on less than the sale price of the goods.
>
> The public accounts committee considered the matter during its sittings in 1961 and included in its fifth report of that year (paragraph 56) the recommendation "that the existing method of valuation be provided with statutory sanction".
>
> No action has yet been taken to provide the statutory authority thus recommended. However, the royal commission on taxation established on September 25, 1962 has terms of reference sufficiently broad to permit consideration of this matter.

Mr. LONG: Paragraph 92 deals with the determination of sale price for sales tax purposes. This matter was referred to on November 15, 1963, when the committee considered my follow-up report on the committee's 1961 report to the House of Commons.

It will be noted that the public accounts committee went on record in 1961 that they believed the existing method of valuation should be provided with statutory sanction. However, no action has been taken yet to provide such statutory authority.

It may be of interest to the members to know that this recommendation was made in 1955 by the special sales tax committee appointed in that year under the chairmanship of Mr. Kenneth Le M. Carter, F.C.A., to review and advise upon certain technical questions relating to the administration of sales tax. In their report dated January 12, 1956, the committee stated:

> The act does not appear to authorize the minister to vary actual selling prices or to impute wholesale prices where they do not exist.

With respect to this, the committee recommended that the existing scheme of valuation be continued for the present with statutory sanction.

It is stated in the note that the audit office is of the opinion that the royal commission on taxation established on September 25, 1962 has terms of reference sufficiently broad to permit consideration of this matter. The deputy minister of customs and excise has also expressed the view that he believes this to be under consideration by the royal commission on taxation.

Mr. WINCH: I am most interested in this paragraph 92 and I think that what I have in mind will come under here. I would like to request that paragraph 92 either stand, or that it be determined now that we shall have before us the deputy minister responsible for the administration of the sales tax. I say that, sir, because I have now completed what I think is about one year's study of certain angles of this determination of sale price for sales tax purposes, and I deem it of such importance that I would like to have the committee give a most thorough examination to this, because I think I am sufficiently prepared to be able to prove that for 40 years the department has been following a practice which not only is not permitted by the act on sales tax but that there are two court decisions that it was illegal, and yet the practice is still continuing. I think it is in line with what was mentioned by Mr. Regan a few moments ago. This is a matter of a very serious nature and this is the only place in which I can raise it. I would like therefore to give notice that I would like the permission of the committee to go into this matter in a great deal of detail at some future meeting.

The CHAIRMAN: I may say that when we considered it in the follow-up report last year, we did not complete our study then because we did think we would have the deputy minister of national revenue before us, but unfortunately time did not permit it.

Mr. WINCH: As it is a most complex matter, it has taken me over six months to study it, perhaps I should get in touch with the Auditor General so he can get a clear idea of what I have in mind.

Mr. HENDERSON: That would be most helpful. I might add that while our comment here indicated that it was thought the royal commission on taxation, of which incidentally the same Mr. Carter is the chairman, had had this matter under consideration, it is my understanding at the present time that this is not being considered by the royal commission.

Mr. WINCH: I do not want to go into it now but I want to make it clear, so that there will be no misunderstanding, that I am in agreement with what the department has been doing, but when they have been doing something without the authority of parliament and have been doing it for over 40 years, although there are two court decisions against it, then I think it is a matter for the public accounts committee to go into in detail.

The CHAIRMAN: Mr. Winch has suggested that this matter might stand until we have the opportunity to discuss it with the deputy minister of national revenue. That would be the appropriate department, would it not?

Mr. HENDERSON: Yes, the customs and excise division.

Mr. SCOTT: Who did you want to have called, the head of the customs and excise division?

Mr. WINCH: Whoever is in charge of doing something on the federal sales tax when the law says it cannot be done and two courts say it cannot be done and they are still doing it.

The CHAIRMAN: We will see that it is placed before the Department of National Revenue.

Mr. WINCH: I think the practice is right but let us get the authority of parliament for doing it.

The CHAIRMAN: Is it agreed that we stand it under those conditions?
We will now go on to paragraph 93. It reads:

> 93. *Reporting of remissions.* Section 22 of the Financial Administration Act empowers the governor in council, on the recommendation of the treasury board, "whenever he considers it in the public interest", to remit any "tax, fee or penalty", and further provides, in subsection (8) that:
>
> > A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the public accounts.
>
> Since this act came into force in 1952 it has been the practice to report remissions with an annual total of $1,000 or more in the form of a listing of names of recipients and annual amounts in the public accounts. This is a continuation of the practice previously followed by the Auditor General pursuant to the requirement contained in the Consolidated Revenue and Audit Act, 1931, that "the Auditor General shall call attention to every case in which . . . a refund or remission of any tax, duty or toll has been made on the authority of any act of parliament".
>
> This was used as a precedent but we believe that subsection (8) of section 22 of the Financial Administration Act, quoted above, in calling for "a statement of each remission" (a "statement" was not called for by the earlier act) contemplates the inclusion of a comment giving the particulars with respect to each remission—as is presently done in the cases of remissions to charitable, educational or other non-profit organizations. We feel that explanatory statements are essential if parliament is to have a clear understanding of the nature of the remissions.
>
> An illustration of the inadequacy of the present method of listing remissions is given in the following paragraph.

Mr. LONG: Paragraph 93 deals with reporting of remissions. This note in 1962 expressed our view that explanatory statements, called for by subsection (8) of section 22 of the Financial Administration Act should be provided in the public accounts of Canada with respect to each remission in excess of $1,000 granted during the fiscal year. This is essential if parliament is to have a clear understanding of the nature of remissions. As I mentioned at the time we were considering the follow-up report, we were pleased to say in our 1963 report under paragraph 75 that the Department of National Revenue took note of this observation in the 1962 report and accordingly reported remissions granted in 1962-63 in greater detail than in previous years, along with explanations enabling the reader to determine the manner in which the remission prerogative was exercised.

Mr. HENDERSON: This was a case where the recommendation contained in my report was in fact adopted the following year, and I was happy to tell you of this at the time we considered the follow-up report. Presumably, you would not wish to spend any time on this.

The CHAIRMAN: Is there any discussion on this? If not, can we pass on to paragraph 94, as follows.

94. *Remission of sales tax on oleomargarine.* At the time of the negotiations leading up to the entry of Newfoundland into confederation in 1949, the following undertaking was given to the Newfoundland delegation with respect to sales tax on oleomargarine:

> The Canadian government will be prepared to submit to parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada.

There has been no such legislation but the governor in council, on the recommendation of the treasury board, has followed the practice of remitting, under the authority provided by section 22 of the Financial Administration Act, the sales tax on all oleomargarine sold in the province of Newfoundland.

The remissions thus granted, when in excess of $1,000 in a year for each manufacturer, are included in the public accounts' listing of remissions (public accounts, Volume II, section 37), referred to in the preceding paragraph, under the names of the manufacturers concerned, but there are no statements to indicate that the remissions are in respect of tax on sales of oleomargarine in Newfoundland. In other words, there is no indication that the discretionary authority provided the executive by the section referred to above has been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

Mr. LONG: Paragraph 94 deals with remission of sales tax on oleomargarine. The details given here respecting this particular remission, pointed up the inadequacy of the old method of showing remissions in the public accounts.

However, there is a further point suggested by our note here and that is the question of rendering a tax, applicable eleswhere in Canada, completely inoperative in one province, a subject members of the committee might care to discuss.

The CHAIRMAN: Is there any discussion on this?

Mr. SCOTT: How can they do this?

Mr. CAMERON (*High Park*): They made the improvement in this particular remission so as to give us more details.

Mr. HENDERSON: Yes. It is disclosed this year; you can see in the public accounts what is taking place, but at the time this particular note went into our 1962 report we were arguing the case for that disclosure, and this was a good example of the sort of thing which would be brought to light.

Mr. SCOTT: It seems to me that this is a case where a discretionary authority has been used in a legislative sense. Discretionary authority is now being exercised in effect in a legislative capacity. What they neglected or declined to do by legislation they mean to do by discretionary authority. This again is a dangerous principle to which to accede to, and perhaps the committee should consider making a pretty strong recommendation that they change the legislation or desist from what I think is a misuse of the discretionary power.

Mr. RYAN: Certainly the undertaking has not been carried out to submit parliament with appropriate legislation.

Mr. SCOTT: I cannot understand why.

The CHAIRMAN: Is there any further discussion on this?

Mr. HALES: Maybe we would include this with the other recommendation under the principle which Mr. Scott has been speaking about.

The CHAIRMAN: This is a good idea.

Mr. LONG: There is a little complication here and I am not sure that members are aware of it. At the time this undertaking was made we did not have margarine in Canada, but we now have it and it is subject to a sales tax, so there undoubtedly is a problem there. It is being remitted on all the margarine sold.

Mr. RYAN: It is a 15 year old undertaking.

The CHAIRMAN: We are now on paragraph 95, which reads:

95. *Access to taxation collection files refused.* In December 1961 the treasury board approved the withholding of amounts payable to three taxpayers to be applied towards reduction of their indebtedness to the crown with respect to income tax for the years 1954 to 1960. As such a step indicated a failure of normal collection procedure, we requested the relative head office collection files for audit examination. On the instructions of the Minister of National Revenue these files were not made available to us by the taxation division and we were informed that the minister intended seeking the opinion of the Department of Justice with respect to our right of access to such files. Up to the date of this report we have not been advised regarding any such opinion although we directed enquiries to the taxation division on two subsequent occasions.

Our request for access to the files in question was based upon section 66 of the Financial Administration Act, subsection (1) of which reads as follows:

> Notwithstanding any act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he 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.

In paragraph 7 of this report, reference is made to the statutory responsibility resting on the Auditor General to ascertain that "all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue". It is for this reason that examination of collection files is an integral part of our audit in any department whose operations result in moneys accruing to the crown.

Mr. LONG: Paragraph 95 deals with access to taxation collection files refused. The subject matter of this note was discussed by the committee in February, 1963 and dealt with by the committee in its final report to the house on February 5, 1963 when the files in question were made available to the Auditor General.

Mr. HENDERSON: There is no point in discussing this one.

The CHAIRMAN: We are now on paragraph 96.

96. *Questionable charge to Vote 306.* This vote, which provided funds for the national museum of Canada, was charged with an outlay of $5,000 in connection with a preliminary investigation into proposed archaeological work associated with the salvage program being carried out under UNESCO leadership, for the preservation of artistic and historical treasures in that part of Egyptian and Sudanese Nubia which will be flooded by the lake formed by construction of the High Aswan dam. Canada's proposed contribution would be an expedition, sponsored by the national museum and a Canadian university, to search for relics of prehistoric man in the area.

As the duties, powers and function listed in the Department of Northern Affairs and National Resources Act, 1953-54, c. 4, restrict work in the archeological field to Canada, the regularity of the charge made to Vote 306, in connection with the Nubian salvage program, seems questionable.

Mr. HENDERSON: Paragraph 96, Mr. Chairman, is a case where the Department of Northern Affairs and National Resources, under their act which restricts work in the archaeological field to Canada, was extended to take care of an outlay of $5,000 paid in connection with work in Egypt. Vote 120A of the supplementary estimates for 1962-63 extended the purposes of the national museum appropriation for that year to include payments with the approval of the governor in council in respect of archaeological investigation in Egypt in connection with Canada's participation with UNESCO in preserving Nubian antiquites. You will appreciate it is my responsibility to report cases of this type to you, although the amount in this instance was not large.

The CHAIRMAN: Are there any questions on this?

Mr. TARDIF: Do they specify at what time they want to go on this expedition? I presume it is during the holiday season.

Mr. HENDERSON: I do not think I have that record, but I think it was a contribution towards UNESCO's team. Whether it was during the holiday season, I do not know.

The CHAIRMAN: As long as it was not in the parliament recess for the year 1964. Are there any further questions?

Gentlemen, it is now 11 o'clock, which is the witching hour we fixed upon for our adjournment. The meeting is adjourned until 9:30 a.m. on Tuesday.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

TUESDAY, JUNE 16, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

20964—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

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Cameron (*Nanaimo-Cowichan-The Islands*),
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Richard,
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Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Skoreyko,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 16, 1964
(7)

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

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Côté (*Chicoutimi*), Fane, Forbes, Hales, Harkness, Lessard (*Saint-Henri*), Loiselle, McLean (*Charlotte*), McMillan, Pilon, Ricard, Rinfret, Rock, Southam, Stefanson, Tardif, Wahn, Winch (21).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Laroche, Crowley, Chapman, Millar, Douglas and Smith of the Auditor General's office.

The Chairman tabled copies of "Report of Surplus" and "Offer Form" (tenders) supplied by Crown Assets Disposal Corporation which were distributed to members of the Committee. It was agreed that these forms be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix*)

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

Mr. Henderson reviewed paragraphs 97 to 140 inclusive, including the Summary of Assets and Liabilities, and was questioned thereon, assisted by Messrs. Smith and Long.

Paragraph 98 was allowed to stand on the suggestion of Mr. Hales.

On paragraph 103, *War Veterans Allowances,* Mr. Baldwin referred to a letter he received from Mr. W. T. Cromb, Chairman of the War Veterans Allowance Board, dated November 27, 1963. The Chairman suggested Mr. Cromb be called later when this item will be considered during the review of the 1963 report of the Auditor General.

It was agreed to defer consideration of paragraphs 101, 103, 106, 107, 108 and 114 until the Committee reviewed the 1963 Report of the Auditor General.

On paragraph 115, *Non-productive payments,* the Chairman suggested that the Steering Committee study this matter to determine the witnesses to be called to elaborate on these payments.

The questioning of Mr. Henderson still continuing, at 10.55 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 18, 1964.

M. Slack,
Clerk of the Committee.

20964—1½

EVIDENCE

TUESDAY, June 16, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. We will now come to order and continue our deliberations. I believe we adjourned our last meeting after having considered paragraph 96 of the 1962 Auditor General's report. We shall now proceed with our consideration of paragraph 97, but before doing so I should like to mention the fact that I have a number of declarations and reports that Mr. Richard, president of Crown Assets Disposal Corporation, said he would make available to us. I am going to ask that these be distributed to the members of this committee and that we have one of each printed as an appendix to our Minutes of Proceedings and Evidence. These will be distributed to you in order that you will have a copy in your files for examination.

Mr. Henderson we will now consider paragraph 97.

> 97. *Rural mail boxes.* For many years the post office department has provided mail boxes to its rural patrons at a price of four dollars each. The cost of manufacture and distribution of these mail boxes has steadily increased, with the result that the department now absorbs a considerable loss on each box sold. The cost of manufacture, which was $2.85 in 1950, had increased to $5.21 by 1961, and the addition of shipping, handling, storage and distribution charges would bring the total unit cost to approximately $7.50. In 1961-62, 18,310 mail boxes were sold, resulting in a loss to the department of approximately $64,000.

Mr. A. M. HENDERSON (*Auditor General*): Continuing with the report, Mr. Chairman, we come next to paragraph 97 appearing on page 43 of the 1962 report. The subject matter of this note shows that rural mail boxes which were being sold by the Post Office Department for $4 each were in point of fact costing something in the order of $7.50 to have manufactured. I would mention, however, that this situation has since been effectively dealt with by the Post Office Department itself because on April 1 of this year it quit the business of having these rural mail boxes manufactured and distributed.

It may be of interest to the members of this committee to know that retail stores are currently retailing these mail boxes at more than twice the price formerly charged by the Post Office Department and, therefore, the loss to which I refer will not occur in future.

Mr. FORBES: This is another indication of the farmers being treated badly again.

The CHAIRMAN: This subsidy has been discontinued.

Mr. FORBES: If the farmers are not caught on income tax they are caught in respect of mail boxes.

The CHAIRMAN: This paragraph has been disposed of now.

We shall now consider paragraph 98.

> 98. *Departmental publication printed without requisite treasury board authority.* An Executive directive issued in 1951 permits the queen's printer to accept requisitions for printing publications estimated to cost

in excess of $5,000 only when such requisitions have been approved by the treasury board either specifically or as part of a publications program.

In accordance with the foregoing requirement, treasury board authority was sought in April 1961 for the printing of 3,000 copies, to be sold at $5 per copy, of a publication entiled "Langage et Traduction" at an estimated cost of $8,000. The publication was to consist of a compilation of notes on translation prepared by a senior officer of the Bureau for Translations of the Department of the Secretary of State. The treasury board did not approve of the proposal, concluding that it was not in the public interest to expend crown funds on a publication of this nature.

Despite this injunction, however, the Department of Public Printing and Stationery proceeded to print 800 copies of the publication at a cost which, for the reduced quantity, was expected to approximate $4,000 but which, in fact, reached $7,000. As the $5,000 limit had been exceeded it was necessary to obtain ex post facto authority from treasury board for the printing of the publication and this was given on March 29, 1962.

Mr. HENDERSON: My comments appearing in paragraph 98 explain the circumstances under which the queen's printer proceeded with the production of a publication notwithstanding the treasury board's ruling that it was in the public interest to spend public funds on a publication of this nature. As it turned out when we checked the outcome of this matter last December the demand was such that 4,800 copies were printed at a cost of $14,036 while sales of only 2,900 copies to that date had realized $15,800. I do not know whether or not any of the members have questions in respect of this item but it does point out the unrealistic nature of transactions of this type.

Mr. HALES: Mr. Chairman, I wonder whether we could leave paragraph 98 open for further discussion as I should like to ask several questions at a later time. I am not prepared to do so this morning.

The CHAIRMAN: I do not think there will be any objection to that suggestion, Mr. Hales.

We will now consider paragraph 99.

99. *Payment of maintenance expenses of Civil Service Recreational Association Centre.* The policy that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purposes is one of long standing. Attention is therefore drawn to the following instance where the Department of Public Works extended financial assistance to the Civil Service Recreational Association of Ottawa although neither the text of the vote involved nor the related details of services contained any reference to the assistance.

The association, which was incorporated in 1941 for the purpose of providing athletic and other recreational facilities for its membership, constructed a centre, which was opened officially in October 1959 and acts as the operating hub of its activities. In February 1961 the Department of Public Works was authorized by the treasury board to assume the cost of maintenance of the centre, effective April 1, 1961, and during the ensuing year costs of approximately $25,000 were incurred for lighting, heating, water, snow removal, and repairs and upkeep, and charged to the appropriation for "Maintenance and Operation of Public Buildings and Grounds" (Vote 344).

Mr. HENDERSON: As the note says, this involved financial assistance provided to a non-government organization without specific provision being made for such assistance in the appropriation involved. That is to say Vote 344 entitled "Maintenance and Operation of Public Buildings and Grounds" did not provide specifically for this assistance. In my 1963 report under paragraph 79 at page 49, I refer to this same situation and perhaps we should dispose of that paragraph at the same time, Mr. Chairman.

The CHAIRMAN: Yes. Paragraph 79 follows:

> 79. *Payment of maintenance expenses of Civil Service Recreational Association Centre.* In last year's report (paragraph 99) attention was drawn to financial assistance of approximately $25,000 extended in the form of maintenance services rendered by the Department of Public Works to the recreational centre operated by the Civil Service Recreational Association, a privately managed staff organization at Ottawa, which provides athletic and other recreational facilities for its membership. The assistance was given with the concurrence of the treasury board, although neither the text of the appropriation involved nor the related details of services contained any reference to the assistance. It was pointed out last year that this was contrary to the long-standing policy that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purpose.
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> During the year under review the public works appropriation for "Maintenance and Operation of Public Buildings and Grounds" (Vote 75) was charged with costs of approximately $31,600 in respect of lighting, heating, water, and repairs and upkeep in connection with the centre, while the appropriation for "Improvements Generally" (Vote 70) was used to meet the cost of $1,345 incurred for grounds maintenance. In neither instance did the text of the appropriation nor the associated details of services refer to the assistance to be thus provided.

Mr. HENDERSON: In that paragraph I draw attention again to the continuation of this practice, the amount for the 1962-63 year being approximately $33,000. The vote text for the corresponding appropriation for the 1963-64 fiscal year was extended through the medium of an item in the supplementary estimates, to provide for the maintenance and operation of public buildings and grounds, to extend the purposes of Vote 75 of the main estimates for 1963-64 to include the W. Clifford Clark Memorial Centre in Ottawa. Specific provision for the same purpose is contained in the 1964-65 appropriations (Vote 5).

The CHAIRMAN: Are there any questions in respect of this particular item?

Mr. HALES: There is apparently no ceiling on the amount of money given for this purpose. The item just states that it is for the operation and maintenance of public buildings and grounds but does not refer to a ceiling.

Mr. HENDERSON: Until this comment appeared in the report there was no indication in the vote wording to the effect that it was planned to include this non-government assistance. This is a non-government organization which charges fees for membership. However, in 1963-64 the words I have referred to were added to include the W. Clifford Clark Memorial Centre in Ottawa. The cost of the work that is done here will presumably vary within certain ranges. The amount was $25,000 in 1961 and has gone up now to $33,000. What is the nature of the work done in this regard, Mr. Smith? Does it not include maintenance of the grounds?

Mr. D. A. SMITH (*Supervisor—Auditor General's Branch*): This item relates to the provision of heating, lighting and power but not to cleaning, and to the maintenance of the grounds and general repair work inside the centre.

Mr. FORBES: Who owns this building?

Mr. SMITH: This building is owned by the Civil Service Recreational Association.

Mr. FORBES: Why does that association receive a grant of $25,000 for maintenance? This is a private building for recreational purposes and I do not understand why the government is subsidizing that association to the extent of $25,000. I think this situation is worse than that in respect of the mail boxes.

Mr. HENDERSON: This was one of the points that I raised. I have here the annual report of the association for the year 1961-62 which shows that the operating profit for that year was $15,856 without presumably including the things paid for by the government. The association charges fees for membership and according to their certified accounts for that year their income from membership fees, cafeterias, canteens and so forth exceeded their expenditures by $15,856.

Mr. WAHN: Mr. Chairman, I should like to point out that the situation has not been improving and in view of the fact that centre is not publicly owned the addition of the words which the Auditor General mentioned will not improve the situation either. As I understand the situation the vote is for the maintenance and operation of public buildings and grounds and a building owned by a private recreational association certainly cannot be considered to be publicly owned.

Mr. HENDERSON: By the addition of the words I have quoted to the text of the vote parliament will be advised of the nature of the buildings that are going to be included and consequently approval might then be said to cover the cost of the upkeep of this particular building.

Mr. WAHN: I think the wording is misleading because it perhaps suggests that the building is publicly owned whereas in fact it is privately owned.

Mr. HENDERSON: Yes. I think you have made a good point.

The CHAIRMAN: Perhaps I could interject at this moment for the purpose of advising those members of this committee who have just arrived that we are now dealing with paragraph 99 of the 1962 Auditor General's report, as well as paragraph 79 covering the same item as it appears in the 1963 Auditor General's report.

Mr. SOUTHAM: There is one other thing that occurs to me in respect of paragraph 99. This paragraph refers to one specific expense involving a civil service organization. I think a continuation of this practice will lead to the establishment of a dangerous precedent because civil service organizations in other areas when they become aware of this practice will likely make application and expect to receive the same kind of treatment.

Mr. HENDERSON: This is an organization which charges fees to its members and provides benefits. Presumably it is intended to be a non-profit making organization but as a result of its financial position at the end of the year to which I referred I felt I should bring this situation to the attention of the members of the committee.

Mr. FORBES: Apparently this organization is being subsidized by the government.

Mr. HENDERSON: Yes.

Mr. FORBES: What possible reason could the government have for assisting this association in the construction and maintenance of a recreational facility? We all know that some civil servants belong to the Hunt Club but I should not think that organization is eligible for a grant on the same basis.

Mr. TARDIF: Surely there is a responsibility on this employer to its employees as there is in respect of private industry. If this organization is not

subsidized to some extent by the employer that responsibility will fall on the city. Why should the taxpayers in the city of Ottawa subsidize civil servants even though they form the major proportion of the population? I personally feel that this amount is being provided because of responsibility on the part of the employer to the employee.

Mr. FORBES: I do not believe that either the city or the government has any responsibility in respect of a recreational centre for employees.

Mr. TARDIF: Mr. Chairman, surely an employer has responsibility in respect of the welfare of his employees, whether the employer be in private industry or government. The dominion government has a greater responsibility because of the fact it has a greater number of employees concentrated in a smaller section of the country.

Mr. FORBES: Would you suggest Mr. Tardif that the federal government should construct a recreational centre here for you and other members so that we can curl, swim and so on?

Mr. TARDIF: I would make that suggestion but it would not be popular in my riding.

The CHAIRMAN: Are there any further comments in respect of paragraph 99 and paragraph 79 of the 1963 report?

Shall we now move to a consideration of paragraph 100?

Mr. HALES: Before we move on Mr. Chairman, I think that if we are going to leave the situation as it now exists we should make some recommandation regarding a ceiling on the amount to be granted.

The CHAIRMAN: Yes.

Mr. MCMILLAN: Mr. Chairman, are we now considering paragraph 100?

The CHAIRMAN: We are now considering paragraph 100.

Mr. WINCH: In respect of this civil servants recreational association what are the qualifications for membership? Is membership restricted in any way?

Mr. HENDERSON: I do not believe membership is restricted.

Mr. TARDIF: Any one who is employed by the civil service can belong to that association, and the members of the family of members can belong. A great number of individuals enjoy the facilities provided by this association and the amount of money that the federal government contributes is very negligible in comparison to the service rendered.

Mr. WINCH: The point I was making is that there might be a difference in my attitude toward this contribution if membership was restricted to a particular class of civil servant. It would be an entirely different situation if membership is open to all civil servants at every wage level.

Mr. HENDERSON: I understand membership is open to all civil servants. It is commonly known that this association carries out excellent work and provides excellent facilities. The basis of my criticism here lies in the fact that this contribution was not authorized under the vote, but perhaps by the change to be made in the wording of the vote you may or may not feel that what is to be done commends itself to you as an effective departure from proper practice.

Mr. TARDIF: Unless changes have been made during the last year the fee charged to members is fifty cents per year and $6 per year for a family unit. For that fee the association provides swimming facilities, bowling, recreational halls, meeting halls, libraries and many other services. I suggest that it would be a good idea for the members of this committee to visit the centre at some time.

Mr. HENDERSON: Mr. Long informs me that it is his belief that the fee is 25 cents per month.

Mr. TARDIF: I am a member of the association and last year I paid $6 for my family. I know that individual members last year paid 50 cents for membership.

Mr. HENDERSON: I have before me the annual report of the association for 1961-62.

Mr. TARDIF: I think the 25 cents per month covers the fee for a family. Certainly the fee is not very high.

The CHAIRMAN: Are there any further questions in respect of this paragraph?

Shall we now consider paragraph 100?

Dr. McMillan, I think you had a question regarding this paragraph, which reads:

> 100. *Route facility fees receivable from airlines.* Reference is made to the comments on this subject contained in paragraph 79 of last year's report where it was mentioned that ten airlines were indebted to the Department of Transport to a total $1,284,000.
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> During the year under review, resistance to the payment of the route facility fee continued to be encountered by the department, with most of the airlines which had originally paid the fee having stopped doing so. At March 31, 1962 the records of the department showed that 17 airlines owed amounts totalling $3,239,000. Legal action has been instituted against two of the major airlines involved.

Mr. MCMILLAN: What were the results of the legal actions instituted two years ago as referred to in this paragraph? Was any of the money involved collected from the two major air lines?

Mr. HENDERSON: I do not believe any of the money was collected. Is that a correct statement, Mr. Smith?

Mr. SMITH: The legal action was discontinued on the advice of the Department of Justice which indicated that the regulations under which the fees were being assessed were not valid.

Mr. HENDERSON: The amount of money involved increased to $5,500,000 as of March 31, 1963 with 22 air lines involved. The Department of Justice, however, doubted the legal validity of the regulations under which the fee was being assessed, and an order in council last October authorized the remission of fees paid or payable.

Members may recall that last December the Minister of Transport introduced a measure, Bill No. C-117, an act to amend the Aeronautics Act which in part was intended to provide authority for the charging of such fees. I do not believe that measure has been proceeded with yet.

Mr. HARKNESS: The air lines involved are mainly foreign air lines; is that right?

Mr. HENDERSON: Yes, that is correct. This involved air lines operating aircraft across the country.

Mr. CARDIFF: Why is it that some air lines have paid these charges while others have not? You indicate in this paragraph that there are 17 air lines involved owing an amount totaling $3,239,000.

Mr. HENDERSON: As of March 31, 1963, that figure has risen to $5,500,000 with 22 air lines involved. Some air lines have made payments.

Mr. CARDIFF: Some air lines have made payments while others have not, and yet others have stopped making payments altogether.

Mr. HENDERSON: The order in council to which I referred authorized the remission of moneys paid by those air lines. The government intends to introduce legislation designed to put this situation on a different footing.

Mr. CARDIFF: If one air line is required to pay this fee, then they all should be required to pay it.

Mr. HARKNESS: The basic situation involved the Department of Justice indication that there was no real authority for collecting these fees as I understand it.

Mr. HENDERSON: The Department of Justice questioned the validity of the regulation.

Mr. HARKNESS: Therefore the money collected was paid back to the air lines; is that right?

Mr. HENDERSON: That money was remitted to them.

Mr. HARKNESS: This is not then really a collectable debt under these circumstances?

Mr. HENDERSON: That is right.

Mr. HARKNESS: Why do you make reference to it in your paragraph?

Mr. HENDERSON: The amount was considered to be collectable at the time this report was written. As of March 31, 1962 the Department of Justice had not delivered itself of any ruling on the matter and this amount stood as a debt and was so recorded in the books. As of March 31, 1963, the same situation prevailed and the debts then amounted to $5,500,000. In October of last year this order in council was passed, presumably as a result of the view of the Department of Justice, and it constituted authority for the remission of the fees paid to the air line companies who had paid them. Two or three months after that, in December, the Minister of Justice introduced a measure in the House of Commons dealing with this situation but that measure was not proceeded with at that time.

Mr. HARKNESS: I suppose this situation resulted from the fact that under international air agreements foreign companies considered that there was no legal right on the part of Canada to collect this money?

Mr. HENDERSON: I think that is correct, sir. The air line companies protested and engaged legal counsel. The larger international air carriers were the principal companies opposing the collection of this fee as I recall.

Mr. MCMILLAN: Do our air line companies pay for similar services in foreign countries?

Mr. HENDERSON: I do not have an immediate answer to that question. Do you know the answer, Mr. Smith?

Mr. SMITH: I do not have an immediate answer to the question either but I do know two or three years ago Britain considered the matter of assessing a charge. Whether Britain proceeded with that measure or not I do not know.

The CHAIRMAN: So that the record will be complete Mr. Henderson, I should state that the legislation to which you referred was introduced last December but was not passed.

Mr. HENDERSON: I do not think the government has completed this matter by any means.

The CHAIRMAN: I believe the session ended before that measure could be considered.

Mr. HENDERSON: That is right: I believe the government intends to bring this situation to conclusion.

Mr. WINCH: As far as this committee is concerned there is no real problem involved?

Mr. HENDERSON: That is correct, sir.

The CHAIRMAN: May we now move to a consideration of paragraph 101?

101. *Expenditure incurred without Treasury Board approval.* The Department of Transport obtained treasury board approval to enter into a contract for the supply and installation of furnishings for the public areas of the terminal building at the Montreal Airport at a cost of $475,000. The accepted tender included $35,000 for a work of sculpture to be located in the lobby of the building. When provision for this work was cancelled the department used the resulting saving to order extras in the form of additional drapes and other furnishings not provided for in the original specifications. In doing so it took the stand that, because the total cost incurred was within the financial bounds set by the original treasury board authority, it was unnecessary to seek the board's approval for the procurement of the extras.

On communicating with the secretary of the treasury board, we were informed that "the deletion of the work of sculpture involved a significant change in scope of the proposed furnishing program and not a substitution of one item for a comparable item", and that the saving arising from the deletion of the work of sculpture should not have been used for the extra items. The department has advised us that it does not share this view.

Mr. HENDERSON: This paragraph relates to the manner in which the Department of Transport, on the cancellation by treasury board of provision for a work of sculpture for the Montreal international airport, used the resulting saving to obtain extras in the form of additional furnishings not provided for in the original specifications. As the note describes the treasury board was of the opinion that its authority should have been sought for the extra items under these circumstances, but the department did not agree and went ahead regardless. I felt this was a matter which should be brought to the attention of the members of this committee although there is little that can be done about it at this stage.

Mr. TARDIF: I think this is a very irregular way of doing things.

Mr. HENDERSON: That is the thought I had, sir.

Mr. TARDIF: Even though we cannot do anything about this particular situation at this time I think we should make some recommendation so that a similar situation will not occur again. I do not know the amount involved, and even though it may be small, we should make some recommendation or suggestion so that this situation will not reoccur. Under the present circumstances a department could propose an excessive estimate in respect of a specific project and then use the money for some other purpose.

Mr. HENDERSON: The amount involved in this item is $35,000.

Mr. WINCH: I should like to know whether anyone can tell me if it is permissible for a department to overrule the treasury board?

Mr. HENDERSON: That is not usual, Mr. Winch. In this particular case a lengthy argument ensued and it will be quite clear to members how the treasury board made efforts to economize. This item represented a savings which the treasury board wished to effect.

Perhaps we can leave this paragraph in abeyance until we reach a consideration of the Montreal international airport as a whole, as referred to in the 1963 report, wherein we deal with the ultimate cost of that job.

This refers to one of the smaller items relating to that building. We will be considering the Montreal international airport construction costs when you examine the 1963 report.

The CHAIRMAN: Does that view commend itself to the members of this committee?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will reserve our right to deal with this subject when we reach our consideration of the 1963 report dealing with the Montreal international airport.

We will now consider paragraph 102.

102. *Inadequate recording of subsidy in the accounts.* In June 1959 the Department of Transport entered into a contract for the construction of a vehicular and passenger ferry at an estimated cost of $1,113,578 for use, by charter, on the Bell Island-Portugal Cove, Newfoundland ferry service. The final cost of the vessel which was completed in the spring of 1960 and commenced operations in August of that year has not yet been determined, although costs of $1,158,000 were recorded to March 31, 1962. With the approval of the governor in council the vessel, named the "John Guy", was chartered under an agreement dated September 8, 1960 to the Newfoundland Transportation Company Limited, operators of the Bell Island-Portugal Cove ferry service, for one year to August 15, 1961, and the agreement was subsequently extended for a further year and from year to year thereafter.

The rate of charter hire payable under the agreement is calculated as follows:

(i) depreciation in accordance with the straight line method of 4 per cent per annum based upon the actual cost of construction of the vessel as determined by the minister, and

(ii) interest at 5¾% per annum upon the unrecovered cost of the construction of the vessel as determined by the minister.

The charter hire fee payable, calculated on an interim cost for the vessel of $1,200,000, for the year ended July 31, 1961 amounted to $117,000 and for the period August 1, 1961 to March 31, 1962 it was $75,354, or a total of $192,354 to March 31, 1962.

On July 27, 1961 the treasury board approved the payment of subsidies of up to $274,414 to the Newfoundland Transportation Company Limited for the period from August 1, 1960 to March 31, 1962, and at the same time waived payment of the charter hire fees of $192,354 for the period. The amount actually paid by the Canadian Maritime Commission under this authority was $274,385, and this amount was recorded as a charge to the appropriation for "Steamship Subventions for Coastal Services, as detailed in the Estimates" (Vote 450).

In the circumstances described it would have been more appropriate from the accounting point of view to have shown a gross subsidy of $466,739 as a charge to the appropriation, and to have recorded the charter hire fee of $192,354 as revenue. Moreover, such a presentation would have been consistent with that used in the Public Accounts in relation to the "Lord Selkirk" which has been chartered for several years to Northumberland Ferries Limited for the Prince Edward Island-Nova Scotia ferry service.

Mr. HENDERSON: This note describes the nature of the subsidy paid to the transportation company for the ferry service, but is critical of the manner in which the amount was shown in the public accounts. In other words, instead of the amount of $274,385 being charged on a net basis to vote 450, the gross subsidy of $466,739 should have been shown as a charge to this appropriation and the charter hire fee of $192,354 recorded as revenue. We have a precedent here in the case of the *Lord Selkirk* chartered for many years for the Prince Edward Island-Nova Scotia ferry service.

This same practice was continued in 1962-63 when a net subsidy payment of $150,200 was recorded. However, our criticism was met in 1963-64 when provision for a subsidy of $279,050 was made in order to record the full subsidy and to credit revenue with the charter hire fee. Accordingly, as a result of our comments here, the recording, beginning in the years 1963-64, will be correctly made so that I think this is now on track.

Mr. WINCH: The matter has been satisfactorily handled.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will proceed to paragraph 103, which reads:

> 103. *War Veterans Allowances.* The War Veterans Allowance Act, R.S., c. 340, sets out the rates of allowances payable to veterans, widows and orphans eligible for assistance and prescribes that allowances paid, together with other income of the recipient, shall not exceed established ceilings. It also provides that applicants may not qualify for an allowance if they own personal property in excess of $1,250 if eligible for single rates, or $2,500 if eligible for married rates. The act empowers the minister, with the approval of the governor in council, to make regulations which among other things define "income", "casual earnings" and "personal property" for purposes of the act. Attention is now drawn to two anomalies in the application of this legislation:
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> 1. "Personal property" as defined in the regulations includes cash in hand or in bank, negotiable bonds and marketable securities, but mortgages and agreements for sale are not mentioned. As a result, the allowance is made available to some whose sizeable holdings in mortgages and agreements for sale would preclude their qualifying for assistance were their assets in another form, for example negotiable bonds or securities. In an extreme case, an allowance was awarded an applicant who sold his fruit farm for $30,000, taking $9,000 cash (most of which was reinvested in a new home) and retaining a $21,000 mortgage, repayable as to principal and interest at the rate of $1,200 per annum.
> 2. The regulations prescribe that, for one year from the date of sale or until any of the money is used for a purpose other than to purchase another residence, whichever is earlier, the proceeds from the sale of a recipient's or applicant's residence up to an amount of $9,000 is not personal property, and over that amount is income in the amount of 5 per cent of the excess. The purpose is to give the recipient or applicant who sells his home a reasonable opportunity to buy a new home without having his allowance cancelled or denied because of excessive personal property. In some cases, however, the purchase of a new residence takes place within a comparatively short period and the recipient is, therefore, while in possession of residual cash and personal property in excess of the maximum permitted under the act, continued on allowances until the anniversary date of the sale of the former residence.
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> The War Veterans Allowance Act and the supporting regulations provide for penalties by way of fine or imprisonment or both to any person who, for the purpose of obtaining an allowance, knowingly makes a false or misleading statement or fails to disclose any material fact or who, subsequent to becoming a recipient, fails to report immediately any pertinent information which might have a bearing upon the amount of the award. On the basis of a test examination of files during the year, 57 cases, most involving undisclosed income, in which there were false statements or failure to disclose material facts, were referred to the war veterans allowance board. In one case the recipient, on two occasions, had

failed to disclose material facts: on the first occasion the allowance was discontinued and an overpayment of $1,077 established in 1954; and on the second occasion an overpayment of $4,289 was established when it was disclosed in the audit that the veteran's wife had been employed almost continuously since shortly after the veteran again came on allowance in July 1957. In another case, a single veteran was granted the allowance in November 1961, along with a continuing monthly grant from the assistance fund, upon his statement that he was not working, that he had no prospects of employment and only $50 in assets. In April 1962 the allowance was discontinued when the department discovered that the veteran was employed as a full time federal civil servant with a salary of $6,540 and had been so at time of application—in fact since April 1960.

Following the practice of recent years, no legal action was taken to invoke the penalties provided by the act in any of the cases noted because it was considered that such action was uneconomic and accomplished little. Unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue.

The legislation establishing war veterans allowances was predicated on the assumption that war veterans pre-age the general civilan population by some ten years. Thus, aside from providing assistance to those who because of physical or mental disabilities or economic hardships are unable to maintain themselves, its main purpose was to provide financial assistance to veterans of limited means at age 60 rather than at 70, the eligible age for an old age pension. In consequence, recipients on becoming eligible for the old age pension had their war veterans allowances adjusted downwards so that total annual income remained within the ceiling prescribed in the War Veterans Allowance Act.

There was a departure from this long-established principle when an amendment to the War Veterans Allowance Regulations, approved by the governor in council, directed that from February 1, 1962, $10 of the old age pension be considered as exempt income for purposes of the War Veterans Allowance Act. This action was taken notwithstanding the fact that by amendment to the act, assented to on June 22, 1961, the maximum monthly allowances and the annual income ceilings of recipients had been increased by 20 per cent effective June 1, 1961. Consequently, this exemption of $10 of old age pension had the effect of augmenting the income of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

The CHAIRMAN: In respect of paragraph 103, last year, in the expectation that this might be coming up, I was in touch with Mr. Cromb, the chairman of the war veterans board. He wrote a letter, addressed to me, dated November 27, 1963. This matter is brought up again in the 1963 report of the Auditor General and is dealt with quite extensively there, including the items referred to in his 1962 report. Possibly, with your approval, I might have this letter printed in due course and have comments from Mr. Henderson on the letter, so that when we come to the 1963 report the committee will have the benefit of the views of both parties. At that time I hope we will have Mr. Cromb here to discuss the matter.

Is that agreeable to the committee?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will now proceed to paragraph 104, as follows:

104. *Veterans hospitals and institutions.* Hospitals and institutions operated by the Department of Veterans Affairs, originally provided to take care of veterans requiring treatment for war service disabilities,

are at present being occupied to a considerable extent by domicilliary care cases and war veterans allowance recipients. The latter, who are provided treatment for all conditions, service-induced or otherwise, are for the most part insured under the various provincial hospital insurance plans. During 1961-62 domiciliary care patients and war veterans allowance recipients accounted for 40 per cent and 21 per cent, respectively, of all patient days in departmental hospitals and institutions whereas disability pensioners accounted for only 17 per cent. During the year the average per diem cost of maintaining patients in active treatment hospitals where 38 per cent of the occupied beds were taken up by domiciliary care cases was $18.76 compared with $9.63 in non-active treatment centres where occupancy is predominantly by domiciliary care cases.

The cost of operating departmental hospitals and institutions for the fiscal years 1956-57 and 1961-62 was $34,596,693 and $46,771,192, which, based on total in-patient days of 2,750,651 and 2,574,509, results in costs per in-patient day of $12.58 and $18.17—an increase during the five year period of 44.4%. In addition, capital expenditures, mainly for improvements and equipment, averaged approximately $4.5 million per year during this period.

The introduction of provincial hospital insurance plans under which war veterans allowance recipients are insured, the declining numbers of pensionable disability cases being cared for in departmental hospitals, the rising cost of operating the hospitals and the increasing use of expensive active treatment facilities for housing domiciliary care cases, all indicate that a reappraisal of the department's role in the operation of hospitals would be desirable. We understand that this has been the subject of a detailed study carried out by the royal commission on government organization, although no report or recommendations have yet been made.

Mr. HENDERSON: This note on veterans' hospitals and institutions gives facts and figures regarding the cost to the Department of Veterans Affairs of operating the departmental hospitals and institutions, which over the five year period through 1961-62 has risen over 44 per cent. My comments here were supported by the results of the detailed studies carried out by the royal commission on government organization.

In my 1963 report, under paragraph 90 on page 58, I have updated this situation for the information of the house.

Subsequent to the tabling of the 1963 report last February, as you know, the Minister of Veterans Affairs has made a number of statements in the house and action has been taken toward implementing a number of the recommendations made by the commission. In view of this changing situation at the present time, you may not feel that any useful purpose would be served by calling witnesses. But, if there are any questions Mr. Douglas and I would be pleased to deal with them.

The CHAIRMAN: Are there any questions in respect of paragraph 104? If not, could we pass on to paragraph 105, which reads:

105. *Disposal of Veterans' Pavilion and surplus equipment, Ottawa.* Following the construction of the Defence Medical Centre in Ottawa, the Department of Veterans Affairs no longer required the veterans' pavilion which had been constructed some 20 years ago on the grounds of the Ottawa Civic hospital at a cost, including equipment, of approximately $330,000.

The pavilion was built pursuant to an agreement between the Department of Veterans Affairs and the hospital trustees, approved by the governor in council in May 1942. This agreement was later replaced by a new agreement effective April 1, 1948, section 7 of which reads:

> This agreement shall continue in full force and effect so long as may reasonably be required by the department, at the end of which time, or at such intervening date as may be agreed upon between the said parties, the department shall hand over to the trustees the said pavilion and such equipment as will not be further needed by the department, at an independent appraisal value, should the trustees so desire.

When approached by the department in 1961 the trustees expressed their unwillingness to purchase the pavilion at a price based on an independent appraisal (or, indeed, at any price), and the department eventually agreed to turn over the pavilion, including surplus equipment, to them at a nominal value of $1. As the transfer was effected without referral to Crown Assets Disposal Corporation or approval by the governor in council, there is doubt as to its legality.

Mr. HENDERSON: In paragraph 105 we describe the circumstances under which the veterans' pavilion at the Ottawa Civic hospital was constructed 22 years ago on the grounds of the Ottawa Civic hospital at a cost of approximately $330,000 and how, notwithstanding an agreement made in 1948 that the Department of Veterans Affairs would hand it over to the trustees at a price based on an independent appraisal, it was turned over to the trustees at a nominal value of $1 in 1961.

Mr. TARDIF: Mr. Chairman, in my opinion, the statement which Mr. Henderson made is not quite correct because I was a member of the Civic hospital board at the time the agreement was made with the Department of Veterans Affairs when the possibility of this pavilion being turned over to the city was discussed. And, there was a need of a great deal of repairs on it at that time and there was a tentative intention by the department to demolish it. Because there was a great shortage of hospital beds at that time the department agreed to make some repairs on it and the hospital agreed to make some as well, with the understanding that in a period of time after the new wing would be added to the hospital proper and some arrangements were made to look after veteran patients that this pavilion would be turned over to the hospital for $1, even though there was not an agreement on the original understanding when the pavilion was built.

Mr. HENDERSON: I think the point I make here is that the transfer was effected without reference to the crown assets corporation or approval by the governor in council, and we felt we must express doubts as to the legality of the transaction. We referred the matter to the deputy attorney general of Canada for an opinion, but this opinion was only received after this 1962 report was issued. In point of fact, on December 14, 1962, in his letter to me the deputy attorney general expressed the view that the transfer of the pavilion and equipment therein was lawful.

Mr. TARDIF: The only mistake that could have been made, if in fact there was one made, would be that the officials appointed by the Department of Veterans Affairs at that time to meet with the hospital board made the wrong deal. Although that could be, actually I know it was done in an orderly fashion because I was chairman of the finance committee at the Civic hospital at that time and I helped convince the department this should be the solution.

Mr. FORBES: Do you mean you took advantage of this situation?

Mr. TARDIF: I do not like the words "took advantage of", Mr. Chairman, and I hope you do not put that in the minutes; but that, in effect, is what I did.

The CHAIRMAN: In any event, the deputy attorney general approved your position.

Mr. WINCH: Mr. Tardif, are you censoring our transcripts before they come out?

Mr. TARDIF: That could be.

The CHAIRMAN: We will now proceed to paragraph 106, as follows:

106. *Employment of part time doctors by Department of Veterans Affairs.* Department of Veterans Affairs hospitals are staffed partially by full time medical personnel who are civil servants but to a considerably greater extent by medical practitioners, retained on a part time negotiated fee basis, whose terms of employment have never been clearly defined. The part time doctors have always insisted on their right to bill the patients they treat who have been admitted to the hospitals on a paying basis. This has caused a number of administrative problems, a major one being the status of the funds derived from the billing of these paying patients. The department, while permitting the doctors to make these billings, has encouraged them to use the proceeds for purposes that will benefit the hospitals in which they are employed.

The part time doctors hold the view that these receipts are not public moneys and the department sees some justification for this view in that (i) when their employment on the negotiated fee basis was first instituted, paying patients were almost unknown (it was only as the treatment regulations were broadened and the volume of paying patients became larger that the problem of fees for medical services arose); and (ii) the services which they provide in return for the fee paid to them by the department should be only in respect of patients for whom the department is responsible.

The department now proposes that the best solution to the problem is to create a special fund under its control to which will be credited the proceeds from billings for services rendered paying patients by the part time and also the full time doctors. The proceeds would be used for purposes specified by the department, including the purchase of books for the hospital library and payment of expenses incurred by the hospital staff while attending scientific or similar meetings of benefit to the hospital.

The audit office takes the view, however, that the funds derived from the treatment of paying patients are public moneys because (*a*) full time doctors are public servants, (*b*) there is no evidence that the annual negotiated fee for part time doctors is limited to services rendered to patients entitled to free treatment, and (*c*) moneys collected by these doctors arise from services undertaken in departmental hospitals using departmental facilities. We do not, therefore, consider that the department's proposal will meet the requirements of the Financial Administration Act regarding the disposition of public moneys.

We directed the matter to the attention of the treasury board and the general problem and the department's proposed solution are presently under study by the Board.

Mr. HENDERSON: Here we explain the basis on which part time doctors are employed in veterans affairs hospitals on a part time negotiated fee basis and at the same time are permitted to bill the paying patients they treat. The audit office view has been that the funds so derived from the treatment of paying patients are public moneys because there is no evidence that the annual

negotiated fee for part time doctors is limited to patients entitled to free treatment, and the moneys collected by these doctors arise from services undertaken in departmental hospitals using departmental facilities.

I deal with this situation again in paragraph 91 of my 1963 report at page 59.

As a result of my 1962 comments the governor in council acted in June, 1963, to leave the part time doctors in the position, however, of still being able to bill patients under the payments section. However, the arrangement in some respects is not administratively practical.

We will be glad to deal with any questions at this time or, in the alternative, the committee may feel that when it is considering my 1963 report they might like to call the director of medical services of the Department of Veterans Affairs before the committee.

Mr. WINCH: Mr. Chairman, I suggest that we follow that procedure.

The CHAIRMAN: Then we will leave this until the 1963 report is considered.

Mr. TARDIF: If you wish to leave it until the 1963 report is considered I do not disagree with that, but this agreement with the doctors at that time came about because there was a shortage of doctors and the doctors were in a position to make their own conditions. Because of that I think the department considered at that time this was one way of enticing the doctors to do the extra necessary work.

Mr. HENDERSON: Well, that is only part of the explanation we have, but when the matter comes up again we will be able to give you some further facts.

The CHAIRMAN: Is it agreeable to leave further discussion on this paragraph until it comes up again?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We shall now deal with paragraph 107, which reads:

> 107. *Awards under the Pension Act.* Paragraph 72 of the 1960 report referred to (1) the audit difficulty in determining whether or not certain payments made under the Pension Act, particularly those in respect of discretionary and compassionate awards, conformed to the authorizing provisions, (2) certain administrative practices which it was thought warranted parliamentary attention, and (3) apparent inconsistencies in the act.
>
> The standing committee on public accounts after studying these comments recommended in its Fifth Report, 1961 (paragraph 62):
>
> (*a*) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
>
> (*b*) that in determining the amount of pension to be awarded dependent parents, the commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
>
> (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian pension commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).
>
> After considering these recommendations the chairman of the pension commission advised the audit office concerning recommendation (*a*) above, that when the commission rules there is an overpayment this

is made a matter of record in the accounts and, if uncollectable, the amount is deleted therefrom only with appropriate statutory authority. However, no action has been taken to record and collect overpayments in the type of case referred to in the 1960 report (paragraph 72) as follows:

> Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the act (section 38(6)) was amended in 1961 to provide that the commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than $10 a month, but the commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases were observed where this was done.

Concerning recommendation (c), the commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the act. It pointed out that the present section 40 was contained in the original act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were otherwise excluded. The commission is of the opinion that, as the act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

Mr. HENDERSON: Paragraph 107 shows how this committee in its fifth report, 1961, made certain recommendations designed to improve this administration.

However, in my 1963 report, where I dealt with it again under paragraph 92, you will have noted that no satisfactory action has been taken on the committee's recommendations and that the defects and inconsistencies noted have in fact increased.

It is not clear to us if decisions of the type described in these notes are in accord with the intent of parliament and, again, when we consider the 1963 report you may wish to call the chairman of the Canadian pension commission as a witness.

The CHAIRMAN: For the record, Mr. Henderson, in what paragraph is it considered in 1963?

Mr. HENDERSON: Paragraph 92, beginning at page 60.

The CHAIRMAN: Shall we follow the same procedure, gentlemen and leave this paragraph until we come to the 1963 report?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Paragraph 108 is next.

> 108. *Educational leave costs.* The practice of granting educational leave to employees, without special funds having been provided by parliament for the purpose, was referred to in last year's report (paragraph 82).

It is again suggested that educational leave costs, including salaries, non accountable allowances in lieu of salary, living allowances, tuition fees, book allowances and travelling expenses of employees while on educational leave should be charged to an appropriation specially provided for that purpose. The inclusion of such costs—the salary portion of which approximated $265,000 in the year under review—with the salaries and expenses of employees on duty in the various departments is not conducive to effective parliamentary control over the expenditure.

Mr. HENDERSON: This paragraph deals with educational leave costs.

The nature of these costs was originally descriebd in my 1961 report. As the suggestion made in this paragraph had not received any attention I updated the situation in my 1963 report under paragraph 93 at page 62.

Our concern here is that under the procedure I have described parliament is not being informed of the total cost of educational leave and on the basis that you should be informed of that it would be helpful to us to know whether you feel that would be a desirable improvement.

There are considerable costs involved here and we are seeking to have them all put together in the one place so you can see the costs of tuition and leave paid each year to civil servants.

The CHAIRMAN: Are there any questions on this paragraph or do you prefer that this be left in abeyance, to be dealt with when the 1963 report is being discussed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: The next is paragraph 109.

109. *Cost of gasoline used in departmental motor vehicles at Ottawa.* As noted in last year's report (paragraph 83) the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from central supply points had been referred to the government motor vehicle Committee for consideration.

As the result of a survey completed by the committee in January 1962, it was estimated that the annual cost of gasoline purchased for crown-owned vehicles in the Ottawa area amounted to $73,700, of which $33,276 was for gasoline obtained from commercially operated service stations. On this basis, it was estimated that the cost would have been reduced by $14,000 if all gallonage had been supplied by crown-operated facilities.

On September 28, 1962, we were informed that the study of this matter by the government motor vehicle committee was almost complete and that a presentation was to be made to the treasury board in the near future.

Mr. HENDERSON: Paragraph 109 deals with the cost of gasoline used by the government in Ottawa.

On November 5, 1963, we were informed by the secretary of the treasury board that the government motor vehicle committee was studying another alternative for supplying crown owned vehicles with gasoline requirements on a bulk basis which would produce a better price than that which is presently paid but would allow the provision of gasoline through service stations. Since then we have had no further information from the treasury board but we have noted in the audit that a special discount of three cents per gallon, which had been allowed on purchases by the House of Commons, was discontinued by the oil company on August 19, 1963. So, possibly as a result of that, we may not achieve the saving we set out to make.

Mr. WINCH: Perhaps we better get in touch with the oil companies in this regard.

The CHAIRMAN: Are there any further comments on this paragraph. If not, we will proceed to paragraph 110, as follows:

> 110. *Cost of advertising.* In 1961-62 the total cost of advertising passed by the advertising unit of the comptroller of the treasury's office, including agency and non-agency advertising, was in excess of $5,000,000.
>
> Prior to 1954 there was an arrangement with the Canadian Daily Newspapers Association whereby government advertising enjoyed a special rate, but this arrangement was allowed to lapse. During the course of the audit we noted that a publisher had drawn the attention of a government department to the advantage of entering into a contract for classified advertising, pointing out that there was a difference of twelve cents per line between the contract rate and the casual rate—from 34 cents to 46 cents. The minimum annual usage to qualify for the contract rate in this case would be 2,000 count lines whereas the department had used 2,624 lines of classified advertising in the previous two months.
>
> We suggested to the Department of Finance on April 13, 1962, that the field of government advertising might usefully be reviewed in the interests of greater economy. The department replied on September 17, 1962, that the treasury board several months earlier (on May 23, 1962) had approved our suggestion in principle and that officers of the treasury board were currently looking into the matter.

Mr. HENDERSON: In respect of paragraph 110, cost of advertising, a treasury board circular letter of May 28, 1963, directed that departments and agencies placing advertising in daily newspapers are to negotiate the purchase of advertising with certain newspapers in accordance with the current volume rate shown in a schedule attached to the circular.

In July of last year treasury board issued a circular, in which the secretary stated a number of difficulties had been encountered in negotiating the rates outlined in the schedule, some newspapers insisting that formal contracts covering the minimum amount required to qualify for the volume rates are prerequisites to the granting of the volume rate to any one department or agency. He said that consequently for the time being departments and agencies should merely endeavour to negotiate at the best rate possible, keeping in mind the volume rates outlined in the schedule. He advised that the matter would remain under review.

The matter has, in fact, been reviewed as recently as January, 1964. It is our hope that there eventually may be a contract to cover all government departments. If this does not materialize I shall refer to the matter again in my next report to the House of Commons.

There is an appreciable saving to be made here, and that is the reason I have been pursuing this matter.

The CHAIRMAN: On a percentage basis this would be the difference between 46 cents and 34 cents.

Mr. TARDIF: Is this 36 cents per line?

Mr. HENDERSON: The circumstances are described in a section in paragraph 110. Prior to 1954 there was an arrangement with the Canadian Newspapers Association whereby government advertising enjoyed a special rate, but this arrangement was allowed to lapse, and during the course of the audit we noted that a publisher had drawn the attention of a government department to the

advantage of entering into a contract for classified advertising, pointing out that there was a difference of 12 cents per line between the contract rate and the casual rate. The minimum annual usage to qualify for the contract rate in this case would be 2,000 count lines, whereas the department had used 2,624 lines of classified advertising in the previous two months.

Mr. TARDIF: It would appear to me that the cost of advertising per line, for instance in the city of Ottawa, is much lower than 46 cents.

Mr. HENDERSON: Do we have any idea of the current rate?

Mr. GEORGE LONG (*Acting Assistant Auditor General*): This particular case concerned Montreal, I believe.

Mr. HENDERSON: This concerned Montreal.

Mr. TARDIF: This must be the price per line per newspaper. Actually, I would be curious if someone would obtain for our next meeting the rate of an Ottawa newspaper for a similar type of advertising. I think you will find there is a great deal of difference.

Mr. HENDERSON: I think so. However, this was a Montreal case. But, if they did do it on a bulk basis there would be a larger saving. It seemed to us to be somewhat anomalous to have the supplier pointing out to the government how the government could save money in this way.

Mr. TARDIF: I agree that a contract should be entered into which would cover all newspapers in Canada.

Mr. STEFANSON: Mr. Chairman, does this item come up in the 1963 report?

Mr. HENDERSON: No.

Mr. STEFANSON: I was going to suggest in respect of any item which appears in the 1963 report we should leave it for the time being because we have almost 100 items left in the 1962 report and we have 182 items in the 1963 report. If we are ever going to catch up we will have to proceed faster than we are now.

Mr. HENDERSON: If I may say so, I think we are moving along very well and, as we get into the further sections in this report we could group them together unless you have specific questions you want to bring out in the 1962 report. I think we should be into the 1963 report very soon.

The CHAIRMAN: Is there any further discussion. Did you want some information on this, Mr. Tardif?

Mr. TARDIF: Mr. Chairman, I think it might be a good idea to ascertain what the rate in Ottawa is for a similar type of advertising. I do think it would be helpful.

Mr. HENDERSON: We can find that out for you.

Mr. TARDIF: I do not agree that the items in the 1962 report should be passed over quickly in order to reduce the amount of time it will take us to reach the 1963 report and do the job we are expected to do.

The CHAIRMAN: Mr. Tardif, we will try and obtain that information for you.

Mr. MCLEAN (*Charlotte*): I note that it speaks about the newspaper association; would that include all papers in Canada? Could a rate be negotiated with all the newspapers if a contract is made?

Mr. HENDERSON: Well, there had been a rate prior to 1954 with the Canadian daily newspapers; however, that was allowed to lapse and as a result of this we hope it will be taken up again.

Mr. MCLEAN (*Charlotte*): Would that be an average rate for the papers across Canada?

Mr. HENDERSON: Well, a special rate was negotiated by them with the government for all departments which, on account of the volume situation, resulted in a lower rate. Perhaps there is the possibility this can be revived now.

The CHAIRMAN: We will proceed to paragraph 111.

111. *Losses reported in the public accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the public officers guarantee account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the public accounts".

The statements of losses included in the public accounts for 1961-62 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the public accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the post office numbered 18 and amounted to $60,588. Of these, 12 involving $9,829 were recovered in full during the year, and partial recoveries of $8,007 were obtained in other cases. Losses suffered by the post office department numbered 97 and amounted to $63,536. Of these, 68 to a total of $32,469 were recovered in full and partial recoveries totalled $8,505.

Mr. HENDERSON: Paragraph 111 is an informational comment contained in my report each year having to do with losses reported in the public accounts.

I do not think anything would be gained by discussing this, unless you wish.

The CHAIRMAN: Paragraph 112 is next.

112. *Over-commitment of appropriations for the purpose of facilitating winter works programs.* During the latter part of 1961 the treasury board considered detailed proposals for winter works programs submitted by a number of departments (which would be additional to the main winter works program provided for by vote 614 under the Department of Labour). Approval was given to numerous projects which were recognized by the board as useful and acceptable supplementary elements of normal departmental programs, which would involve substantial wage costs in relation to their total costs and which could be mounted quickly in order to generate employment during the winter months, particularly in areas of severe unemployment.

The board was aware of the fact that in some instances existing appropriations would be inadequate to finance approved programs, and realized also that section 30 of the Financial Administration Act was a statutory obstruction to proceeding expeditiously with the projects. This section provides that no contract shall be entered into or have any force or effect unless the comptroller of the treasury certifies that "there is a sufficient unencumbered balance available out of an appropriation or out of an item included in estimates before the House of Commons to discharge any commitments under such contract that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract was entered into".

With a view to avoiding delay, the comptroller was asked by the board to record commitments on a provisional basis beyond the amounts provided by existing appropriations "until such time as the additional provision is appropriated." Concurrently the board provided lists of

"allowable over-commitments" to the departments concerned, informing them that: "the comptroller of the treasury has been asked to allow over-commitment of your existing appropriations on the understanding that the board is willing to submit supplementary estimates up to those amounts to parliament later in the year". This was regarded by the comptroller as authorization to departments to enter into contracts in amounts in excess of the balances available in the particular appropriations without the certificates required by section 30 of the act.

Notwithstanding the importance of facilitating winter works programs—or any other urgent executive plan—the audit office view is that over-commitment of appropriations in the manner described above is contrary to what is contemplated by the Financial Administration Act.

Mr. HENDERSON: Paragraph 112 deals with the overcommitment of appropriations for the purpose of facilitating winter works programs.

There is an important principle embodied in this note; namely that notwithstanding the importance of facilitating winter works programs, any other urgent executive plan for that matter, the audit office view is that it weakens parliamentary financial control if over-commitment of appropriations is countenanced in the manner described, which is contrary to what is allowed under the Financial Administration Act. I would be interested to know whether you do not feel that is the case, after noting this paragraph.

You see, the exception is made for a perfectly good reason but, however, it does tend to weaken parliamentary control.

The CHAIRMAN: Is this carried on in the next report?

Mr. HENDERSON: No. This is a one time note of something which took place in 1961.

The CHAIRMAN: Is there any comment on this paragraph? If not, we will proceed to paragraph 113.

113. *Unpaid accounts carried forward to new fiscal year.* In last year's report (paragraph 84) attention was directed to instances where accounts remained unpaid at the year-end and were required to be recorded as expenditure in the succeeding fiscal year because Parliament had not been asked for supplementary appropriations to provide the additional funds required, although it had become apparent before the year-end that existing appropriations would be inadequate.

No instances were noted this year where there had been a failure to seek supplementary parliamentary appropriations in such circumstances. However, as in previous years, there were cases where amounts provided by main and supplementary appropriations fell short of requirements and unpaid accounts had to be carried forward to the succeeding fiscal year. An example is the appropriation for "construction or acquisition of buildings, works, land and major equipment" for the Royal Canadian Air Force (Vote 240, as supplemented, $267 million) which was insufficient to meet all accounts that came in course of payment in the fiscal year, and accounts totalling approximately $12 million were carried forward and charged as 1962-63 expenditure.

Mr. HENDERSON: Paragraph 113 primarily is an informational note for the members of the house and, again, I do not think we need to take time on it.

The CHAIRMAN: Paragraph 114 is next.

114. *Identical tenders.* In paragraph 77 of last year's report it was brought to notice that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada during

the fiscal year 1961-62 and that, based on the application of unit prices to estimated quantities, identical bids of $301,191.16 were received from the three companies submitting the lowest complete tenders. This was the third instance of identical bids for lamps during the preceding four years, and the treasury board authorized placing the order with a company other than the one which had held the contract during the two previous fiscal years.

During the year under review the Department of Public Works called for tenders for the supply of incandescent lamps and fluorescent tubes which it was estimated would be required during the two year period commencing April 1, 1962. It was hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened, it was found that the same three firms which had submitted the identical low bids for 1961-62 had again submitted identical low bids in the amount of $645,264.16. After placing the facts before the combines branch of the Department of Justice, as had been done in previous years, the Department of Public Works obtained treasury board authority to award the contract to the company which offered products manufactured wholly by itself, which offered as part of its tender a bonus type lamp and which had not had the order in the preceding year.

During the course of our examination of departmental records during the past year, we noted, in addition to the above "repeater" case involving incandescent lamps and fluorescent tubes, approximately 100 cases of identical tenders having been received by government departments. In practically all of the instances, which covered a number of product areas, details were furnished by the departments concerned to the combines branch.

We are informed that the combines branch is continuing its practice of scrutinizing and accumulating such evidence in the event that the information "may ultimately become relevant and useful should evidence of collusive practices be disclosed". In the course of reviewing our findings regarding government purchases, we have suggested to officers of the Branch that it might be desirable were all identical tenders received by government departments, crown corporations and other agencies listed each year by the combines branch in the annual report made by the director of investigation and research to the minister of justice under section 44 of the Combines Investigation Act.

Mr. HENDERSON: Paragraph 114 deals with identical tenders. This was discussed in detail in December, 1963, and I would suggest we might pass this over because we do refer to it in the 1963 report.

The CHAIRMAN: Is that agreeable?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Paragraph 115 is next.

115. *Non-productive payments.* paragraph 71 of the fifth report, 1961, of the public accounts committee reads:

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

In accordance with the request contained in the foregoing observation, a listing is given below of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of departmental expenditures for the fiscal year 1961-62.

1. Payment for loss of revenue by pipe line company, Cold Lake, Alta. In May 1959 the Department of National Defence entered into an agreement with a pipe line company to supply natural gas to the air force station at Cold Lake on an annual 'take or pay' minimum consumption basis, to take effect on November 1, 1960, when an additional boiler which was in the planning stage would be installed.

   A contract for the manufacture of the boiler was awarded in September 1959, and foundation drawings and shop drawings were made available in due course to a consultant firm which was to proceed as quickly as possible to provide plans and specifications in order that a contract for the construction of an extension to the central heating plant to house the new boiler could be awarded, but no date was specified by which the plans and specifications were actually to be produced by the consultant.

   Normally the construction work would have been carried out in the fall of 1959 and the boiler would have been installed and in operation in the fall of 1960. Due mainly to delays on the part of the consultant in producing the plans and specifications, the construction contract could not be awarded until September 1960 and the new boiler did not become operational until the middle of July 1961.

   Because of the failure of the crown to have the additional boiler capacity ready on the agreed date and its inability to take the quantity of gas made available by the pipe line company, the latter suffered a loss of revenue which the crown remedied in part by an ex gratia payment of $20,000.

2. Printing of official history of the Canadian army, French edition. In October 1956 the Department of Public Printing and Stationery, on behalf of the Department of National Defence, awarded contracts for the printing of 3,000 copies each of the French edition of volumes I and II of the official history of the Canadian army in the Second World War, a translation of the earlier English edition.

   Mainly because of delays in processing, including numerous changes in translation, delivery of volume I was not made until April 1959, while volume II did not become available until October 1960. Firm prices were not established with the contractor and during the four years which elapsed between the initial stages of composition and final publication there were increases in printing, labour and material costs.

As a result, when final payment was made in 1961-62, publication of the two volumes cost $26,060 more than the original estimate of $28,983.

3. Exterior painting of housing units, Camp Shilo, Man. In July 1959 a contract in the amount of $24,362 was awarded by Defence Construction (1951) Limited for the exterior painting of 149 permanent married quarters at Camp Shilo, under the general supervision of the army works service. The contract, which was to have been completed in the fall of 1959, was not finished until a year later and substantial losses were incurred by the contractor, who claimed

that (i) the selected colour scheme was not in accordance with the departmental standard practice; (ii) houses previously painted with dark colours were required to be painted with light colours, thus necessitating additional undercoating; and (iii) approximately 90 per cent of all window sash was required to be painted a different colour from that used for the window frames, involving additional work. For its part, the army works service claimed that the losses were largely attributable to factors for which the contractor was responsible, but the contractor was nevertheless paid an additional $11,371 in settlement of his claim during the fiscal year.

4. Construction of outside services, Royal Military College, Kingston, Ont. A contract for electrical distribution systems, sewer connections, roads, curbs and miscellaneous outside services at the Royal Military College was awarded in April 1959 by Defence Construction (1951) Limited, in the amount of $488,671.

   The contractor planned to install the electrical distribution systems and sewer connections concurrently, thereby employing the same excavation equipment for both these phases of the work. However, at an early stage he was requested to rearrange his work schedule to make an immediate start on the electrical distribution work in the sports field area, one-half mile from his planned starting point. This required the use of additional excavation equipment and additional costs were thus incurred. The contractor was also requested to reschedule certain other phases of the work and to postpone the use of certain equipment in order not to interfere with the academic timetable or disrupt scheduled ceremonial functions of the college. Further delay was occasioned by changes in the design of the electrical distribution services and transformer vaults.

   As a result of the rescheduling of work and the delays mentioned above, the contractor incurred further costs and he was paid an additional $66,591 during the fiscal year.

5. Construction of reservoir, Point Edward naval base, Sydney, N.S. In August 1959 a contract for $328,000 was awarded by Defence Construction (1951) Limited for the construction of a reinforced concrete reservoir at the Point Edward naval base. The contractor ordered equipment and had it shipped to the site for incorporation into the project, but the crown company's engineer, in interpreting the contract specifications, demanded the use of a type of equipment other than that purchased by the contractor. The contractor thereupon took steps to replace the equipment but there was a delay of two months in doing so and this extended the work until winter conditions had to be faced.

   The contractor claimed for the additional costs thus occasioned and was paid $4,339 during the fiscal year under review.

6. Construction of aircraft hangar, Bagotville, P.Q. The construction of an aircraft hangar at the air force station at Bagotville involved a sub-contract for the fabrication and erection of structural steel in the amount of $168,450. This sub-contract was awarded in January 1956 with the intention that steel erection would be completed by the end of August of that year. Defence Construction (1951) Limited had undertaken to supply working drawings but due to the large number of modifications to the standard design required by the air force, the task of preparing the drawings was given to the contractor.

In the meantime, some two and a half months elapsed before fabrication of the steel was proceeded with, the result being that steel erection did not commence until October 1956 and was not completed until May 1957.

The delaying of steel erection from the summer of 1956 to the winter of 1956-57 caused the work on the project as a whole to be prolonged into the winter and, as a result, the prime contractor claimed additional costs of $89,552. The crown accepted responsibility for part of the delay and made settlement in the amount of $23,822 in 1961-62.

7. Construction of aircraft hangar, Summerside, P.E.I. In July 1961 Defence Construction (1951) Limited awarded a contract for an extension to a cantilever hangar at Summerside, requested by the Department of National Defence in April 1961. In anticipation of this, a contract for $295,340 had been awarded in March 1961 for the fabrication and erection of structural steel, and this contract stipulated that fabrication commence June 1, 1961 and that erection commence August 24, 1961 and be completed by November 30, 1961.

   Due to the delay in the awarding of the main construction contract (July 7, 1961) foundations which should have been in place ready for the erection of steel by August 24, 1961 were not finished until December 1961. As a result, steel that was scheduled to be erected during the fall was erected under winter conditions with the consequence that additional costs of $8,250 were incurred by the contractor, and he was reimbursed accordingly.

8. Installation of radio equipment, air force station, Trenton, Ont. In September 1959 a firm price contract of $29,960 was awarded by the Department of Defence Production for the ground-to-air radio facilities at the air force station at Trenton, the installation to be in accordance with air material command specifications and installation directives. However, at the commencement of the work it became apparent that the drawings were inaccurate and that there were errors and omissions in the specifications.

   The contractor submitted a claim for the extra work resulting from these conditions and was paid a sum of approximately $30,000 over and above the firm price mentioned above.

9. Operational tests on divers' recompression chambers. In February 1959 a contract in the amount of $58,042 was awarded by the Department of Defence Production on behalf of the Department of National Defence for two recompression chambers, four air-cooled compressors and other components, along with shop trials of the equipment at firm hourly rates. On receipt of some of the units from a sub-supplier, the contractor advised the two departments that he was unable to proceed with the shop trials due to the fact that certain equipment necessary for them had not been included in the order and was not readily available. Three months later, after requisite approval had been obtained, the equipment was ordered with a delivery date of 90 days following receipt of the order. In the meantime, the contractor, in need of working space, was forced to dismantle the compressors, store them outside his shop and then re-assemble them for the shop trials.

   The file indicates that had the equipment referred to been included in the order, it would have been supplied at no charge and the shop

trials could have proceeded without delay; as it was, the contractor's additional costs of $2,686 were paid during the fiscal year under review.

10. Security seals. After considerable research and testing by the Royal Canadian Mounted Police in collaboration with a private firm, a dry seal was developed to replace the sealing wax method for securing paper envelopes containing classified national defence documents and correspondence. The seal was approved by the departmental security committee and in November 1960 an order was placed with the firm for 500,000 pairs of serially numbered seals to cost $31,130, and in due course the seals were produced according to specifications and delivered to the department.

    Up to the time of our examination none of the seals had been used because, for a time, it appeared that two pairs instead of one would be needed to provide adequate security, and subsequently one Service declined to put the seals into use. Consideration is currently being given to the need for seals of this type in the public service generally.

11. Cost of expropriation of property for Trans-Canada highway. In order to acquire a right of way for the Trans-Canada highway in Banff National Park in 1955, the Department of Northern Affairs took expropriation proceedings in connection with a number of properties in the former townsite of Anthracite. Settlements were made with 7 of the 12 former owners, a total of $1,950 being paid for their land. Before agreements had been reached with the others, it became apparent that the expropriation proceedings had been invalid as they should have been taken under authority of the National Parks Act, R.S., c. 189, rather than the Expropriation Act, R.S., c. 106. The necessary concurrence of the governor in council to expropriate under the National Parks Act was received in 1958 but the registrar of land titles at Calgary declined to act on the grounds that the title to the land had been vested in the crown since 1955. In order to resolve the problem, it was necessary for the Department of Justice to seek a court order requiring the second registration, which was obtained through the supreme court of Alberta in 1961.

    At the suggestion of the Department of Justice, all lands involved were then re-appraised, with the result that an additional $5,975 was paid in 1961-62 for the property acquired from those who had already accepted settlement in 1955.

12. Construction of Surveys and Mapping Building, Ottawa. In April 1958 a contract was awarded by the Department of Public Works for construction of a surveys and mapping building in Ottawa at a fixed price of $7,840,000 for the Department of Mines and Technical Surveys. In February 1959 the contractor was instructed to suspend work in the south wing area of the building due to the lack of detailed information regarding certain mechanical equipment that had been ordered by the Department of Mines and Technical Surveys, for which the contractor had to supply mechanical and electrical services. In the following September work was also stopped in the north wing area as changes to permit the addition of press rooms were contemplated. The final plans for the two wings were not confirmed until November 1959 and the contractor was then ordered to proceed.

The contractor was paid $141,392 in March 1962 to cover additional costs incurred as a result of delay caused by the work stoppages referred to above.

13. Construction of breakwater, New Haven, N.S. In September 1958 the Department of Public Works was authorized to enter into a contract for the construction of a breakwater at New Haven. The estimated cost of $125,050 was based largely on fixed unit prices for estimated quantities of quarry-run rock core and protective armour stone, and the specifications stated that suitable stone for the purpose could be obtained from a crown-owned quarry adjacent to the site.

Although the contractor tried various quarrying methods, he was unable to obtain the required armour stone from the quarry. In April 1959, after departmental officers had confirmed that the contract could not be performed as specified—and after efforts had failed to persuade the contractor to use armour stone to be extracted from nearby privately-owned quarries, except on a cost-plus basis—the contract was terminated by the department. The contractor was reimbursed $121,399, of which $94,920 was paid during the year under review, for direct costs incurred by him in his largely abortive effort, plus an allowance for overhead.

In May 1960 a contract was entered into with another company to complete construction of the breakwater (slightly larger than originally specified) and it was completed at a cost of $134,854. The required armour stone was obtained from two privately-owned quarries within a mile of the work.

After making allowance for the value of the core stone which was still in position when the second contract was undertaken, and work which had been performed in the construction of an access road, it was estimated that the total outlay of $256,253 included a non-productive cost of approximately $95,000, sustained because the first contractor was misled with respect to the availability of armour stone in the specified quarry.

14. New wharf and shed facilities, Corner Brook, Nfld. The Canadian National Railways requested that new wharf and shed facilities be provided at Corner Brook to service an enlarged coastal vessel fleet. A survey of possible sites resulted in the selection of a location along part of an area that was being filled by the railways for expanded yard facilities. The railways were advised of the selection in July 1958 and notified the Department of Public Works in the following month that the site was acceptable, and it was assumed by the department that this concurrence would automatically suspend further filling operations. However, following the award of a contract for the construction of the new wharf and shed in 1960, it was found that an additional 15,000 yards of fill had been placed by the railways after the original survey. The removal of this material, which was necessary in order that the wharf alignment coincide with required berth grades and railway track alignment, was carried out by the contractor at an additional cost of $66,750, which was paid during the year under review.

15. Cost of maintaining unused office space, London, England. In 1959 the Department of Public Works was assigned responsibility for

the provision and management of office space for Canadian government departments in London, including office space previously controlled by other departments.

One of the properties involved had been acquired in 1953 by the Department of Citizenship and Immigration under a leasehold agreement extending to 1994. As a result of a consolidation of Canadian government offices in London, the main building on the property was vacated in September 1961, with only the courtyard and outbuildings being used subsequently.

The cost of renting and maintaining the unused premises approximated $18,000 during the last half of the year ended March 31, 1962. Up to the date of this report, the Department of Public Works had been unable to dispose of the residue of the leasehold interest in the property on satisfactory terms.

16. Repairs to public wharf, Bayfield, N.S. In January 1961 a contract was entered into by the Department of Public Works for repairs to the outer section of a public wharf at Bayfield. Shortly after work had been commenced by the contractor, local fishermen expressed concern over the possibility that the wharf would not be in a usable condition during the lobster season and that the repair work would have an adverse effect on the impounded lobsters. As a result, the contractor was ordered to suspend work until the beginning of July. He was subsequently paid $5,910 to cover costs incurred by him as a result of the suspension of the work.

17. Delay in proceeding with construction of building addition, Stephenville, Nfld. Late in 1958, when the Department of Public Works was contemplating an addition to a crown-owned building at Stephenville, the municipal council informed the department that a building permit would not be granted unless arrangements were made for adequate parking facilities. Although the matter had not been resolved, the department called for tenders and on March 2, 1959 the successful bidder was notified that his tender of $65,292 had been accepted. On March 12 he informed the department that he had been refused a permit because of the parking situation. It was not until August 25, following extensive negotiations between the municipality and the department, that the municipality consented to issue a permit, and work commenced on the following day.

During the year under review the contractor was paid an additional $5,136 to compensate him for expenses incurred as a result of the delay in proceeding with the work.

18. Construction of housing units, Fort Smith, N.W.T. In August 1959 the Department of Public Works entered into a contract in the amount of approximately $370,000 for the construction of a number of housing units at Fort Smith. Although the specifications required the contractor to arrange with the electrical supply authority for connection to its lines, a local representative of the department undertook to make the necessary arrangements and in due course informed the contractor that power would be available on September 21, 1959. As the department's representative was remiss in completing arrangements, power was not made available until October 16. Due to the lack of power, it was not possible to operate the heating units in the houses and carpenters and sub-tradesmen were unable to work, or did so with reduced efficiency, until power became available.

In January 1962 the contractor was paid $3,556 to compensate him for the additional costs thus incurred.

19. Architectural services re proposed R.C.M.P. building, Markham, Ont. In 1958 the Royal Canadian Mounted Police was authoribed to acquire a site at Markham on which to construct a divisional headquarters. The cost of acquisition was $127,500, including $52,000 for the provision of water services. In December 1959 a firm of architects was engaged by the Department of Public Works, acting for the Force, to prepare plans and specifications and to supervise construction of the proposed facilities. In April 1960, following a review of the suitability of the Markham site, the conclusion was reached by the Force that it was too remote from downtown Toronto to provide a satisfactory base for divisional operations. The consultants were accordingly ordered to stop work on the project pending further instructions. In the year under review they were paid $9,439 calculated in accordance with the "abandonment of work" clause of the terms of engagement. No action has been taken for the disposal of the property.

20. Construction of dwellings, Kenora, Ont. In September 1959 the Department of Transport advertised for tenders for the construction of three double dwellings, a single dwelling and related work at Kenora. Before a contract had been signed, the lowest tenderer, whose bid was $120,000, claimed that the plans and specifications provided for plumbing, heating and mechanical equipment on one side only of each of the double dwellings and that his price had taken this into consideration. He offered to do a complete job for $133,200. When efforts to induce him to proceed at the original tendered price were not successful, a second call for tenders was made in June 1960 after the plans and specifications had been modified to remove any possible ambiguities. The same contractor was again the low tenderer and his bid of $141,712 was accepted. The work was completed during the year under review at a total cost of $142,096.

    The additional cost which thus indirectly resulted from the deficiencies in the plans and specifications used when inviting tenders is a matter of conjecture, but a reasonable assumption is that it was in excess of $8,000.

21. Architectural services re proposed air terminal building, Victoria, B.C. In July 1960 the Department of Transport was authorized to engage a firm of architects to design and supervise construction of an air terminal building and associated facilities at the Victoria International airport. Early in 1961, when it became evident that traffic in and out of the airport had declined sharply, a reassessment of space requirements led to a decision to abandon the original proposal. The architects were paid $4,195 for work completed on sketch plans, and were instructed to prepare new plans based on reduced space requirements. In March 1962, because of circumstances which it was felt might have a further adverse effect on traffic, the department decided not to proceed with the second proposal and the architects were paid $24,281 for services rendered in the preparation of the related sketch plans and working drawings. As they were also paid $1,184 in reimbursement of travel expenses, a total of $29,660 was paid to them during the year under review in connection with abandoned plans. At the year-end the same

architects had been engaged to prepare plans for a still more modest project.

22. Architectural services for air conditioning system at air terminal building, Halifax, N.S. The Department of Transport requested the consultants who had been engaged to perform architectural services in connection with the construction of the terminal building at the Halifax international airport, to prepare sketch plans and working drawings covering the design of an air conditioning system for the building. When it was decided to postpone the installation of the system in favour of a future installation of more modest design, the architects were paid $14,480 for work already done in connection with the unused plans.

Summary of Assets and Liabilities

116. The Statement of assets and liabilities as at March 31, 1962, with comparable figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the public accounts and certified by the auditor general in accordance with section 64 of the Financial Administration Act, is reproduced as appendix 2 to this report.

Mr. HENDERSON: Paragraph 115 on nonproductive payments stems from a standing instruction I have received from this committee which I quote. The committee wishes to be informed regarding nonproductive payments to the extent that we encounter them through our work.

Now, in the fiscal year ended March 31, 1962, we encountered these 22 cases, which I felt members would wish to note. Of these 22, eight stem from the Department of Northern Affairs, five from Defence Construction (1951) Limited, three from the Department of Transport and lesser numbers from the departments of national defence, public works and so on.

Now, the total amount of money involved in these 22 cases, which run over to the end of page 60, is $627,000.

You might be interested in knowing very broadly the nature of these. The sum of $275,000 of these nonproductive payments involved seven cases caused by faulty drawings or goods delivered which were not suitable, and that type of thing.

An equal amount, $275,000, stemmed from extras arising as a result of delays, winter conditions; in other words demands by contractors over and above the contract terms which, in its wisdom, the government found it had to pay. That accounts for $550,000 of the $627,000. The remainder consists of four cases where no value was received at all; they were in the category of *ex gratia* payments, and they accounted for $53,000, and outright extra claims by contractors accounted for the balance by another four claims.

That, very broadly, is a quick summary of what is contained here. We have a similar and longer list in the 1963 report and if you wish to dwell on any particular one, I will be glad to answer any questions which are put to me. I would say to you again, as I have done before, that every organization, business or government, runs into this sort of thing. We have endeavoured to set out the circumstances giving rise to each case, why the money was paid, and we can deal with any questions members may have on these specific items.

Mr. CARDIFF: Mr. Chairman, I have a question in respect of subparagraph number 2. This was a contract that was let for the printing of the official history of the Canadian army, French edition, for a contract price of $28,983, and it overran the estimate by $26,060, which is almost double. I do not think there is any sense or reason for that kind of contract. Surely if a man takes a contract

he should have enough sense and knowledge when carrying it out not to charge twice as much as the contract price. As I say, I cannot see any sense or reason to this.

Some hon. MEMBERS: Agreed.

Mr. HENDERSON: There is an undoubted waste here in a number of the areas covered which indicate bad management as well as other reasons.

Mr. CARDIFF: I would think that a firm that was given a contract to print something would have certain standards to go by so that they would know how to proceed and would not make a lot of unnecessary mistakes. In my opinion, that is their fault.

Mr. HENDERSON: Of course, the fault there is that firm prices were not established.

Mr. TARDIF: Then, that is the responsibility of the officer who gave out the contract.

Mr. HENDERSON: That is right, sir.

Mr. TARDIF: Well, if he does things like that what action is taken by the department so that it does not happen again? Is the official told he must not do it again or does the same situation apply here as in the case of private industry, where he is fired?

Mr. HENDERSON: Well, I would have to give you a specific answer on a case like that by running it down and finding out what the queen's printer did in that respect. That same question would apply to each of the cases.

Mr. TARDIF: Practically in every one of these items.

Mr. HENDERSON: Yes, that is right. There are some other quite heavy losses.

I would suggest we might pass on, Mr. Chairman, and revert to this when we deal with what is a very much longer list in 1963.

Mr. CARDIFF: It is just about time they were stopped.

Mr. TARDIF: Subparagraph no. 4 of paragraph 115 probably was the decision of someone in the military college, who said: "We want to play a game on such and such a date" and requested that the work schedule be rearranged to make an immediate start on the electrical distribution work in the sports field area, regardless of what it cost. Now, this is not efficiency and the people responsible for this type of situation should be told so. Or did he get a promotion to colonel.

Mr. FORBES: There appears to be another problem in respect of subparagraph 11, where the government acquired some property by expropriation, settled for it and then discovered the title was not properly registered and they had to pay for it all over again, involving an additional $5,975, in respect of a little piece of property for a right of way. It would appear to me there has been a lot of carelessness or negligence in this respect.

Mr. HENDERSON: Well, you may feel that you wish to make a comment or recommendation when you deal with these in the 1963 report because we have many more for that year. In fact, there were so many we had to put them in an appendix at the back of the report. We ended up with 37.

Mr. FORBES: It looks as though the legal advisers were not too efficient in handing out advice.

Mr. HENDERSON: Well, it is always hard to pinpoint the blame. I know it can be placed on the doorstep of some official but it is not an easy thing sometimes to pinpoint it under the form of government organization which exists.

Mr. TARDIF: Has there been any investigation by your department to find out the reason for this?

Mr. HENDERSON: We go into all the facts. This is our resume of the cases. We do come up with many more than we put in here, but we endeavour to screen them out. There are a number which are repetitions and, as a result, we show the difference types for your perusal. In the case of 1963, where we have 37, we started off with something like 50 but we screened them out and just left type examples.

Mr. TARDIF: Your report in no way shows the total cost to the government of this phase of activity.

Mr. WINCH: There might well be more involved than you have indicated.

Mr. HENDERSON: That is true because our work is done on the basis of test verification and we only list those we encounter in the course of our test work.

Mr. WINCH: The situation may be far more serious than is indicated here?

Mr. HENDERSON: That is quite true although this is representative however, as you suggest, the volume will be greater and in fact must be greater.

Mr. MCMILLAN: In connection with this particular subject, Mr. Henderson has suggested that there were 40 odd came to light in 1963. Perhaps we should call some of the officials as witnesses to testify in respect of the more glaring cases.

The CHAIRMAN: I intended to suggest to the members of this committee that perhaps between now and the time we reach our consideration of the 1963 report members who wish to call certain of these to our attention can indicate to me the number and I will pass the information along to Mr. Henderson so that he can make the information available at that time.

Mr. HENDERSON: Perhaps if the members read the 1963 report as well as the 1962 report in respect of these items they will be able to indicate the number of the ones on which they would like further information. Presumably we will be able to make arrangements to have the officers responsible appear as witnesses at one of our next meetings.

Mr. MCMILLAN: I think we should follow that suggestion.

Mr. HENDERSON: If you select the ones in respect of which you would like further examination and indicate the numbers to me that would be very helpful.

The CHAIRMAN: If the information in respect of these items is given to me I will pass it along to the steering committee and we can then make sure there is no duplication and pass the information along to Mr. Henderson so that he can arrange to have the appropriate witnesses present at the appropriate time.

Mr. TARDIF: I imagine there are very reasonable explanations for some of these items?

Mr. HENDERSON: That is true. I want to be quite fair in this regard. These things will occur in the best conducted business.

We had an interesting discussion in this committee some years ago when you made this formal request that I set this information down in my report, and I was bold at that time in arguing with you about the extent to which I should be required to bring these items forward, bearing in mind that they are not unusual in business. I have sought to be scrupulously fair in their presentation. There have been some plain boners while others occurred as

a result of situations in which contractors were faced with certain costs which have been recognized, although the government did not receive value.

Mr. TARDIF: Surely some situations have developed after the contract job has commenced.

Mr. HENDERSON: Yes, and winter conditions have caused certain of these situations, and you are familiar with the case where noise at the Royal Military College interfered with the academic timetable. There is a considerable story in respect of each one of these items and I think it would be very helpful to have the officers concerned present to deal with these items once you have selected them.

Mr. WINCH: Perhaps we could select one or two for further examination.

The CHAIRMAN: I suggest that one or two be selected for further examination by the steering committee in co-operation with Mr. Henderson in order that a suitable illustration can be made for the benefit of the members of this committee.

Can we move to a consideration of the next paragraph, paragraph 116:

Summary of Assets and Liabilities

116. The Statement of Assets and Liabilities as at March 31, 1962, with comparable figures at the end of the preceeding year, prepared by the Department of Finance for inclusion in the public accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as appendix 2 to this report.

Assets

117. The following table lists the assets at March 31, 1962 by main headings in the statement of assets and liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Current assets	$ 862,147,000	$ 784,348,000	$ 1,246,016,000
Advances to the Exchange Fund Account	1,960,000,000	2,024,000,000	1,793,000,000
Sinking fund and other investments held for retirement of unmatured debt	85,272,000	17,018,000	19,432,000
Loans to and investments in Crown corporations	3,437,663,000	3,614,188,000	3,985,330,000
Loans to national governments	1,414,528,000	1,378,196,000	1,339,797,000
Other loans and investments	943,470,000	1,035,651,000	993,863,000
Securities held in trust	30,612,000	30,042,000	25,837,000
Deferred charges	616,293,000	733,702,000	727,826,000
Suspense accounts	33,000	136,000	136,000
Inactive loans and investments	93,539,000	94,825,000	94,824,000
Total Assets	9,443,557,000	9,712,106,000	10,226,061,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net Assets	$ 8,897,173,000	$ 9,165,722,000	$ 9,679,677,000

118. *Current assets.* The balances included under this heading at March 31, 1962, with the comparable balances at the close of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Cash	$ 565,436,000	$ 486,760,000	$ 895,321,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account	120,698,000	90,198,000	132,783,000
Defence production revolving fund	20,667,000	15,651,000	27,297,000
Other	54,645,000	65,234,000	63,300,000
	196,010,000	*171,083,000*	*223,380,000*
Securities held for the securities investment account	77,863,000	101,454,000	94,608,000
Other current assets	22,838,000	25,051,000	32,707,000
	$ 862,147,000	$ 784,348,000	$ 1,246,016,000

The increase of $409 million in cash balances during the year under review may be accounted for as follows:

Net increase in unmatured debt outstanding (see paragraph 135)		$ 878,000,000
Net amount received from other non-budgetary transactions (including net repayments of $231,000,000 of advances to the Exchange Fund Account)		330,000,000
		1,208,000,000
Deduct—		
Budgetary deficit—excess of expenditure over revenue for the year	$ 791,000,000	
Decrease in cash in hands of collectors and in transit	8,000,000	
		799,000,000
		$ 409,000,000

The $132,783,000 balance of the agricultural commodities stabilization account at March 31, 1962 was $42,585,000 (47 per cent) greater than the corresponding amount at the end of the preceding year, the difference being more than accounted for by the increase of $45,349,000 in the inventory of butter held by the Agricultural Stabilization Board (see paragraph 181).

The increase of $11,646,000 in the defence production revolving fund was more than accounted for by working capital advances of $14,295,000 made to Canadair Limited for the production of five CL-44 aircraft.

The decrease of $6,846,000 in the balance of the securities investment account was accounted for by (*a*) a decrease of $19,364,000 in the temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act offset, in part, by (*b*) securities of $12,158,000 (market value at December 31, 1961) received by the Minister of Finance on February 21, 1962 on assignment from the Canadian Arsenals Limited Pension Fund, with the

approval of the governor in council, upon the transfer to the public service superannuation account of the liability for the payment of pensions to pensioners and former contributors to the Fund. Under the terms of this transfer, the Minister of Finance is to credit the public service superannuation account with the proceeds to be derived from the sale of these securities. There were no sales during the period from February 21 to March 31, 1962, at which date the securities had a market value of $12,091,000.

Mr. HENDERSON: At page 60 we enter upon a summary of assets and liabilities and with your permission I will try to go through these fairly speedily.

This is the standard presentation that appears in the report for each year. You may wish to stop me and ask questions in respect of certain sections. We are seeking here to show the position of the assets items on the statements of assets and liabilities, which in effect is Canada's balance sheet.

We start out first of all with the assets, and dealing with page 61, paragraph 117 show the components of the items which appear under the heading of assets and then, beginning at paragraph 118, take the current assets and show how they are made up.

The CHAIRMAN: Paragraph 119 is next:

119. *Advances to the Exchange Fund Account.* This account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the minister from time to time within the maximum ($2,500,000,000 at March 31, 1962) authorized by the governor in council under section 23 of the currency, mint and exchange fund Act, R.S., c.315. The advances to the account at each year-end are included in the statement of assets and liabilities at their total, less repayments, with a parenthetical note associated with the item giving the market value of the investments from the advances. Thus at March 31, 1962 the amount shown for "Advances to the Exchange Fund Account" was $1,793,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was $1,759,690,000, indicating an unrecorded deficiency of $33,310,000. By comparison, the corresponding unrecorded deficiencies at the close of the two previous years were $154,042,000 at March 31, 1961 and $213,695,000 at March 31, 1960 (see paragraph 141).

A summary of the transactions in the Account for its financial year ended December 31, 1961 is included in paragraph 194 of this report.

Mr. HENDERSON: We give some explanation and comment at page 62 indicating the reasons for increases and decreases. I do not know that there is anything particular that I should pick out, but paragraph 119 deals with advances to the exchange fund account, later summarized in paragraph 194 of this report. We then refer to the sinking fund and other investments held for retirement of unmatured debt. This is found in paragraphs 120 and 121 as follows:

120. *Sinking fund and other investments held for retirement of unmatured debt.* This item represents the investments held for the sinking fund maintained with respect to Newfoundland loans assumed under the terms of union. The $19,432,000 holding at March 31, 1962 was $2,414,000 greater than the corresponding holding of $17,018,000 at the close of the preceding year.

121. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1962, with the comparable balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Central Mortgage and Housing Corporation	$ 1,318,683,000	$ 1,510,711,000	$ 1,701,029,000
Canadian National Railways	1,207,808,000	1,092,590,000	1,165,039,000
The St. Lawrence Seaway Authority	315,927,000	339,927,000	368,216,000
Farm Credit Corporation	115,700,000	155,754,000	209,971,000
National Harbours Board	161,398,000	172,770,000	178,743,000
Northern Ontario Pipe Line Crown Corporation	121,500,000	123,750,000	119,035,000
Atomic Energy of Canada Limited	59,374,000	60,930,000	65,827,000
Canadian Overseas Telecommunication Corporation	22,590,000	31,686,000	37,918,000
National Capital Commission	17,742,000	25,232,000	31,478,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Northern Canada Power Commission	25,586,000	26,463,000	26,158,000
Other balances	41,355,000	44,375,000	51,916,000
	$ 3,437,663,000	$ 3,614,188,000	$ 3,985,330,000

The increase of $190 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1962 is largely accounted for by advances of $224 million during the year, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, less repayments of $46 million in respect of advances made under this section in previous years.

The increase of $72 million in the amount shown for Canadian National Railways was accounted for by (*a*) advances of $139 million under Canadian National Railways Financing and Guarantee Acts and by a further investment of $21 million in 4% preferred stock in the Company pursuant to section 6 of the Canadian National Railways Capital Revision Act, R.S., c.311, less (*b*) reductions of $66 million and $7 million as a result of charging to expenditure the temporary loans made to the Canadian National Railways and Trans-Canada Air Lines, to meet their 1961 income deficits, together with a repayment of $15 million in respect of previous years' advances.

Further loans of $14 million to the St. Lawrence seaway authority during the year under review, plus an additional $14 million for deferred interest on loans, accounted for the increase of $28 million during the year to bring the investment in the Authority to $368,216,000 at March 31, 1962 (see also paragraph 178).

The increase of $54 million in the amount for the Farm Credit Corporation is due to further loans of $52 million under the Farm Credit Act, 1959, c.43, together with an increase in the capital of the Corporation from $6.4 million to $8.1 million.

Paragraph 121 deals with loans to and investments in crown corporations and indicates advances made by the government to its own instruments. You will see noted the Central Mortgage and Housing Corporation, the Canadian National Railways and others. There is indication of further loans of $28 million made to the St. Lawrence seaway authority and further loans to the Farm Credit Corporation. I now come to paragraph 122:

122. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Belgium	$ 39,219,000	$ 36,912,000	$ 34,605,000
France	152,100,000	143,650,000	135,200,000
India	33,000,000	29,546,000	24,831,000
Netherlands	79,177,000	74,013,000	68,850,000
United Kingdom	1,108,287,000	1,091,544,000	1,074,476,000
Other countries	2,745,000	2,531,000	1,835,000
	$ 1,414,528,000	$ 1,378,196,000	$ 1,339,797,000

The reductions totalling $38 million during the year ended March 31, 1962 were the result of the continued repayment of each of the loans as the instalments fell due.

Paragraph 122 at page 64 indicates the composition of Canada's loans to national governments which during the year were reduced by some $38 million. Then paragraph 123:

123. *Other loans and investments.* The balances comprising this asset item at March 31, 1962, with comparable balances at the end of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Subscriptions to capital of and working capital advances and loans to international organizations	$ 605,175,000	$ 631,127,000	$ 659,936,000
Veterans' Land Act advances	188,903,000	199,644,000	207,953,000
Less—Reserve for conditional benefits	37,277,000	33,552,000	30,598,000
	151,626,000	*166,092,000*	*177,355,000*
Loans to provincial governments	99,396,000	98,372,000	97,879,000
Balances receivable under agreements of sale of Crown assets	15,982,000	12,094,000	10,622,000
Loans to Old Age Security Fund	28,001,000	17,283,000	10,622,000
Loans to Unemployment Insurance Commission	—	67,000,000	—
Other balances	43,290,000	43,683,000	48,071,000
	$ 943,470,000	$ 1,035,651,000	$ 993,863,000

The following is a listing of the balances comprising the $659,936,000 shown for the first item in the above table at March 31, 1962:

Subscription to capital:	
International Monetary Fund	$ 564,661,000
International Bank for Reconstruction and Development	73,680,000
International Development Association	16,366,000
International Finance Corporation	3,522,000
	658,229,000
Working capital advances and loans	1,707,000
	$ 659,936,000

During the year ended March 31, 1962, Canada's subscription to the International Monetary Fund was increased by $21 million through the issue of additional non-interest bearing notes following revaluation of the Canadian dollar portion of the subscription, based on the rate of exchange for the United States dollar at January 31, 1962.

Section 11 of the Old Age Security Act, R.S., c.200, provides for the establishment of a special account in the Consolidated Revenue Fund to which shall be credited the taxes levied by the Act, and provision is made for temporory loans to the special account. At March 31, 1960 the temporary loans amounted to $28,001,000. These were partially repaid in 1960-61 with the balance of the loans being discharged during 1961-62.

The loans to the Unemployment Insurance Commission in 1960-61 were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 200).

124. *Securities held in trust.* The $25,837,000 total of balances comprising this item in the Statement represents securities held for the following accounts: contractors' security deposits, $11,114,000; guarantee deposits in respect of oil and gas permits, $4,728,000; guarantee deposits in respect of customs duties and excise taxes, $4,273,000; pilots' pension funds, $3,433,000; and other, $2,289,000.

125. *Deferred charges.* The balances included under this heading at March 31, 1962, in comparison with the corresponding balances at the close of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account	$ 326,300,000	$ 326,300,000	$ 326,300,000
Public service superannuation account	139,000,000	276,661,000	276,661,000
Royal Canadian Mounted Police superannuation account	—	—	3,533,000
	465,300,000	*602,961,000*	*606,494,000*
Unamortized loan flotation costs	150,993,000	130,741,000	121,332,000
	$ 616,293,000	$ 733,702,000	$ 727,826,000

The amounts appearing under the heading "unamortized portion of actuarial deficiencies" represent the balances of amounts set up in the accounts when bookkeeping entries were made for the purpose of increasing the balances at credit of the relative superannuation accounts. In paragraph 144 the audit office view is again restated that these bookkeeping entries should not have been made.

The item "unamortized loan flotation costs" records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

Balance, April 1, 1961		$ 130,741,000
Add: Costs incurred in issuing new loans during the year		36,224,000
		166,965,000
Deduct:		
Amortization charges included in 1961-62 Expenditure ....$	44,998,000	
Adjustments due to cancellations, exchanges and conversions	635,000	
		45,633,000
Balance, March 31, 1962		$ 121,332,000

126. *Suspense accounts.* The $136,000 shown for this item on the assets side of the statement represents the balance, unchanged during the year under review, of the Cheque Adjustment Account, which reflects the total of the individual balances that remained unadjusted in the process of reconciling payments to the chartered banks for redemption of paid cheques, with the totals of the relative cheques as subsequently determined. The balance includes amounts relating to the fiscal years 1942-43 to 1960-61.

127. *Inactive loans and investments.* The $94,824,000 shown for this item in the Statement at March 31, 1962 comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act .....$	49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China) ..	14,470,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
$	94,824,000

There were no changes in these balances during the year under review.

The $74,000 shown as a loan to the Province of Saskatchewan represents the balance remaining of advances totalling $861,000 made to the Province under the authority of Vote 281, Supplementary Estimates 1907-08. Under this authority, the federal government undertook to pay for seed grain supplied to settlers in Saskatchewan and the total amount advanced was to be paid back by the Province in 1909. In practice, however, the Province has remitted yearly only what it received from the farmer debtors.

Paragraph 123 refers to other loans and investments and shows the size of our subscriptions to the capital and working capital advances and loans to international organizations. It also indicates Veterans' Land Act advances, loans to provincial governments as well as loans to the old age security fund and the unemployment insurance commission.

You will perhaps be interested in noting that at the top of page 65 there is a list of the balances comprising the $659 million representing subscriptions to the capital in the International Monetary Fund, the International Bank, the International Development Association and the International Finance Corporation.

Mr. McLEAN (*Charlotte*): I should like to ask a question in respect of our subscription to the International Monetary Fund. Does Canada receive any interest on the deposits it makes to the International Monetary Fund?

Mr. HENDERSON: Mr. Long can answer that question, sir.

Mr. LONG: I am not completely familiar with the international transactions in this regard but I believe that things are handled on a non-interest basis. I believe they are handled on a cash or currency basis.

Mr. HENDERSON: We point out here that during the year 1962 Canada's subscription to the International Monetary Fund was increased again through the issue of additional non-interest bearing notes following revaluation of the Canadian dollar portion of the subscription.

Mr. McLEAN (*Charlotte*): Do we have gold to put up in respect of the International Monetary Fund?

Mr. LONG: There is some gold put up, yes.

Mr. McLEAN (*Charlotte*): How much gold do we have in this regard?

Mr. HENDERSON: I do not think I have a figure in that regard, sir.

The CHAIRMAN: Perhaps we could ask Mr. Henderson to obtain that information so we will have it when the deputy minister of finance appears before this committee.

Mr. HENDERSON: We could make a statement in that regard if you wish.

Mr. McLEAN (*Charlotte*): What do you consider to be current assets?

Mr. HENDERSON: The things considered as current assets are shown in paragraph 118 to which I referred at page 61 including departmental working capital advances and revolving funds, securities held for the securities investment account and miscellaneous items.

Mr. McMILLAN: Does Canada only put up a fraction of the subscription and guarantee the rest?

Mr. HENDERSON: I would have to give you a precise statement in that regard Dr. McMillan. I do not have that information at hand.

The CHAIRMAN: If it is the desire of this committee Mr. Henderson and Fund?

Mr. McMILLAN: Yes.

The CHAIRMAN: If it is the desire of this committee Mr. Henderson and his officials can obtain the full answer to that question.

Mr. HENDERSON: I will be happy to provide you with that information at our next meeting.

Mr. MCLEAN (*Charlotte*): In respect of the advances to the exchange fund I am wondering whether we have any reserves against our currency or do we have reserves against our foreign debts?

Mr. HENDERSON: The exchange fund represents our advances and holdings in foreign currency, principally United States dollars, and gold which is the support for our currency. You may recall that a statement is being prepared by the Minister of Finance to be filed with this committee, outlining the operation of that fund. This statement was promised to this committee last December and is due for tabling momentarily. When that statement is on the record I think many of your questions will be answered.

Mr. MCLEAN (*Charlotte*): I should like to know whether this gold and dollar exchange is held against our currency or held against our balance of payments.

Mr. HENDERSON: It is related to both and would have to be related to both, but I would urge you to hold your questions in this regard in abeyance until the statement of the minister is presented. He has gone to great pains to prepare this statement. I hvae not seen th statement yet but I know what material has gone into it, and know that it is to be filed very soon. In fact I think Mr. Bryce has in touch with you, Mr. Baldwin, has he not?

The CHAIRMAN: Yes.

Mr. MCLEAN (*Charlotte*): We will be given some explanation in this regard?

Mr. HENDERSON: Mr. Bryce will attend a meeting of this committee to explain that statement.

The CHAIRMAN: Mr. Bryce appeared before this committee last year at which time it was understood he would appear again when he had completed this statement in order to give us a complete explanation.

Mr. CÔTÉ (*Interpretation*): Mr. Chairman, I am very interested personally in getting details regarding our reserves in the International Monetary Fund and I hope that the Minister of Finance or the deputy minister will be able to give us the necessary information in respect of this matter involving our international funds held in the International Monetary Fund and explain the fact that we accept money which is convertible in gold. I would be in favour of accepting non-convertible currencies. It seems to me this would help the present monetary exchange difficulties.

(*Text*)

The CHAIRMAN: Mr. Côté, Mr. Bryce will be appearing before this commitee and I am sure at that time he will be prepared to answer any questions in respect of this subject.

Are there any further questions in respect of this particular group of paragraphs?

Mr. HARKNESS: In respect of the loan to the province of Saskatchewan in 1908 for the purcase of seed grain I thought arrangements had been made three or four years ago to write off this whole item. I note the item appears again at page 66 of your report under the heading "Inactive Loans and Investments".

Mr. TARDIF: That province certainly received long terms in respect of this loan, did it not?

Mr. HARKNESS: I understood arrangement was made for this whole loan to be written off in view of the fact that the individuals who received this seed grain are at this stage either dead or betwen 80 and 90 years of age. I am not sure whether arrangements were made to write off these loans but certainly discussions were held in this regard.

Mr. HENDERSON: I think during an earlier discussion, perhaps in 1961, such a suggestion was made; the latest information we have is that contained in the paragraph at the bottom of page 66. In respect of writing off loans of this character, the government probably has good reasons for not writing them off the books. Although they may be inactive they like to keep them there because possible subsequent developments may enable them to effect some form of collection.

Mr. HARKNESS: In my opinion, the printing of these things would involve a waste of money. Eighty five years of age would be about the minimum age of any person who would owe money, if he is still alive.

Mr. TARDIF: Is there a possibility of collecting that from the estate of some of these wealthy Saskatchewan farmers?

Mr. HARKNESS: Any moneys which could have been collected from their estate would have been collected many years ago.

As I said, Mr. Chairman, I think it is a waste of money to keep accounts on this and I think we should suspend our actions in this regard.

Mr. FORBES: I should inform Mr. Tardif that when farmers die they take their estates with them.

Mr. HARKNESS: You see, the advances were made nearly—

An hon. MEMBER: In 1880.

Mr. HARKNESS: —60 years ago.

Mr. HENDERSON: These were loans made to provincial authorities as distinct from the individual. It might be interesting to institute some further inquiries in this connection, in answer to your questions.

The CHAIRMAN: I do think a lot of the individual loans were written off in the last two or three years. In respect of certain clients I had I know there was some question whether these would be included in those loans made to individuals wherein liens were filed. However, liens were subsequently discharged within the last few years. We may look into this further.

Mr. WINCH: I think it might be advisable at least to get some statement from a government official on these matters because you have one there for 1919 in respect of Greece and Roumania. I would just like to find out why they think they should hold loans on the books going back to 1908.

Mr. MCLEAN (*Charlotte*): Is this not supposed to be paid by the provinces?

Mr. HENDERSON: Yes, not by the individual. We could obtain this information and give a larger statement on this point at the next meeting, if that would be satisfactory to you.

Mr. TARDIF: Is there not a period for this type of loan after which they are uncollectible because of the elapsed time?

Mr. HENDERSON: I think not, sir; that would be left to the decision of the government. As I mentioned, they are reluctant to write these loans off because there might be a turn of events perhaps in their relationship with a foreign country or a province whereby they could achieve some degree of collection.

Mr. TARDIF: Then, the regulation which exists in respect of private business does not apply to this. I am referring to the seven year period.

Mr. HENDERSON: There is a statutory limitation for private business but that does not apply here.

Mr. TARDIF: I was referring to the statutory limitation.

Mr. CARDIFF: This was due no doubt to a C.C.F. government. Perhaps with a different government we could collect this year.

The CHAIRMAN: Paragraph 128 is next:

Liabilities

128. The following table lists the liabilities at March 31, 1962 by main headings in the statement of assets and liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Current and demand liabilities	$ 1,099,057,000	$ 1,147,561,000	$ 1,234,081,000
Deposit and trust accounts	242,673,000	239,667,000	266,624,000
Annuity, insurance and pension accounts	3,565,376,000	3,955,510,000	4,245,942,000
Undisbursed balances of appropriations to special accounts	96,620,000	104,493,000	115,135,000
Deferred credits	83,961,000	79,073,000	94,991,000
Suspense accounts	8,528,000	8,618,000	5,305,000
Unmatured debt	15,890,152,000	16,067,915,000	16,945,736,000
	$20,986,367,000	$21,602,837,000	$22,907,814,000

129. *Current and demand liabilities.* The balances comprising this item in the statement at March 31, 1962, with the comparable balances at the close of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association	$ 376,000,000	$ 383,660,000	$ 372,032,000
Accounts payable	245,099,000	221,396,000	280,711,000
Outstanding Treasury cheques	228,768,000	251,741,000	265,658,000
Interest accrued	137,622,000	154,016,000	174,601,000
Other balances	111,568,000	136,748,000	141,079,000
	$ 1,099,057,000	$ 1,147,561,000	$ 1,234,081,000

130. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1962 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Provincial tax collection agreements	—	—	$ 37,986,000
Indian trust funds	$ 29,224,000	$ 28,516,000	28,523,000
Post Office Savings Bank	29,372,000	28,513,000	27,365,000
Deposits by Crown corporations	12,625,000	19,400,000	24,175,000
Contractors' security deposits	27,705,000	21,804,000	18,003,000
Contractors' holdbacks	17,398,000	15,635,000	17,793,000
Korean operations pool	16,104,000	16,117,000	16,117,000
United States of America	33,927,000	36,686,000	12,228,000
Canadian Arsenals Limited Pension Fund	—	—	12,158,000
Canadian Pension Commission (Administration trust fund)	10,281,000	10,980,000	12,087,000
Guarantee deposits	14,437,000	13,758,000	10,403,000
Other balances	51,600,000	48,258,000	49,786,000
	$ 242,673,000	$ 239,667,000	$ 266,624,000

Mr. HENDERSON: On page 67 we turn to the liabilities and show the composition of these.

First of all, there are the current and demand liabilities and then the deposit and trust accounts. I do not think there is anything unusual in these for this year.

The CHAIRMAN: Paragraph 131 follows:

131. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1960	March 31, 1961	March 31, 1962
Government annuities	$ 1,156,867,000	$ 1,199,123,000	$ 1,235,305,000
Public Service Superannuation Account	1,229,620,000	1,468,848,000	1,586,929,000
Canadian Forces Superannuation Account	1,053,011,000	1,155,333,000	1,279,239,000
Other balances	125,878,000	132,206,000	144,469,000
	$ 3,565,376,000	$ 3,955,510,000	$ 4,245,942,000

The following is a summary of the transactions in the government annuities account during the year under review:

Balance, April 1, 1961		$ 1,199,123,000
Add:		
Premiums received	$ 43,479,000	
Interest credits	46,011,000	
		89,490,000
		1,288,613,000
Deduct:		
Vested annuity and commuted value payments and refunds	53,016,000	
Transfer to Revenue of the excess of the Fund over the valuation of annuities outstanding	292,000	
		53,308,000
Balance, March 31, 1962		$ 1,235,305,000

A summary of the transactions in the public service superannuation account during the year ended March 31, 1962 is as follows:

Balance, April 1, 1961		$ 1,468,848,000
Add:		
Contributions by participants	$ 53,579,000	
Contributions by Government	49,256,000	
Interest credits	61,169,000	
Other credits	270,000	
		164,274,000
		1,633,122,000
Deduct:		
Annuity payments	39,104,000	
Withdrawals of contributions	6,590,000	
Other charges	499,000	
		46,193,000
Balance, March 31, 1962		$ 1,586,929,000

Reference is made in paragraph 144 concerning the composition of the balance at credit of this account.

The following is a summary of the transactions in the Canadian forces superannuation account during the year ended March 31, 1962:

Balance, April 1, 1961		$ 1,155,333,000
Add:		
Contributions by participants	$ 33,629,000	
Contributions by Government	55,985,000	
Interest credits	48,050,000	
Other credits	331,000	
		137,995,000
		1,293,328,000

Deduct:		
Annuity payments	7,321,000	
Gratuities and withdrawal allowances	6,690,000	
Other charges	78,000	
		14,089,000
Balance, March 31, 1962		$ 1,279,239,000

A comment is made in paragraph 145 regarding the composition of the balance at credit of this account.

Including in the $144,469,000 shown for "other balances" at March 31, 1962 in the table given above with respect to "annuity, insurance and pension accounts", is the $14,535,000 uninvested portion of the unemployment insurance fund on deposit with the receiver general. A summary of the transactions in the fund during the year under review, in comparison with the corresponding amounts for the two previous fiscal years, is given in paragraph 200.

Also included in the "annuity, insurance and pension accounts" is a balance of $1,564,000 standing to the credit of the old age security fund at March 31, 1962. The following is a summary of the transactions relating to the fund during the year in comparison with the corresponding amounts for the two previous years:

	1959-60	1960-61	1961-62
Collections of tax			
On sales	$ 270,000,000	$ 270,231,000	$ 284,879,000
On personal incomes	185,550,000	229,400,000	258,950,000
On corporation incomes	91,336,000	103,500,000	100,125,000
	546,886,000	603,131,000	643,954,000
Payments of pensions under the Old Age Security Act	574,887,000	592,413,000	625,107,000
Surplus or (deficiency) during the year	(28,001,000)	10,718,000	18,847,000
Preceding year's balance brought forward	—	(28,001,000)	(17,283,000)
Balance at year-end	$ (28,001,000)	$ (17,283,000)	$ 1,564,000

As the pension rate was increased from $55 to $65 per month effective February 1, 1962, the fund bore the cost of the pensions at the increased rate for only the last two months of the fiscal year under review.

The balance at credit of the members of parliament retiring allowances account is also included among the balances comprising the "annuity, insurance and pension accounts" item. Comments regarding the operation of this Account are made in paragraph 147.

Mr. HENDERSON: On page 68, paragraph 131, the balances making up this item of annuity insurance and pension accounts, at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years are given in the table at page 68. It is interesting that the government carries amounts due under the government annuities, and it shows the public service superannuation account, the Canadian forces superannuation account, and then we show the summary of the transactions of these accounts; that is, the income and the outgo.

If members have not any questions on this I will proceed to paragraphs 132, 133 and 134.

132. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the statement of assets and liabilities, compared with the corresponding balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Colombo Plan Fund	$ 62,966,000	$ 67,533,000	$ 77,626,000
Railway Grade Crossing Fund	31,196,000	34,050,000	33,754,000
National Capital Fund ..	2,360,000	2,810,000	3,660,000
Other	98,000	100,000	95,000
	$ 96,620,000	$ 104,493,000	$ 115,135,000

During the year ended March 31, 1962 an amount of $50 million, provided by vote 89 under the Department of External Affairs, was credited to the account for the Colombo Plan, while expenditures totalling $39,907,000 were charged to the account for aid given to countries in south and south-east Asia.

Amounts totalling $10 million, provided under section 265 of the Railway Act, R.S., c.234, and vote 448 under the Department of Transport, were credited to the account for the railway grade crossing fund during 1961-62, while expenditures totalling $10,296,000 were incurred in aiding in the cost of installation of protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1962 an amount of $5,100,000, provided by vote 377 under the Department of Public Works, was credited to the account for the national capital fund, while amounts totalling $4,250,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the governor in council.

133. *Deferred credits.* The following is an analysis of this item at the close of the 1961-62 fiscal year and the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946..	$44,174,000	$44,174,000	$44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority	19,427,000	19,427,000	33,716,000
Credits arising from the recording of agreements of sale of Crown assets	13,554,000	9,955,000	8,772,000
Equity in agency account of Crown Assets Disposal Corporation	5,603,000	4,929,000	7,242,000
Other balances	1,203,000	588,000	1,087,000
	$83,961,000	$79,073,000	$94,991,000

The only significant change during the year was the increase of $14,289,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. This deferred interest is payable by the authority over a 46 year period commencing in 1964, along with repayments of principal.

134. *Suspense accounts.* The reduction of $3,313,000 during the year in this item on the liabilities side of the statement was largely accounted for by the reduction of $3,190,000 in the balance at credit of the replacement of materiel account maintained pursuant to section 11 of the National Defence Act. During the year under review credits to the account for the proceeds of sales to other countries of "material not immediately required" totalled $2,810,000 while an amount of $6,000,000 was applied towards the procurement of replacement materiel.

On page 70 we get into the undisbursed balances of appropriations to special accounts. In this connection you might want to spend more time in the 1963 report because the figures there will be up to date. Paragraph 135 follows:

135. *Unmatured debt.* A summary of the unmatured debt outstanding at March 31, 1962, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1960	March 31, 1961	March 31, 1962
Bonds			
Payable in Canada	$ 13,563,341,000	$ 14,002,751,000	$ 14,930,571,000
Payable in London	51,811,000	31,989,000	31,990,000
Payable in New York	150,000,000	98,175,000	98,175,000
	13,765,152,000	*14,132,195,000*	*15,060,736,000*
Treasury Bills (not exceeding 180 days)	2,125,000,000	1,935,000,000	1,885,000,000
	$ 15,890,152,000	$ 16,067,915,000	$ 16,945,736,000

The increase of $928 million in unmatured bond debt payable in Canada was the amount by which new borrowings of $3,456 million during the year exceeded redemptions of $2,528 million of prior issues. Canada savings bonds accounted for $1,038 million of the new borrowings and $538 million of the redemptions. Also included was the $62 million unredeemed portion of a special issue of non-marketable bonds to the Unemployment Insurance Commission in exchange for other securities previously held by the unemployment insurance fund (see paragraph 148).

Issues payable in London are valued on the basis of £1 sterling equals $2.80 Canadian while those payable in New York are valued on a dollar for dollar basis.

Of the bonds outstanding at March 31, 1962, the following issues, all payable in Canada, fall due within the current fiscal year:

Loan of 1961 due May 1, 1962	$ 100,000,000
Loan of 1960 due June 15, 1962	190,000,000
Canada savings bonds of 1951 due August 1, 1962	24,287,400
Loan of 1961 due August 1, 1962	335,000,000
Loans of 1959 and 1960 due October 1, 1962	268,497,000
Loan of 1960 due December 1, 1962	140,000,000
Loan of 1961 due December 15, 1962	375,000,000
Loan of 1959 due January 1, 1963	100,000,000
	$ 1,532,784,400

As indicated on page 71 we wind up by showing the position of unmatured debt.

Net Debt

136. With the liabilities amounting to $22,907,814,000 (paragraph 128) and the assets to $9,679,677,000 (paragraph 117), the net debt at March 31, 1962 was $13,228,137,000. The following is a statement of the net debt account for the year under review:

Balance, April 1, 1961		$ 12,437,115,000
Add—Deficit for the fiscal year 1961-62:		
Expenditure	$ 6,520,646,000	
Revenue	5,729,624,000	
		791,022,000
Balance, March 31, 1962		$ 13,228,137,000

Contingent Liabilities

137. A note on the liabilities side of the statement of assets and liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end, and makes reference to the appendix to the public accounts (Volume I, page 167) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts which were outstanding at March 31, 1962, in comparison with the corresponding amounts at the close of the two preceding years:

	March 31, 1960	March 31, 1961	March 31, 1962
Railway securities guaranteed as to principal and interest	$1,430,051,000	$1,672,634,000	$1,636,100,000
Deposits maintained by chartered banks in Bank of Canada	619,905,000	656,295,000	696,008,000
Insured loans made by approved lenders under the National Housing Act, 1954	2,671,918,000	3,017,404,000	3,640,000,000
Guarantees under Export Credits Insurance Act, Part I	96,181,000	109,934,000	291,700,000
Loans made by chartered banks to Canadian Wheat Board	109,396,000	125,558,000	113,555,000
Other contingent liabilities of determinate amounts	67,552,000	89,783,000	66,299,000
	$4,995,003,000	$5,671,608,000	$6,443,662,000

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to the 1954 act.

Then, you will see on page 72, paragraph 136, how the net debt has changed during the year; that is to say, how it has been increased by the deficit on operating account of $798 million and at March 31, 1962, stood at $13,228,137,000. Certain contingent liabilities then follow. Paragraphs 138, 139 and 140 follow:

Comments on Assets and Liabilities

138. 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".

139. The statement of assets and liabilities at March 31, 1962 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the public accounts:

> With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of $1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.
>
> On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule to the statement of assets and liabilities.

While the statement of assets and liabilities may seem to correspond in appearance to the balance sheet of a large commercial undertaking, it is important for the reader to understand that it is not a balance sheet within the generally accepted meaning of the term. This is because the statement in its present form omits a number of items which would normally appear as assets on a commercial balance sheet while at the same time including others which are of doubtful value. Similarly, certain items appear as liabilities which are not generally found as such in commercial practice. The manner in which the excess of liabilities over net assets is shown as a "net debt" item on the assets side of the statement is confusing; the term would be more understandable were it used to describe the net result shown by a statement exhibiting the outstanding debt at the termination of the fiscal year.

The principal reason for the differences mentioned above stems from the fact that the governing legislation, namely, the Financial Administration Act, contemplates the accounting system being maintained on the cash basis instead of the accrual basis employed in commercial

practice. This means that revenues are recorded only when they are received while the cost of goods and services is recorded only when they are paid for, subject to the modifications and exceptions recited in the above explanation. Commercial practice, on the other hand, almost exclusively employs accrual accounting, that is to say, revenues are recorded in the period in which they are earned or accrue while the cost of goods and services is recorded on the books during the period when they are used regardless of when they are paid for.

The unique power given to the Minister of Finance to include in the statement of assets and liabilities such assets and liabilities as in his opinion are required to show the financial position is in contrast to the limitations imposed, for example, on the chief executive officer of a commercial undertaking which must include in its balance sheet such assets and liabilities as are prescribed by federal and provincial legislation or called for by generally accepted accounting practice.

Over the years the audit office has subscribed to the viem that little advantage would be gained by attempting to convert the accounting system of the government from the cash basis to the accrual basis. It has recognized that the executive government must know at all times what funds are required to be raised through taxation to meet expenditures expected to come in course of payment within the fiscal year. Parliament in turn must always be basically interested in examining the country's financial needs in terms of cash required when considering budget proposals and estimates of proposed expenditures. The financial position at the termination of the fiscal year is accordingly reflected in the statement of assets and liabilities on the modified cash accounting basis used by the Department of Finance.

As will be evident from some of the following comments in this section of the report, we believe that the statement and its contents can be improved from the standpoint of clarity and presentation so as to achieve maximum disclosure of facts and figures for the information of parliament and the public.

140. *Accounts receivable*. As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the statements of assets and liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding totals at the close of the preceding year, is given in the departmental sections of Volume II of the public accounts (with the exception of the taxation division of the Department of National Revenue). There is, however, one place in the public accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. It would be informative to parliament were an appendix giving this information included in the public accounts in future.

It has not been the practice over the years to include in the public accounts any information regarding amounts receivable by the taxation division of the Department of National Revenue, but it seems desirable that such information be made available to parliament.

The following summary of accounts receivable includes the totals given in the departmental sections of the public accounts at March 31, 1962, together with totals of balances receivable as at February 28, 1962 by the taxation division, as provided by that division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	$ 715,620	$ 795,611	$ 51,466	$ 1,562,697
Citizenship and Immigration	28,256	323,633	312,451	664,340
Defence Production	4,187	13,664	259,329	277,180
Justice	150,627	2,432	30	153,089
National Defence	4,565,080	965,958	185,077	5,716,115
National Health and Welfare	904,453	274,816	169,825	1,349,094
National Research Council	101,713	14,305	150	116,168
National Revenue—				
Customs and Excise Division	4,856,019*		2,304,292*	7,160,311
Taxation Division	187,320,412*		15,825,226*	203,145,638
Northern Affairs and National Resources	99,187	14,114	18,617	131,918
Public Works	1,139,578	262,103	44,753	1,446,434
Royal Canadian Mounted Police	261,463	4,317	23,694	289,474
Trade and Commerce	114,929	8,936	7,054	130,919
Transport	3,473,178	2,959,651	7,309	6,440,138
Veterans Affairs	3,359,409	2,571,060	821,019	6,751,488
Other departments	140,955	59,963	50,920	251,838
	$ 207,235,066	$ 8,270,563	$ 20,081,212	$ 235,586,841

* These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following balances during the year under review:

Uncollectable debts of $1,000 or less deleted from the accounts under the authority of section 23 of the Financial Administration Act	$ 809,991
(Agriculture, $17,348; Citizenship and Immigration, $62,804; National Defence, $20,807; Customs and Excise Division, $34,943; Taxation Division, $629,107; Transport, $6,079; Veterans Affairs, $31,205; and other departments, $7,698)	
Uncollectable debts in excess of $1,000 deleted from the accounts under the authority of Vote 710, Appropriation Act No. 4, 1962	3,703,795
(Agriculture, $3,787; Citizenship and Immigration, $97,226; Defence Production, $8,282; Finance, $116,747; National Defence, $116,903; Taxation Division, $3,299,327; Northern Affairs and National Resources, $16,057; Transport, $21,612; and Veterans Affairs, $23,854)	
	$ 4,513,786

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the statement of assets and liabilities, they are nonetheless debts due to the crown, and their accurate recording and ultimate collection are prime responsibilities of the departments concerned.

While we have found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this frequently does not apply in the case of departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to remove the possibility that now exists of accounts being tampered with and collections misappropriated.

Mr. HENDERSON: I might now say a word about the section here on comments on assets and liabilities, beginning at page 73.

Here I have sought to discuss quite an important subject on the accounting and financial side of government, namely the difference between the cash and the accrual basis, which is something the royal commission on government organization dealt with, while at the same time, I have sought to describe the nature of the statement of assets and liabilities in what I hope might be regarded as laymen's terms.

At page 75 we are showing here for the first time the accounts receivable. The way that the government keeps its accounts receivable is in memorandum form; that is to say, they are not on the books as they are under accrual accounting in private business where you have accounts due from the customers and have a reserve for uncollectable moneys and show these on the books. Here they are kept in memorandum form, and we have put together for the first time a summary to show you something of their size. You will see they are quite considerable, the largest being those of the taxation division of the Department of National Revenue where, at the end of 1962, they were to the order of $203 million, of which they estimated some nearly $15 million would be uncollectable from previous years. We have more to say about this in the 1963 report. However, this summary at page 75 does serve to show the size of these accounts receivable. Now, they are writing off a number of these during the year, as you will see on page 76, which shows that accounts written off during the year were of the order of $4½ million.

Mr. WINCH: In respect of the taxation division, do you happen to know whether the majority of that is business or individuals?

Mr. HENDERSON: Both. As a matter of fact, we discussed this paragraph in the committee last December, and it was at that time I drew your attention to the last paragraph on page 76, about the importance of maintaining an effective control over these memorandum accounts receivable because since they are not on the books you have to be extra careful in seeing they are at all times fully accounted for.

The CHAIRMAN: Gentlemen, it is five minutes to eleven; members of the defence committee are moving in, in a pincers movement on us.

Mr. TARDIF: In paragraph 142 I note there is a loan to the town of Oromocto for $4,450,000. I did not think the federal government loaned money to towns. Is there any explanation for this?

Mr. HENDERSON: We dealt with this earlier, where we were at paragraph 81. We have had this up for discussion.

Mr. TARDIF: I guess I was not here.

Mr. HENDERSON: I do not know whether you were or not. It was referred to earlier in paragraph 81.

The CHAIRMAN: Gentlemen, is it agreed we should print as an appendix to these proceedings the blank "Report of Surplus" and "Offer Form" of crown assets disposal corporation for those who were not here?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will adjourn now until 9.30 on Thursday morning, at which time we will be meeting in room 200, owing to certain changes being made. There will be just the one meeting in room 200.

APPENDIX

CADC 1

REPORT OF SURPLUS

TO: THE MINISTER OF DEFENCE PRODUCTION
c/o CROWN ASSETS DISPOSAL CORPORATION
OTTAWA, CANADA.

FROM:

Declarer_____ Declarer Department File_____

Address_____ C.A.D.C. Serial No._____

Officer Reference_____

Telephone Number_____ _____

Date_____ _____
Authorized Signature

Item No.	Quantity or Weight	Details	CADC Code	Original Cost As Applicable Only To Codes AN, A, AU

LOCATION:

COMMENTS:

CROWN ASSETS DISPOSAL CORPORATION

OFFER FORM CADC 31 (REV.) Date

CUSTODIAN	LOCATION

DECLARERS FILE REFERENCE	SALES ORDER NUMBER	CLOSING DATE TERMS OF PAYMENT CASH

Subject to prior sale or withdrawal, in whole or in part, CROWN ASSETS DISPOSAL CORPORATION solicits offers for the purchase of the CROWN owned material or property listed below on an "as is and where is" basis and subject to the conditions of sale endorsed hereon.

Inspection, prior to making an offer, is the responsibility of the prospective purchaser and may be arranged during regular office hours, Monday to Friday inclusive (Public Holidays excepted) by presentation of this form to the Custodian.

If the Item(s) described below consist of movable property the Purchaser must make all arrangements and assume full responsibility for necessary packing, shipping and transport within the time specified (see Condition 3 on reverse).

Please submit any offer you wish to make by completing and signing one copy of this form in the appropriate space provided below and mailing to the CORPORATION at the address shown, retaining the other copy for your records.

The CORPORATION reserves the right to accept or reject any offer.

This offer, signed in ink, must be forwarded Post Paid in a sealed envelope showing on the outside in the lower left hand corner:

"Offer to Purchase
Serial Number....."

Addressed to:
CROWN ASSETS DISPOSAL
CORPORATION

Item No.	RS Item No.	Quantity	Description	Unit	Unit Price Offered	Total
					TOTAL	

Subject to the conditions contained herein I/We hereby offer to purchase the Item(s) described above and/or on the attached sheets.....to.....at the price(s) indicated, having satisfied myself/ourselves as to the quality, type, kind and condition of said Item(s).

Recommended Salesman	Firm Name and Address of bidder	Signature and Title Date

IMPORTANT

TO AVOID ANY MISUNDERSTANDING BE SURE TO READ CONDITIONS CONTAINED IN THIS OFFER FORM INCLUDING GENERAL CONDITIONS OF SALE ON THE REVERSE SIDE OF THIS FORM.

GENERAL CONDITIONS OF SALE

1. Crown Assets Disposal Corporation (hereinafter referred to as "The Corporation") reserves the right to withdraw from the sale any property which has not been delivered to the purchaser without incurring any liability except to refund to the purchaser any amount paid on account of such property.

2. The Corporation further reserves the right to cancel the sale without liability if the property or any part thereof is purchased on behalf of any principal whose name and address have not been communicated to the Corporation in writing prior to the sale.

3. The Purchaser, upon acceptance of this offer by the Corporation, shall remove the property within thirty (30) days after receiving notice from the Custodian that the property is ready for removal.

4. In the event of the Purchaser failing to remove the property within thirty (30) days after receiving notice from the Custodian that the property is ready for removal the Corporation, without prejudice to any other remedies, may cancel the contract without notice to the Purchaser and retain as liquidated damages any deposit and any amount paid on account of the property, and the Purchaser shall lose all claim to and interest in the property and may be held responsible for all loss, cost and expense incurred by the Corporation due to the Purchaser's failure or default.

5. Where goods are sold by weight, their weight shall be determined by weighing them at or near loading point on a municipal, railway or other suitable scale selected by a representative of the Corporation or of the custodian.

6. The purchaser shall not be entitled to contest the accuracy of the Corporation's shipping documents unless notice in writing setting forth particulars of the purchaser's claim shall have been despatched to the Corporation at its address as shown on the face of this form within 72 hours after the delivery of the material in respect of which, such claim is made and unless such material shall have been held on the purchaser's premises until inspection by an authorized representative of the Corporation.

7. The purchaser shall be responsible for any damage to surrounding property, including buildings, resulting from the removal of the property sold, and shall hold harmless and indemnify the Corporation and Her Majesty the Queen in Right of Canada against any claim resulting from such damage.

8. The Corporation will not be liable for loss, damage or destruction from any cause whatsoever of the property sold; but, should any of such property be lost or destroyed during the period allowed for removal and prior to the actual removal or shipment thereof, the Corporation will refund to the purchaser any moneys paid as the price of or otherwise on account of the property so lost or destroyed.

9. The Corporation warrants its title or the title of Her Majesty the Queen in Right of Canada to the property sold and delivered but makes no other warranty, express or implied, by way of description of the property or otherwise.

10. Sales are subject to such adjustment, upon the request of the purchaser, as the Corporation may in its discretion, determine to be equitable under the circumstances. Requests for any such adjustments will be considered only if filed within thirty days after the date of the acceptance of offer (or such other period as may at any time be specifically allowed in writing). The decision of the Corporation shall in all cases be final.

11. No member of the House of Commons of Canada shall be admitted to any share or part of the contract or to any benefit to arise therefrom.

12. Sale is made upon the express condition that no bribe, gift, gratuity or other inducement shall have been paid, given, promised, held out or offered to any official or employee of Her Majesty or of the Corporation for the purpose of, or with a view to obtaining the acceptance of the purchaser's tender or otherwise in connection with the purchase by the purchaser of the property sold; and, further, on the express condition that the purchaser shall not have employed any person to solicit or secure the sale to him of the property sold upon any agreement for a commission, percentage, brokerage or contingent fee payable by or on behalf of the purchaser. Should either of these conditions not be fulfilled, the Corporation shall have the right to cancel the sale without liability.

13. If the property sold consists of buildings, structures, installations or any of them, which the purchaser is, under the provisions of the offer, required to remove from the land on which they are erected or installed, conditions 3, 4, 5, 6 and 8 shall not apply but the following conditions shall apply:
    (a) In the event of the purchaser failing to complete, to the satisfaction of the Corporation, the removal of the property and the performance of all restoration and other work, if any, as required by and within the time specified in the offer, the Corporation, without prejudice to any other right or remedy which it may have, shall be entitled:
        (i) To take possession of and/or to dispose of any or all of the property not so removed; and/or
        (ii) To complete in whole or in part any work which the purchaser has failed to complete and to hold the purchaser responsible for all loss, cost and expense thereby incurred by the Corporation or otherwise due to the Purchaser's failure or default;

    And the purchaser shall lose all claim to and interest in the property so taken possession of or disposed of and shall have no claim to any money paid or deposited by him in respect of the property.
    (b) The Corporation will not be liable for loss, damage or destruction from any cause whatsoever of the property sold.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

THURSDAY, JUNE 18, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

21035—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Beaulé,
Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cardiff,
Chaplin,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Fane,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
O'Keefe,
Pigeon,
Pilon,
Regan,
Richard,
Ricard,
Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Skoreyko,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 18, 1964.
(8)

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

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Fane, Forbes, Francis, Frenette, Hales, Harkness, McMillan, O'Keefe, Pilon, Ryan, Southam, Stefanson, Tardif, Wahn—(17).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Millar, Stokes, Crowley, Laroche, Douglas and Smith, of the Auditor General's office.

The Chairman referred to an editorial in today's Montreal *Gazette* dealing with shortage of staff in the Auditor General's office.

Mr. Henderson made a correction to his evidence of Tuesday, June 16, relating to paragraph 115, *Non-productive* payments. (*See Evidence*)

The Auditor General supplied answers to questions by Messrs. Tardif, McLean (*Charlotte*) and McMillan at sitting of June 16. (*See Evidence*)

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

Mr. Henderson reviewed paragraphs 141 to 201 inclusive, including Crown Corporations, and was questioned thereon, assisted by this officials.

On paragraph 158, *Canadian Broadcasting Corporation,*

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

Resolved,—That the Public Accounts Committee call officials of the C.B.C. before the Committee in order to examine into the Accounts of the Corporation including the extent to which the recommendations of the Auditor General and the Glassco Commission have been implemented.

On paragraph 194, *Exchange Fund Account,* the Committee authorized the Chairman to arrange distribution of a memo on this subject, now being prepared by the Department of Finance, to all members of the Committee before the Deputy Minister of Finance makes his presentation.

Upon conclusion of the examination of the 1962 Report of the Auditor General, with the exception of the paragraphs which stood, the Chairman thanked Mr. Henderson and his officials.

Mr. Baldwin advised that the Steering Committee would meet next week to consider an interim report to the House.

The Chairman announced that the Committee would commence consideration of the report of the Auditor General for the fiscal year ended March 31, 1963, at its next sitting on Tuesday, June 23.

At 10.50 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, June 23, 1964.

M. Slack,
Clerk of the Committee.

21035—1½

EVIDENCE

THURSDAY, June 18, 1964.

The CHAIRMAN: Gentlemen, I see a quorum here. I call the meeting to order. I welcome you to these palatial surroundings, which is an appropriate place for the public accounts committee to sit from time to time. Before I call Mr. Henderson, I do not think it would be irrelevant for me to refer to an editorial which appears in this morning's Montreal *Gazette*, and which shows that the efforts of this committee and the evidence given before it do not go entirely unnoticed.

This is a very significant editorial, dealing with the fact that because of shortage of staff, the Auditor General has been unable, on some occasions, to do the work he feels he should have done, and would like to have done. It is a very significant editorial, and I just mention it to indicate that when we do bring to the attention of the committee matters which are of interest, they are picked up by the press, and this very judicious combination, I think, has some value.

I will ask Mr. Henderson to deal with some matters that were before the committee last Tuesday, and which he was to complete today.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, on Tuesday we dealt with paragraph 115 which sets out the 22 non-productive payments. I said the largest number of these, that is eight, had arisen in the Department of Northern Affairs and National Resources.

I have to tell you that this figure is incorrect, and I so conveyed my apologies yesterday to the deputy minister. The largest number, that is eight, arose, in point of fact, from our test checks in the Department of Public Works. The number for the Department of Northern Affairs and National Resources was one.

Also, last Tuesday Mr. Tardif asked me to obtain information regarding the advertising rates of the Ottawa newspapers. They are as follows:

Ottawa *Citizen*	28¢ per line
Ottawa *Journal*	24¢ " "
General rate 26¢ per line classified rate.	
Le Droit	18¢ " "

General rate 26¢ per line classified rate.

According to the rates shown in "Canadian Advertising", the guide used by the Comptroller of the Treasury's Office in auditing accounts, the Ottawa *Citizen* offers reduced rates under volume contracts, as follows:

1,000 lines	27¢
5,000 "	26¢
10,000 "	25¢
25,000 "	24¢

We understood that these special rates are for the local retail trade only and that the government does not receive any special rate regardless of its advertising volume.

Also, Mr. Chairman, at last Tuesday's meeting, Mr. MacLean asked how much gold Canada had to put up with respect to the international monetary fund, and Mr. McMillan asked if Canada put up only a fraction of her subscription and guaranteed the rest.

A brief answer is that Canada's subscription to the monetary fund at March 31, 1963, was the equivalent of $550 million U.S. Under the Bretton Woods Agreement Act, 25 per cent of the subscription is required to be deposited with the fund in the form of gold and the remainder must be paid into the fund in Canadian currency, or in the form of demand notes. The amount which must be deposited in Canadian funds depends on the international monetary fund's need for Canadian currency but must be a minimum of one per cent of the subscription.

If any members of the commitee would care to refer to page 138 of volume I of the public accounts for the year ended March 31, 1963, they will find there a fairly clear explanation with respect to Canadian subscription to the monetary fund.

I might now, Mr. Chairman, turn to the further work we have to do on my 1962 report, perhaps with the hope that we could clean it up this morning.

The CHAIRMAN: If you would, Mr. Henderson.

Mr. HENDERSON: Sixty paragraphs of my 1962 report remain to be considered by the committee, and my purpose this morning would be to take these in the order in which they follow from page 76 of this report and say a brief word about each one, allowing for any questions members may have.

The first of these is paragraph 141 dealing with advances to the exchange fund account. This was considered by the committee in 1961 and, as you will note from the quotation from its fifth report 1961, the Minister of Finance was asked to submit a report to the committee dealing with the desirability of writing off the deficiency existing in the account, which had amounted to $154,042,000 at March 31, 1961 but which stood reduced to $33,310,000 at March 31, 1962. Subsequent to that date (on May 2, 1962) the Canadian dollar was officially revalued at $0.925 U.S., which has had the effect of eliminating the deficiency entirely.

While this official revaluation has had the effect of eliminating the deficiency which had given rise to the committee's request in 1961, I understand that the Minister of Finance has prepared a report on the exchange fund, dealing with its problems in light of more up to date developments. I hope, therefore, that it will be tabled shortly so that members can study the report and thus be in a position to discuss the matter with the deputy minister of finance who will be appearing before the committee at a later meeting.

I might point out to you that while the exchange fund is in good shape as long as the value of the Canadian dollar remains at 92½ cents U.S., or the U.S. dollar remains at 1.08 Canadian, a drop of only two cents in the value of the U.S. dollar would return the fund to a deficit position again raising the problem which was considered by the committee in 1961. I think that will be an important point to bear in mind when you consider the report which will be tabled by the Minister of Finance very shortly.

Paragraph 142 deals with loans to the town of Oromocto. Members will recall that earlier in our meetings consideration was given to paragraph 81 which showed that capital assistance loans made to the town outstanding on March 31, 1962 totalled $4,026,890. The purpose of this note is to point out that it seems to be unrealistic to be recording these loans to the town of Oromocto as an asset item because the prospect of repayment is remote. As stated, operating costs of the town in 1961 totalled $1,602,000 while its revenues amounted to only $81,000.

Paragraph 143 shows how there continued to be included in the asset item "other loans and investments" an amount of $1,710,566 representing the cumulative total of expenditures by the Department of Transport for the purchase of land in the township of Cornwall while at the same time this amount is included among assets shown on the balance sheet of the St. Lawrence Seaway Authority to which the land was transferred on April 1, 1959. Under the authority of Department of Transport Vote 26, Special appropriations Act 1963, assented to July 22, 1963, this amount has now been written off as a 1962-63 expenditure.

Paragraph 144 contains comments about the public service superannuation account, in particular certain bookkeeping entries made some years ago to bring the account more into line with the actuarial liability. As this account and the Canadian forces superannuation account (paragraph 145) are the subject of up-dated notes in the 1963 report, I would suggest we defer considering them until we reach paragraphs 124 and 125 in the 1963 report.

Paragraph 146 relates to the R.C.M.P. benefit trust fund which is a fund built up from all moneys accruing to members of the force, fees and costs, in connection with court appearances, serving summons, etc., and all gifts and bequests to the force. The Royal Canadian Mounted Police Act provides under section 23 that the fund is to be used for the benefit of members, former members and their dependents, as the governor in council may prescribe, for the making of loans to members of the force and as a reward, grant or compensation to persons assisting the force in the performance of its duties. In my 1961 report I pointed out that disbursements from the fund had consisted principally of distribution of an annual amount to each member of the force. In the fiscal year 1960-61 this had amounted to $194,355 represented by payments to each member of the force of $35. In the fiscal year 1961-62 the practice was continued excepting that the individual payments were reduced to $30. As a result of our discussing this note with the commissioner and his associates, an advisory committee of senior officers was established to consider applications for loans and grants more in keeping with the provisions of the act. The fiscal year 1962-63 showed, however, that little demand seemed to have materialized for such loans and the individual payments were again continued at the level of $35 to each member of the force.

Paragraph 147 explains the workings of the members of parliament retiring allowances account and is inserted principally for the information of members of the house of commons. Might I suggest that any discussion on this account be deferred until we reach paragraph 127 of my 1963 report.

Paragraph 148 deals with the bonds outstanding with the Unemployment Insurance Commission. Here it is pointed out that included in the figure of unmatured debt of Canada totalling $16,945,736,000 at March 31, 1962, there stands included the $62 million unredeemed portion of a special issue of non-marketable bonds to the unemployment insurance commission, furnished to the commission in exchange for marketable securities which were previously held in the unemployment insurance fund. This $62 million unredeemed portion of the special issue of non-marketable bonds to the unemployment insurance commission bore, and I use the past tense advisedly, interest at 3¾%, redeemable at par on 30 days notice and was available for withdrawal by the commission to meet current demands on the fund from time to time. Our criticism here is that we feel that the liability of the government to the unemployment insurance commission should not have been simply included on its books in the total figure of "unmatured debt". A liability like this is comparable to the government's liability to crown corporations and others for money on deposit by them with the receiver general and we believe that it would have been preferable to

have disclosed the liability in this manner. Of course these bonds have since been liquidated.

Paragraphs 149 to 155 outline the circumstances under which the financial statements of the various crown corporations are examined by the Auditor General. Paragraph 153 gives a listing of all of the crown corporations he examined for the financial years terminating during or coinciding with the fiscal year ended March 31, 1962. You will note from paragraph 154 that the accounts of seven corporations or other public instrumentalities were not examined by the Auditor General during the year.

We will now deal with the highlights of each of the crown corporations whose accounts were examined by the Auditor General. Unless unusual financial results are present, I will not comment on them because the financial results of all of these crown corporations for the next fiscal year, that is the financial year ending on March 31, 1963, are the subject of similar treatment in my 1963 report, and it is there I think you may wish to pause and discuss more of the operations of the corporations—and particularly so should you decide that as a committee you would like to examine into the accounts of any one of these corporations in more depth by asking its officers to appear before the committee as witnesses.

First under paragraph 156 we have Atomic Energy of Canada Limited. The balance sheet of this company at March 31, 1962 indicated that subject to the provision by parliament of an appropriation for the purpose, the depreciated value of the NRU reactor amounting to $25,239,000 would be written off during the ensuing year. Although we record no such appropriation to have been included in the revised estimates tabled in the house for the fiscal year 1962-63, the amount was written off as a 1962-63 expenditure under authority of Atomic Energy Vote 16 in the Special Appropriation Act 1963 assented to July 22, 1963.

Paragraph 157 sets forth the situation surrounding the operations of Canadian Arsenals Limited for the year in question. I might just say here that its operations have been under close study by the Department of Defence Production and careful attention is being given to the problems they present.

Paragraph 158 sets forth the operations of the Canadian Broadcasting Corporation. In the last two paragraphs at the top of page 89 you will see reference to the estimated total cost of consolidation of the corporation's facilities in Montreal, Toronto and Ottawa, which at March 31, 1962 was estimated at $81,087,000. In the next paragraph we draw attention to a recommendation we made to the board of directors as at March 31, 1960 that a useful purpose might be served by having the organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management organization and the results of the study are to be found in report 19, these lines was subsequently completed by the royal commission on government organization and the results of the study are to be found in report 19, volume 4 of the commission's reports.

Mr. HARKNESS: Mr. Chairman, I read the Glassco commission report on the C.B.C. I do not know how many other members of the committee have read it, but it contains some very, very serious criticisms of the organizational set-up and method of doing business of the C.B.C., which results in very large expenditures.

I would think that this committee, perhaps, particularly if there is no broadcasting committee this year, could very usefully have the C.B.C., or somebody from the corporation before the committee to explain to us what action they have taken to correct the faults which are disclosed in the Glassco commission report, and what expenditures as a result there is any chance of reducing.

I think this is particularly important because the grant being made, just for ordinary operating expenditures, is now around $80 million a year, I think, is it not, Mr. Henderson?

Mr. HENDERSON: Yes.

Mr. HARKNESS: And there is, in addition to that, I have forgotten how many million dollars for capital expenditures.

It seems to me that this crown corporation, in addition to the Canadian National Railways, calls for more money on the part of the Canadian taxpayer than any other.

The CHAIRMAN: Yes, Mr. Harkness. I should say that the steering committee at one of our meetings did consider the question with regard to whether time would permit of closer and more detailed examination of several of the crown corporations. We did not consider which ones, but it has been several years now since this committee has had an opportunity, because of one thing and another, to examine in detail the financial operations of the crown corporations which are reported to us by Mr. Henderson.

I do not know whether at this time you feel like making a motion in this respect, or would you want it referred to the steering committee first?

Is there any further discussion on the statement made by Mr. Harkness?

Mr. HARKNESS: Well, if we are going to examine into any of these crown corporations, in view of the fact that there is more money required from the taxpayer for this corporation than for any other, and in view of the criticisms of the operation of the organization made by the Glassco commission report, I think it would be much more appropriate for us to deal with this corporation before any other, and therefore I would make a motion we go into the affairs of the organization.

The CHAIRMAN: May I have that in writing please, Mr. Harkness, so as to conform to our procedure? Is there a seconder?

Mr. HALES: I second the motion.

The CHAIRMAN: Mr. Harkness is suggesting that amongst the crown corporations we should definitely examine the financial operations and the statements of the Canadian Broadcasting Corporation, and Mr. Harkness is putting it in written form now.

Mr. TARDIF: Is the C.B.C. normally checked by the Auditor General?

Mr. HENDERSON: Yes, I am the auditor of the C.B.C.

Mr. MCMILLAN: Can we refer back to some of these items of the Auditor General?

Mr. HENDERSON: Yes, indeed, sir. You will be covering the same parts when we are going through the 1963 report.

Mr. MCMILLAN: I want to refer to item 141, for instance.

Mr. HENDERSON: The exchange fund. Well, as I mentioned, we are on the eve of having a very comprehensive statement tabled by the Minister of Finance, and you may find that that will answer a number of points, and I am hoping it will come before the committee and thus be placed on the record.

Mr. TARDIF: When you say on the eve, does that mean within the next couple of weeks?

Mr. HENDERSON: I think so, sir. And Mr. Bryce will appear to speak to it.

The CHAIRMAN: When we have completed the balance of these matters, or even at the time, any questions would be quite in order.

Mr. HENDERSON: Please stop me as I give you this run down.

Mr. MCMILLAN: I will wait until the end on item 141.

The CHAIRMAN: This is the motion moved by Mr. Harkness, and seconded by Mr. Hales: "That the public accounts committee call officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented."

Are you ready for the question?

Mr. HALES: I was wondering if that is broad enough? The way it is worded states just the recommendations of the Glassco commission.

The CHAIRMAN: And the Auditor General.

Mr. HALES: A full investigation.

Mr. HENDERSON: I think it is really to examine and inquire into the financial statements of the corporation, its accounts, including this other aspect, if you wish to attach it.

The CHAIRMAN: Does the committee give consent to including "to examine into the final statement of the C.B.C."?

Mr. HENDERSON: Into the accounts of the corporation.

The CHAIRMAN: Including the extent.

Mr. HENDERSON: Including the extent.

The CHAIRMAN: I will read the full motion as it is now amended: "That the public accounts committee call officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented."

Mr. MCMILLAN: That includes the accounts of the Auditor General as well, does it, up to 1963?

Mr. HENDERSON: It would include the ones before you, that is to March 31, 1962 and 1963. The corporation is required to table its annual accounts in the House of Commons annually, no later than the end of June is it not Mr. Stokes?

Mr. A. B. STOKES: (*Audit Director, Auditor General's Office*): Yes.

The CHAIRMAN: I would point out, of course, that we are bound by the terms of reference from the House of Commons, which includes statements for the fiscal years 1962 and 1963, and we would have to have additional terms of reference if we went beyond that period.

Are you ready for the question? All in favour? Against? One against.

Motion agreed to.

I declare the motion carried.

Might I point out in the case of some members who have come in since Mr. Henderson started, that he is at this time going rather rapidly through the final paragraphs of his 1962 report, but if at the conclusion of any particular paragraph or item any member of the committee feels he wants to bring up a point, or make a statement, it is perfectly in order to do so.

Mr. HENDERSON: The next paragraph, No. 159 deals with the Canadian Commercial Corporation. It is my understanding that the point made in the last paragraph relating to the annual loss of this Corporation may no longer be a problem because of changes now taking place whereby the functions of the Canadian Commercial Corporation are being transferred to the Department of Defence Production.

Paragraph 160 shows the crown's remaining equity in the Canadian National (West Indies) Steamships Limited which has since been reduced further. The corporation's activities are now confined to winding up its affairs. Paragraph 161 explains the operations of Canadian Overseas Telecommunication Corporation. Paragraph 162 sets out the situation respecting Canadian Patents and Development Limited.

Paragraph 163 deals with the Cornwall International Bridge Company Limited. This company ceased operations on July 2, 1962 when the Seaway International Bridge Corporation Limited took over the operation of the toll highway over the St. Lawrence river between Cornwall, Ont., and Rooseveltown, N.Y. The Cornwall International Bridge Company is therefore in the process of winding up its affairs.

Paragraph 164 sets out the details of operations of Crown Assets Disposal Corporation and paragraph 165 the details of Defence Construction (1951) Limited.

Mr. HARKNESS: Mr. Chairman, in connection with Crown Assets Disposal Corporation, you will remember Mr. Winch raised the matter of the disposal of a considerable number of items, which he brought to the attention of the committee, which seemed to have been sold at a very, very small sum, and at that time, as I recall it, there was some talk about having the officials of the Crown Assets Disposal Corporation appear before the committee.

Did the steering committee take any action on that, or what is the situation in that regard?

The CHAIRMAN: The way it stands now, Mr. Harkness, it was indicated by the committee at the time that officials of this Corporation, and also the Department of National Defence, should appear, but we should first have from the Auditor General a more detailed statement of what is involved.

Mr. Henderson's staff is now engaged in securing this information. We had a little problem which was, I think, worked out when Mr. Richard appeared before us, and I think unless there is something to the contrary Mr. Henderson is now engaged in securing this information.

When this is done, and the statement is drawn up, a time will then be fixed when the officials of the Department of National Defence and Mr. Richard's Corporation will appear here, and this matter will be gone into.

Mr. HARKNESS: That is looked after, and no further motion is required?

Mr. HENDERSON: That is correct, Mr. Chairman.

Paragraph 166 refers to Eldorado Aviation Limited and paragraph 167 to the parent company, Eldorado Mining and Refining Limited.

Paragraph 168 deals with Export Credits Insurance Corporation. In our 1961 report we had pointed out how, as a result of our audit, we had found the case of an agent who had collected money and failed to turn it over to the Corporation. As indicated here, the exporter refunded the amount involvd, $70,000, to the Corporation in March 1962.

Paragraph 169 sets out the operations of the Farm Credit Corporotion. During this 1961-62 year there had been increased activity in its operations which as noted on page 103, resulted in an increase of $684,000 in its expenses, arising largely from the increase in its staff from 183 at March 31, 1960, to 308 at March 31, 1961, and to 388 at March 31, 1962.

Paragraph 170 deals with the National Battlefields Commission.

Mr. HALES: Before you leave farm credit, I wonder if the Auditor General has any observations to make regarding the increase in the loss position of the farm credit over the year 1961-1962. The loss is almost four times what it was before.

Mr. HENDERSON: Well, that is largely accounted for by the very figure that I just gave, Mr. Hales. The expense went up by $684,000, as you will note from the comparative tabulation given on page 103, and that arose from the substantial increase in staff because of the greater activity by the corporation in the lending field.

That is what accounted for that increase.

Mr. HALES: The money's being loaned at a lower rate then. They are not having enough income to take care of their expenses.

Mr. HENDERSON: Well, that has most certainly been a contributing factor, and I have pointed that out in my statutory report in the accounts each year, but at the same time the overhead has gone up, because they have been given larger sums of money to lend and they had to engage more staff to do it. There has been considerable expansion in this Corporation, as you know from the discussion in the house.

Does that answer your question?

Mr. HALES: Yes. It is not a very healthy position that they are in. I presume the corporation are doing all they can to cut their expenses, however.

Mr. HARKNESS: Well, essentially the situation is, is it not Mr. Henderson, that the rate of interest charged on these loans is not sufficient to cover the cost of getting the money to begin with, what has to paid for the money, plus the cost of administration?

Mr. HENDERSON: That is quite right, sir. Perhaps Mr. Long would like to add something on this.

Mr. HARKNESS: In other words, this is a subsidized loan.

Mr. HENDERSON: You might describe it as such.

Mr. FANE: One and a half per cent, that is all.

Mr. G. R. LONG (*Acting Assistant Auditor General*): As Mr. Harkness mentions, it is the statutory rate of 5 per cent, which they have been limited to, and they have been paying more than 5 per cent to the federal government for the moneys which they loan.

I believe there is presently a bill before the house on this matter. I am not just sure whether it has been passed or not, but there is to be, I believe, an increase in the rate on the increased amount which they may loan to individual farmers.

This, of course, will not take care of the situation up to the former loaning limit.

Mr. FORBES: Since this is a 30 year loan it is generally regarded that interest rates vary in Canada over a period of 30 years. You can anticipate that there will be periods that this will be above 5 per cent, and periods that it will be below 5 per cent, but I think it will average out to 5 per cent.

I think if you review the history of interest rates in Canada, you will find this substantially correct.

Mr. SOUTHAM: With regard to the interest rate that the government has to pay on the average, what would you expect it to be, roughly? I am interested in this because there has been a quite lengthy debate in the house, and as Mr. Forbes says, it was pretty well discussed on the long term loan that is being advanced to farmers, and the figure of 4 per cent was mentioned as an average of what the cost of the money would be to the government.

So, even though we are dealing with only one corporation here, but looking at the overall picture, the government in the long run would not lose if this figure of 4 per cent was correct.

Mr. HENDERSON: I think it is impossible to speculate into the future of what the out-turn of a thing of this kind might be. The problem we had before us here was that the corporation was being charged a higher rate of interest than it was permitted to charge to its customers, so it is forced into a loss position.

If you were doing this in business, presumably the rate that you would pay to get the money would be the rate that you would pass on to the customers, at least, plus sufficient to cover the overhead of administering it, thus working in the direction of a break even point, but they cannot do that here because they are limited by the rate of interest that they can charge the farmer, as Mr. Long has explained. I think it remains at 5 per cent for the first amount of money, and

then can take an increase over and above that. But this is not going to be sufficient to bring it out to a break-even point.

Mr. SOUTHAM: Well, my question was not looking into the future, but over the past number of years, what has been the average cost of money to the government?

Mr. HENDERSON: I would not like to give an answer right off, without checking.

Mr. SOUTHAM: The reason I ask you is that the figure 4 per cent was given several times during this debate, and I was quite interested in it, because I was representing a farm area, and the fact that our farmers get a benefit from this Farm Credit Corporation to a large extent, knowing the feeling of farmers, they themselves do not want to be getting charity. Going back to the old phrase, they want parity, not charity. But the figure of 4 per cent came out, that this was the average cost over the past years to the government, and, in effect, if they were now being charged 5 per cent, in the long term they believe that they would break even on it.

I just wondered if this was substantially true.

Mr. HENDERSON: I would wish to check the history of interest costs to the governement before saying whether I thought 4 per cent was a fair basis or not.

The general proposition, as I see it, is if you are going to be lending money to people, you should charge what that money costs you, plus a margin to cover costs. Otherwise you are subsidizing it.

Mr. SOUTHAM: Here we have a crown corporation working within the government itself, and the government itself can borrow this money, and then turn around and loan it. I was wondering whether this 4 per cent figure was substantially true or not.

The CHAIRMAN: Could that be available by the time we come to study the Farm Credit Corporation in your 1963 report?

Mr. HENDERSON: I will certainly look up the *Hansard* reports. I think I recall that particular discussion you mentioned. We can then see to what extent it might be possible to support the statement with the facts, without going to an undue amount of work, and thus put me in a position to be a little more helpful.

Mr. WAHN: Do the figures since 1929 represent that the total cost of the money to the government must be something less than 5 per cent, because, in fact, the corporation, or the board, rather, has been able to establish a reserve without earnings, which at March 31, 1960, amounted to something like $3,749,000. This, presumably, represented accumulated earnings from past years, would it not Mr. Henderson?

Mr. LONG: Mr. Wahn, the reserve that is there at present was accumulated under the old Canadian farm loan board.

Mr. WAHN: That was a predecessor of it.

Mr. LONG: The predecessor. I am not familiar with legislation under which it operated, but I rather think this 5 per cent limit came in under the Farm Credit Act.

Mr. WAHN: Is it your information that they charged more than 5 per cent under the predecessor organization?

Mr. SOUTHAM: No, they did not.

Mr. WAHN: So the cost must be less than 5 per cent, even taking in the administration costs, because the previous paragraph of the report states why.

Mr. LONG: I think I am right in stating that since the Farm Credit Corporation came into existence they have continually reduced this reserve.

The act requires them to set aside profits, to take care of possible losses, and they are not making any progress in that direction.

Mr. WAHN: The present corporation was established under the Farm Credit Act, since 1959, and since 1959 the effective interest rate has been much higher than it was prior to 1959.

If the object of the government in setting up this type of corporation is to level out the interest cost to farmers over, say, an extended period, which might very well be the case, because after all farm investments are for an extended period of time, then the fact that there was a formal change from old Canadian farm loan board to the Farm Credit Corporation, I do not think should really make much difference, unless there was some fundamental change in the interest rate charged as between the two periods.

But surely one purpose of this might be to level out interest rates to the farming community over, say, a 20 year period. So before you could make any recommendations as to whether this corporation is operating in an unbusiness-like way, I think you would have to look back over the entire period, and not just look back to 1959, because from 1959 on, as you know, the interest rates have been unusually high in relation to what they were back in 1946, for example.

Mr. HENDERSON: I think that is the point Mr. Southam had in mind when he referred to the history of the 4 per cent rate that was brought up in the debate. You would have to go back many years on that.

Mr. MCMILLAN: What was the prevailing rate of interest that the government was paying in 1959, because that would indicate whether it was to be a subsidized corporation, or a self-sustaining one.

Maybe in 1959 you could have loaned money at 5 per cent and then operated certainly not at a loss at any rate.

Mr. HARKNESS: I was going to try and answer that for you. You will perhaps remember that I was the person who put this legislation through, and I think there are several factors in connection with this.

First of all, the operations of the Farm Credit Corporation have been very much more extensive than those of the old farm loan board, and this necessitated, as Mr. Henderson has said, a considerable increase in staff.

One of the policies on the basis of which the corporation was put into effect was to provide a supervised service with the particular object in view of enabling young farmers to become established in the farming business. This was on the basis of the fact that the average age of farmers had got to be fairly high, and it was extremely difficult for young men to get into farming, and in order to make possible transfer of land from old farmers to younger men, and to maintain, in other words, a farming population of a reasonable age, it was considered good policy, and the government adopted that idea of increased loans and a supervisory staff to give advice to young men getting started in the farming business, and to direct their activities into those branches of agriculture, in particular, in which there was the best possibility of profit for them and the greatest advantage to the general economy of the country.

This, of course, it was realized would all cost money. On the basis of what interest rates had been, as Mr. Southam said, over the period of the previous 30 or 40 years, it was hoped at least that the rate of 5 per cent over the long term would be sufficient to pay the extra costs involved, but if they were not sufficient, then the government at that time was prepared to subsidize these operations to whatever extent was necessary, in order to get a better balanced agriculture.

Mr. MCMILLAN: Well, that answers my question, I think, not specifically, but in general terms.

Mr. FANE: Mr. Chairman, I just wanted to say, for the benefit of Mr. Wahn who asked a question about the interest on the Canadian farm loan board loans. That was 5 per cent. It did not go up, or it did not go down, when Mr. Harkness brought in his Farm Credit Corporation.

I can say that first hand, because on a farm that I purchased not so long ago, 1948, I think the interest at that time was 5 per cent. The loan that I had myself some time in the thirties was also 5 per cent. So it did not change, and I believe that is the reason why the interest on the Farm Credit Corporation loans was set at 5 per cent, after much difficulty and argument.

Mr. FRANCIS: Mr. Chairman, on this subject, I cannot help but feel that what is more important is the projected future arrangements, rather than past experience, which is coloured by the long depression of the thirties. I cannot help but feel that the interest rates which are applied under the National Housing Act might be more appropriate as a general policy for various types of government and government guaranteed loans, and I personally think that there should not be any great disparity between C.M.H.C. loans and farm credit loans.

I think roughly the same rate of interest should apply.

The CHAIRMAN: Thank you Mr. Francis. We will be dealing with this again, of course, when we come to 1963.

Can we pass on to the next paragraph?

Mr. HENDERSON: Paragraph 170 deals with the National Battlefields Commission. The comment made at the top of page 105 regarding the snow removal tax was resolved by reason of decisions unfavourable to the City in similar cases in the Exchequer Court of Canada and the court of appeal of Quebec which resulted in the withdrawal of the action in September, 1962, with each party paying its own costs.

Paragraph 171 deals with the operations of the National Capital Commission which we will be discussing also under another heading in the 1963 report and to which the deputy minister of finance will probably be addressing himself when he appears before the committee.

Paragraph 172 shows the position of the national harbours board. Here there will be noted, beginning on page 109, three cases of non-productive expenditures set out as requested by the committee. Together the payments involved $328,000 for which little or no value was received. Loans and advances to the national harbours board continued to increase and at March 31, 1962, together with interest in arrears, amounted to $355,723,000. I pointed out in 1961 and again in this report that there appears little prospect of the board being in a position to meet principal and interest obligations of this magnitude on the basis of the present level of its operations, and accordingly suggested that consideration should be given to reconstituting its financial structure on a more realistic basis.

Paragraph 173 sets forth the picture on the Northern Canada Power Commission. In 1961 I had pointed out that greater efforts should be made by the commission's management to keeping a recording of its transactions on a more current basis, and record here that some improvement was found in this direction and that management is continuing its efforts along these lines.

Paragraph 174 has to do with the Northern Ontario Pipe Line Crown Corporation. Members may recall that on May 29, 1963, Trans-Canada Pipe Lines Limited exercised its option to purchase the northern Ontario section. Northern Ontario Pipe Line Crown Corporation has since discharged its liability for the amount due to the government of Canada for outstanding loans and interest accrued thereon.

Paragraph 175 deals with Northern Transportation Company Limited which is a wholly owned subsidiary of Eldorado Mining and Refining Limited.

Paragraph 176 refers to Park Steamship Company Limited which has ceased operations.

Paragraph 177 covers the operations of Polymer Corporation Limited and subsidiary company in the year ended December 31, 1962. Members of the committee will recall that officials of this company appeared before the public accounts committee in 1961 when its accounts were examined in detail.

Paragraph 178 sets out the situation with respect to the St. Lawrence Seaway Authority at March 31, 1962.

Paragraph 179 opens our comments with respect to the extensive trading or servicing activities operated by a number of departments. Paragraph 180 sets out how financial statements showing the operating results from such activities could be prepared and included in the public accounts. This is a matter we discussed at the opening of these meetings when considering my follow-up report and, as stated at that time, this is a situation which will have my continuing attention. I am grateful for the interest shown by the committee in trying to reach this objective.

Paragraph 181 summarizes the trading losses and stabilization and deficiency payments comprising the net operating loss arising from the agricultural commodities stabilization activities. Paragraph 182 shows a comparative summary of the results of operations of the Board of Grain Commissioners for Canada and refers to this committee's recommendation in 1961 that steps be taken to bring revenues and expenditures into balance. As I advised in my comment on this item in our follow-up report, announcement was made last April that steps will be taken to achieve this objective by increasing the fees beginning August 1, 1965.

Paragraph 183 shows the situation with respect to the operation of the Canadian government elevators, all of which have remained in a profit position excepting Lethbridge where for the seventeenth consecutive year the direct costs of operation have exceeded revenue.

Paragraph 184 gives the picture regarding the national film board. On page 124 it is explained that because the statement of income and expense did not include charges for the value of accommodation, contributions to the public service superannuation account and accounting and other services provided by government departments to the extent of approximately $1,027,000 for the year, the net expense shown is under-stated to that extent. I am glad to advise the committee that the management of the national film board has since remedied this situation by proposing to include these costs in its statement of income and expense.

Paragraph 185 shows the excess of expenditure over revenue in connection with the activities of the post office, although as indicated in the bottom paragraph on page 124, no account had been taken of services rendered by other departments which would have amounted to a net increase in expenditure of $25,485,000 based on estimates for the fiscal year 1962-63.

Paragraph 186 deals with public printing and stationery activities and shows how, in addition to the expenditures recorded through the advance account which totalled $19,607,000, the department had other expenditures totalling nearly $4 million.

Paragraph 187 records the result of operations of the Royal Canadian Mint and paragraph 188 deals with the airport operations of the Department of Transport.

In paragraph 189 I refer to the public accounts committee's statement in its fifth report 1961 that the committee felt it would be desirable, in the interests

of providing members with a clear understanding of the true financial results of departmental trading or servicing activities like these, were over-all financial statements included in the public accounts without undue cost or staff increases. In my opinion, the importance of this recommendation is again borne out by the situation I have outlined with respect to these activities, and I was particularly pleased to have last December the committee's endorsation that our efforts towards this objective should be continued.

In paragraph 190 I set out the nature of certain special audits and examinations made by the Audit Office. I began with paragraph 191 having to do with the army benevolent fund and followed with paragraph 192 dealing with the Canada Council—an agency which will be the subject of special attention during consideration of my 1963 Report because of its direct reference to the Committee. Paragraph 193 shows the operations of the Custodian of Enemy Property while paragraph 194 shows the position of the Exchange Fund Account, already referred to—

Mr. McMILLAN: In connection with the exchange fund account, I understand somebody from the Department of Finance is going to be here, but does that mean, when you talk about a deficiency, does that mean a loss in the account?

Mr. LONG: The amount shown here as a deficiency, Dr. McMillan, is an accumulation since the Currency, Mint and Exchange Fund Act was first passed quite some years ago. In that time there have been several occasions when the exchange was fixed. There have been some years when the exchange was at a free level, and at the end of any particular year when you value your holdings in terms of the value of the United States dollar, there is an accumulation which, depending upon the value of the United States dollar at that time, might be quite high, and it has been quite high. It was quite high when we first started mentioning this.

Now, the current situation is that the United States dollar has been increased in value. The Canadian dollar has been lowered in value, and this deficit is wiped out as long as the present value of the United States dollar remains. Should it change even a slight amount, this difference would disappear, and really, to answer your question, I think there have been losses, not in the transactions, but in the handling of the exchange rate, as has been necessary over the years.

Mr. McMILLAN: Well, I understood the Auditor General to say that that amount would be $33 million, but at four it would be $154 million.

When you use the word deficiency, what do you mean? Deficiency from what?

Mr. HENDERSON: If you will look at the tabulation Mr. Long referred to on page 133, you will see the position of the fund. The balance at December 31, and we are taking here December 31, 1961, compared with the previous year. You will see that it is $2,162 million. Then it shows what the balance is represented by. It was Canadian dollars, which are small, United States dollars and securities, and gold.

Now, those currencies, particularly the United States dollars and securities, and gold, require to be valued to see to what extent they equal the balance of the fund on the books, and as you will see here, at December 31, 1961, they were short by $45,858,000. On May 2, 1962, when the Canadian dollar was revalued in terms of United States currency, you can appreciate that that deficit came to be largely eliminated.

These are the factors and considerations to which the Minister of Finance is addressing himself, as I understand it and which he is making the subject of this memorandum that is going to be tabled. It is a most interesting problem, and well worthy of consideration by the committee.

Mr. McMILLAN: The reason I asked this is that I seem to recall that in several years there was a surplus in that fund.

Mr. HENDERSON: Yes, one would have existed, would it not Mr. Long, in the record?

Mr. LONG: There has not been an over-all surplus for quite some time. Individual years might have had a surplus, yes.

Mr. HENDERSON: With figures of this magnitude it does not take much of a difference to swing the pendulum.

The CHAIRMAN: Would the committee agree that when Mr. Bryce makes available his memorandum, in order that the committee could have this very important information before them before Mr. Bryce comes in here, would the committee authorize me, when it comes to hand, to make a distribution to all members of the committee so that they have an opportunity to study it before Mr. Bryce gets here?

Mr. HENDERSON: Paragraph 195 deals with the operations of the National Gallery of Canada and paragraph 196 with those of the National Productivity Council.

Paragraph 197 indicates the extent of our work carried out on public printing and stationery stores and paragraph 198—

Mr. HALES: On paragraph 197, your department, I know, assists in an annual physical stocktaking of the department. How often was that done? Once a year, or twice?

Mr. HENDERSON: It is done annually, I believe. Mr. Smith, could you speak to that point?

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): This is done not only at the Ottawa headquarters of the department, but also at field offices throughout Canada.

Mr. HALES: And a member of your department works alongside them?

Mr. SMITH: Yes. Headquarters personnel, plus personnel from our regional offices at various centres across Canada.

Mr. HALES: Thank you.

Mr. HENDERSON: Paragraph 198 covers the Queen Elizabeth II Canadian fund to aid in research on the diseases of children. Paragraph 199 refers to our annual inspection of the Royal Canadian Mint stocks.

Paragraph 200 shows the position of the Unemployment Insurance Fund at March 31, 1962, a subject you will want to examine in more detail when we reach the comparable paragraph in our 1963 Report. It may be of interest to note here the information contained in the last three paragraphs of this comment on page 139 showing how the marketable securities were exchanged for the special issue of Government of Canada non-negotiable bonds, to which I referred earlier (paragraph 148).

Paragraph 201 shows the results of operations for the year of the Yukon Territorial Government. In this connection, the Yukon Act does not provide for the preparation of annual financial statements for the Territory or for their certification by the Auditor General as the statutory auditor. As a consequence, I recommended to the Minister of Northern Affairs and National Resources that steps be taken to incorporate these provisions in the Act. At the same time, I advised him that pending such an amendment to the legislation, I would, of course, continue to furnish appropriate audit certificates covering the annual financial statements prepared by the Territory for publication in its Public Accounts. Although no statutory action has yet been brought forward, I am advised by the Department that it proposes in due course to recommend legislation along the lines I suggested.

These comments, Mr. Chairman, which I am afraid I have, perhaps, given too rapidly, do bring us to the conclusion of the 1962 report, and may have perhaps served the purpose of familiarizing you with some of the situations you are going to find updated in the 1963 report, which would be the next document to bring forward.

The CHAIRMAN: Thank you, Mr. Henderson. I am sure the committee has appreciated your diligence, and that of your officials.

I think, as a matter of fact, this is the first time in three years if I am correct, that we have been able to take the time in between elections, and other problems, to complete a yearly study of your report, and I think it is excellent that we have had your assistance in doing so.

Now, as Mr. Henderson said, we have hurried through this last part, but, as you realize, within the not too distant future we will be dealing with these matters brought up to date, and, secondly, while we are open for any questions if any member of the committee is interested, it will be discussed at a later date.

May I say one more thing, that it is hoped that the steering committee will meet some time next week, so that we may possibly be able to bring in an interim report covering the matters which we have discussed so far, and not find ourselves at some time later next fall having to riffle through transcripts of evidence, and discussing matters dealing with the problems which were before us many months previously.

I hope that the steering committee might consider this, might be able to bring up to date and include in a report to the house the pertinent matters in those things which the committee may feel themselves should be included in an interim report.

Mr. MCMILLAN: I just want to ask a general question. I was struck by the lack of recovery of the government from investments and advances to different corporations. Take the national harbour board. I think he said $300 million, and the deficiency in the exchange account of $154 million. In those two accounts alone there is over half a billion dollars. That really did not show our true balance at the end of the year. Is that right?

Mr. HENDERSON: Well, it distorts the figures, it makes them less meaningful. There exists a host of reasons behind each and the decision to leave them undisturbed at the present time, all of which, in fairness, must be examined before you can reach any individual or general decisions.

In the case of the national harbours board I felt that you would probably agree that it should serve a very useful purpose to take a hard look at that establishment, because it presents the Board with an enormous problem, not even being able to meet the interest, let alone capital repayment. Moreover in the operations of an organization it must surely dull the initiative of the people. They feel they are fighting a hopeless case when saddled with this sort of overhead.

Mr. MCMILLAN: Should not a certain amount of that be written off as current account every year?

Mr. HENDERSON: Yes, there is a case for this, but you have to tackle these things, Dr. McMillan, at the beginning, by first of all examining all the facts in the closest detail before moving on it.

Mr. WAHN: When does the Auditor General's report normally come out? In other words, when will the report for the fiscal year ended March 31, 1964, be published?

Mr. HENDERSON: I complete it by the close of the calendar year, that is December 31, and normally it is placed before parliament in January, or February, as soon as it reconvenes after the recess.

That is in accordance with the provisions of the Financial Administration Act.

The CHAIRMAN: Are there any further questions?

Mr. HARKNESS: Mr. Chairman, before we adjourn, what are we going to deal with at the next meeting, on Tuesday?

The CHAIRMAN: The Auditor General's report for the year ending March 31, 1963. That is where we will be beginning on Tuesday next.

Mr. HENDERSON: Mr. Long has just drawn my attention to an important point.

Mr. LONG: Dr. McMillan, you mentioned the exchange fund account and its deficit. I just wanted to make sure that you are aware that all earnings on the investments in United States securities are turned over to the Department of Finance, so that the deficit appearing in the account does not take into consideration earnings on investments of the account.

Mr. MCMILLAN: It does not appear to offset any of it.

Mr. LONG: Well, if all the interest, earnings on investment, were left, the deficit would be much less, but they are taken off, and you will notice on page 14 of our 1962 Report that they amounted to over $32 million in 1962.

The CHAIRMAN: The meeting is adjourned until next Tuesday, at 9.30 a.m.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

Public Accounts, Volumes I, II and III (1963)

Report of the Auditor General to the House of Commons—1963

TUESDAY, JUNE 23, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

21037—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Beaulé,
Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cardiff,
Chaplin,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Fane,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
*Nowlan,
O'Keefe,
Pigeon,
Pilon,
Regan,
Richard,
Ricard,
Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

*Replaced Mr. Skoreyko on June 19.

ORDER OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, June 19, 1964.

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

Attest.

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

21037—1½

MINUTES OF PROCEEDINGS

TUESDAY, June 23, 1964
(9)

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

Members present: Messrs. Baldwin, Fane, Forbes, Frenette, Harkness, McMillan, Nowlan, O'Keefe, Regan, Rinfret, Stefanson, Tardif, Tucker, Winch (14).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Douglas, Stokes, Smith, Millar, Chapman, Crowley and Laroche of the Auditor General's office.

The Chairman welcomed Hon. George Nowlan as a new member of the Committee.

Mr. Baldwin referred to discussions with Mr. Alphonse Ouimet, President of the C.B.C. and Dr. G. F. Davidson, Secretary of the Treasury Board relating to their attendance before the Committee. The Chairman also announced that the Steering Committee would meet this afternoon to consider a schedule of witnesses.

The Committee commenced its consideration of the Auditor General's Report for the year ended March 31, 1963.

Mr. Henderson reviewed paragraphs 1 to 40 inclusive and was questioned thereon, assisted by his officials.

On paragraph 7, *Scope of the Audit,* Mr. Henderson reviewed his staff and recruitment outlook, and was questioned thereon. The Committee agreed that the Chairman write the officials of the Institute of Chartered Accountants in Quebec thanking them for officially recognizing the office of the Auditor General in the Province of Quebec for the training of students-in-accounts.

The questioning of Mr. Henderson still continuing, at 10.55 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 25, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 23, 1964

The CHAIRMAN: Gentlemen, I see a quorum. You will come to order. I am glad to welcome one or two new members. I am glad to see the Hon. Mr. Nowlan present. We welcome his experience not only as a member of the committee but from other places as well, and I am sure he will be very helpful to us in our examinations.

The other day we said that we would start the examination of the Auditor General's report for 1963. Pursuant to the instructions of the committee contained in the motion moved and passed at the last meeting with regard to the request that the C.B.C. officials appear before this committee in connection with their financial statement and other aspects which are concerned with the work of this committee, I telephoned to Mr. Ouimet, and I think we will be able to arrange for their appearance some time around the first week of July.

I had hoped to be in contact with him this morning again so that we might be able to fix a firm date, but he was not available then. I think however that I shall be able to get in touch with him later on. We hope to have a steering committee meeting this afternoon at four o'clock and to be able to report at our next meeting, at which time we hope to be able to give you some idea as to the other witnesses, and the deputy ministers generally, and the dates of their appearance.

On June 30, Dr. G. F. Davidson, secretary of the treasury board, will be present. I was in touch with him. There are a number of matters in which he is interested and about which he will have comments to make. The committee may wish to question him on both the 1962 as well as the 1963 report. Perhaps at that time, if it meets with your approval, when we send out notices, Mr. Slack would indicate the paragraphs in the 1962 and 1963 reports about which Mr. Henderson will be making comments so that you will know about it before you come here. You will have some indication of what subject matters will be discussed. But this is a firm date, June 30, when Dr. Davidson will be here. There are a number of matters about which we will send you information.

Now, Mr. Henderson, let us start with the 1963 Auditor General's report to the House of Commons. I think you all have copies of the report. If not, they are available.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Well, Mr. Chairman, beginning with my 1963 report, of which everybody has a copy, for the past several years we have been inserting a table of contents, as you may have noted, in this report which I make to the House of Commons, which we find, and I hope you will find, to be of some assistance in locating individual items.

The CHAIRMAN: We commence with paragraphs 2, 3 and 4:

> 2. In accordance with the requirement of section 70 of the act, a Report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1963. Subsection (1) of the section reads:
>
> > The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
> >
> > (*a*) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,

(*b*) any public money was not duly accounted for and paid into the consolidated revenue fund,
(*c*) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by parliament,
(*d*) an expenditure was not authorized or was not properly vouched or certified,
(*e*) there has been a deficiency or loss through the fraud, default or mistake of any person, or
(*f*) a special warrant authorized the payment of any money,
and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The statement of expenditure and revenue for the fiscal year ended March 31, 1963 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 by me as required by section 69 of the Fnancial Administration Act, subject to my comments in this report. Copies of these financial statements are attached hereto as Exhibits 1 and 2. The "summary of appropriations, expenditures and unexpended balances, by departments" and the "summary of revenue, by main classifications and departments", both as included in the 1963 public accounts, have also been examined and certified and copies are attached as Exhibits 3 and 4.

4. This report includes explanatory notes, in paragraphs 17 to 33, regarding the major variations between the 1962-63 and 1961-62 expenditures. There is also submitted, as Appendix 2, a "summary of expenditure by standard objects" for the year ended March 31, 1963, with comparable figures for the preceding fiscal year.

Mr. HENDERSON: These are standard introductory paragraphs quoting as they do, under paragraph 2, that part of section 70 of the Financial Administration Act, pursuant to which I make my report to the house, on the results of my examination each year.

Paragraphs 3 and 4 refer to exhibits and appendices to the report.

The CHAIRMAN: Next is paragraph 5:

5. It will be noted from the summary of expenditure by standard objects (Appendix 2) that the two largest items of expenditure continue to be interest on the public debt and civil salaries and wages. Together they totalled $1,782 million and represented one-quarter of the total expenditure for the year. The first of these items, namely interest on the public debt, is the subject of a detailed appendix in the public accounts. With respect to civil salaries and wages and following the practice of the past several years, Appendix 3 to this report gives a summarized listing showing the numbers of employees authorized for the public service by departments, crown corporations and other public instrumentalities at the close of the fiscal year under review in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

Regarding paragraph 5 you may remember that at its meetings last December the committee expressed interest in the summarized listing referred to here as appendix 3, which shows the number of employees authorized for the public service by departments, crown corporations and other public instrumentalities at the close of the fiscal year, in comparison with the numbers at the close of the preceding year. This was in reference to a similar appendix appearing in the 1962 report, and in its fourth report 1963, presented to the House on

December 19, 1963, the committee asked me to continue preparing this comparative listing annually and, effective with my report for the fiscal year 1963-1964, to include therein a more detailed breakdown of establishments by divisions and subdivisions together with the number of employees actually on strength at the end of each fiscal year for the purpose of showing the size of each establishment's organization on a still more informative comparative basis.

As the members will recall from their discussion of my follow-up report a month ago, I advised that a comparative listing prepared along the lines directed by the committee would be included as an appendix in my next report to the House of Commons.

The CHAIRMAN: Paragraph 6 follows:

Standing Committee on Public Accounts

6. This standing committee of the House of Commons last examined my whole report in 1961 when it held 22 meetings between February 22 and June 30, 1961. At these meetings the committee examined my report to the house for the fiscal year ended March 31, 1960 which had been tabled on January 16, 1961. The final report of the committee was submitted to the house on July 1, 1961 and contained 35 recommendations for improvements in various areas of government operation.

My report for the fiscal year ended March 31, 1961 was tabled on January 31, 1962. The public accounts committee, however, was not convened during the then session of parliament.

At the following session the committee was convened and my 1961 report referred to it by the house. The committee held its first meeting on December 13. 1962. In accordance with past practice, I was asked to submit a follow-up report on action taken on the 35 recommendations contained in its report to the house on July 1, 1961. In submitting this to the members of the committee, I was able to report that in 24 of the committee's 35 recommendations, action had been taken by the departments and agencies concerned which I felt the committee might consider appropriate in the circumstances.

My report for the fiscal year ended March 31, 1962 was tabled on Jnauary 21, 1963 and referred to the committee on January 23rd. At the request of the house, the committee met on January 29th to consider two of the matters dealt with in that report, namely the refusal of access to certain income tax files and my difficulties in recruiting audit office staff under existing governmental recruitment procedures. These matters were considered by the committee further on February 1 and February 5, 1963, following which the committee submitted its report thereon. This ended the committee's work as parliament was dissolved on February 6, 1963.

Consequently, neither my 1961 nor 1962 report (except for the two matters referred to above) has yet been examined by the public accounts committee. However, on October 29, 1963 my 1962 report was referred by the house to the reconstituted committee, which resumed sittings on November 8, 1963 and is currently in session.

Mr. HENDERSON: Paragraph 6 refers to your committee. The four paragraphs under this heading were inserted for the purpose of familiarizing members with the extent to which reports had been examined or were under examination by the committee and therefore the paragraphs are purely informative.

You will note that no committee was in fact ever convened to examine my 1961 report. However, the prompt action of the present committee in completing its examination of my 1962 report last Thursday so that it can now turn to my 1963 report today is particularly encouraging to my officers and to me.

The CHAIRMAN: Now, paragraph 7:

Scope of the Audit

7. Examinations of the departmental accounts for the year ended March 31, 1963 were made in conformity with section 67 of the Financial Administration Act which reads:

> 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 revenue,
>
> (*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.

In my report to the House of Commons for the fiscal year ended March 31, 1962 I stated that it had not been possible to carry forward the comprehensive audit approach to the extent outlined to the house in my 1960 report and to the public accounts committee both in 1960 and 1961, for the reason that I continued to be unable, under existing governmental recruitment procedures, to obtain the full staff approved for my office by the treasury board.

The same unsatisfactory situation continued throughout the fiscal year under review. Our examinations are conducted on a test basis, the extent of the tests varying according to the nature of the transactions and the effectiveness of internal controls. The extent to which these test examinations had to be limited by recruitment difficulties continued to be a matter of serious concern. As I stated in my report last year, there are altogether too many instances where staff shortages result in the audit office being unable to carry out its test examinations with sufficient frequency or in sufficient depth to achieve even the minimum standard required by modern accepted auditing practice.

The public accounts committee has had this problem under examination since 1960 and has recommended that appropriate steps be taken to authorize the Auditor General to recruit and manage his own staff. In its second report 1963 tabled in the House of Commons on February 5, 1963 the committee rendered the following opinion:

> The committee on two previous occasions has recommended that immediate attention be given to the problem of recruitment of staff by the Auditor General and sees no reason at the present time to alter its recommendations made in two previous years.
>
> The committee gave consideration to section 65 of the Financial Administration Act and to section 74 of the Civil Service Act.
>
> The committee is of the opinion that consideration be given to amending section 65 of the Financial Administration Act so as to authorize that the Auditor General recruit and manage his own staff with the approval of the treasury board and that in the meantime the Civil Service Commission should immediately reconsider its position with respect to section 74 of the Civil Service Act, since the Committee is convinced that the special character of the Auditor General's work requires that this be done.

As no action had been taken by the executive to implement the recommendation in whole or in part by the time the reconstituted committee opened its 1963 meetings on November 8th, the committee asked the Auditor General and the chairman of the Civil Service Commission to explore the problem further and report back to the committee on November 22, 1963. On that date they jointly advised the committee as follows:

1. The Auditor General and the Civil Service Commission have reached agreement on the steps to be taken to achieve the objectives of the Auditor General in the area of recruitment, selection and negotiation with candidates for positions in his office. While giving the Auditor General freedom to recruit staff, these steps contemplate adherence to the basic personnel policies and standards sought for the Canadian public service by the Civil Service Commission, and the Auditor General has accepted the responsibility to see that this is maintained through the medium of effective liaison.
2. In order to facilitate the achievement of these objectives, the Civil Service Commission is seconding a senior employee from its staff to the staff of the Auditor General to handle his staff and administrative matters.

I believe that, following implementation of this arrangement, the audit office will be in a position to improve the scope of its work in a satisfactory manner. The staff shortage which has existed has, of course, continued to limit the scope of work during the now current 1963-64 fiscal year. However, I look forward to being able to report progress in this regard with respect to the fiscal year 1964-65.

Subject to the limitations in the scope of our work, referred to above, our examinations were made in accordance with generally accepted auditing standards and continued to include a general review of the accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the audit office view, were not in the harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with executive orders or regulations.

Our examinations extended to all departments, crown corporations and other agencies of the government of Canada, excepting those listed in paragraph 133 whose accounts were subject to examination by other auditors.

The accounts relating to the receipts and disbursements of the audit office were examined by an officer of the public service nominated for the purpose by the treasury board, as required by section 75 of the Financial Administration Act.

During the course of their work, members of the staff of the audit office were given full access to all vouchers, records and files of the various departments, crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of crown corporations and other agencies.

The audit office has addressed detailed reports to the executive boards of crown corporations and other agencies covering the results of its examinations during the past year. These reports give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. Where matters dealt with in these reports were considered to be of interest to the House of Commons, references are made in the relevant sections of this report.

Mr. HENDERSON: In paragraph 7 I refer to the scope of my audit. The situation outlined here follows a similar comment I made in my 1962 report which members will recall I updated in my follow up report and which we discussed at some length on May 26 last.

The statements I have made under this heading on pages 3 and 4 are of vital importance to the audit office and its work. As the discussion which took place in committee on May 26th last contemplated that we would be discussing this matter further, I believe that it will be useful, Mr. Chairman, if I could refer to the staff outlook facing the audit office today.

The CHAIRMAN: I wish you would, Mr. Henderson.

Mr. HENDERSON: When we discussed my follow up report on May 26, you will recall I told you how, as a result of delays in the Civil Service Commission and treasury board procedures in connection with recommendations made by the commission about the revised rates of pay and new classes for my staff, little headway had been made on the recruiting side over the past six months and that I was still short 18 auditors in my approved staff establishment. I mentioned two procedural points in particular which were still unsettled. One of these—relating to the position of my audit directors—has since been disposed of. The other, relating to the need of the position of secretary of the office of the Auditor General, still rests with treasury board.

The arrangement I made with the chairman of the civil service commission and announced to this committee last November provided that a senior officer of the commission would join my staff full time and occupy a position to be created, namely, that of secretary of the office of the Auditor General, to handle staff and administrative matters. This was a compromise arrangement designed to facilitate faster recruitment action under the procedures of the civil service commission, this officer being delegated by the commission to carry out its requirements while serving full time as the secretary of my office. The commission agreed that the officer would report directly to me and that I should reimburse them for his salary. But I cannot do this until treasury board approves the position of secretary which he has in fact been occupying in my office for the past five months.

I told you on May 26 I was 18 auditors short of my approved establishment and I explained how this shortage was affecting the scope of my work —in fact you had a clear example of this three weeks ago when, in answering Mr. Winch's question on June 4, I outlined the negligible amount of work we had done on the Prairie Farm Assistance Act payments in Regina and Edmonton over the past seven years.

The size of my presently approved establishment of 179 was worked out and agreed to with the Minister of Finance and the treasury board in July 1960—4 years ago. As I reported to the house in 1961, this figure of 179 was the minimum strength I considered at that time—that is, four years ago—necessary to carry out a basic external audit program within the framework of the then existing governmental organization. Meanwhile, over the three years since, the size of governmental organization has substantially increased in terms of its expenditures, its programs and its departments. Therefore, as

we are now in sight of filling our approved strength of 179, I shall have to ask treasury board for some additional positions, both for the now current fiscal year 1964-1965 and for the year following. I shall not like doing this but I shall obviously have no choice if we are to bring the scope of our work up to the minimum standards required by modern accepted auditing practice.

In the meantime, we hope soon to have our existing establishment up to full auditor strength. The recruitment outlook is satisfactory and, bearing any unforeseen procedural roadblocks and delays, we believe we should reach this objective by this fall so that we can be fully manned for our winter schedule. The civil service commission is doing its best to help us under the arrangement I have described while the chairman of the treasury board, the Hon. Mr. McIlraith, and the secretary of the board have demonstrated their readiness on several occasions to speed up their procedures. I have appreciated this. We have, as you know, a constant communication with the treasury over the government's accounts and naturally I do not like having to press them for action on routine staff details.

I should now like to give you a piece of good news. For the first time in its long history, the audit office expects to be able to offer young men the chance to work with us and at the same time have their service with our office count toward their degrees as chartered accountants. Three weeks ago the Institute of Chartered Accounts of Quebec approved in principle the recognition of the office of the Auditor General in the province of Quebec for the training of students-in-accounts. This means that present and future employees of my Montreal office who meet the requirements of the Institute of Chartered Accounts of Quebec will henceforth be eligible for registration as students-in-accounts and able to write their examinations to qualify themselves as chartered accountants. Thus we can offer status to our employees in Quebec equivalent to that offered by the professional auditing firms.

This marks the first time in the history of the office of the Auditor General of Canada that his office has been officially recognized in this manner, and I should like to record my appreciation to Mr. Marcel Caron, the president, and to Mr. Frank Denis, the immediate past president, and to members of the council of the Quebec institute, including the executive secretary, Mr. Douglas Mellor, for the confidence they have demonstrated in my office and for the understanding and recognition they have shown in our work.

I might add that I have asked the Institute of Chartered Accountants of Ontario for equivalent recognition and in due course I intend to approach certain of the other provincial institutes.

The CHAIRMAN: I have taken an interest in this matter, as has the last chairman and other members of the committee, in the hope that this sort of recognition would be granted to permit the recruitment of the type of young people who would be very useful. I am very pleased indeed that this effort has been successful in the province of Quebec and I would hope that since a large part of the staff of the Auditor General is employed in the province of Ontario, the same measure of success would be made there.

On behalf of the committee I would like to be able to write to Mr. Caron, the president of the institute in Quebec, and to Mr. Frank Denis, and thank them for their assistance, and for the very real benefits which have occurred to the Auditor General's office, and indirectly to this committee and to the house in supporting this high standard, and that the Quebec institute is playing a very important role in helping the work of this committee and in helping the taxpayers of Canada. So with your permission I would like to write to Mr. Caron and Mr. Denis in the province of Quebec.

Mr. TARDIF: I so move.

Mr. STEFANSON: I second the motion.

The CHAIRMAN: It has been moved and seconded. All in favour?

Motion agreed to.

Mr. WINCH: May we not have the completion of the statement before we start to ask questions?

Mr. HENDERSON: I have summed up what I had to say this morning. As I have said, I think we should press on with the existing arrangements started last January and give it at least a full year's trial, and if I cannot then report effective progress to you, further consideration should be given, in my opinion, to amending the Financial Administration Act whereby the Auditor General would be free to recruit his own staff in the same independent manner as do other offices of parliament, the crown corporations, and so on. This in essence has been the recommendation of this committee in 1960, 1961, and 1963, as you know. That completes what I have to say on this point.

The CHAIRMAN: Now, Dr. McMillan.

Mr. MCMILLAN: I wondered whether or not you made application to these different organizations in the different provinces in this matter?

Mr. HENDERSON: Yes sir, I am in touch with them. Various changes have to be made in according this privilege. In the case of Ontario it is necessary to have a bylaw change, which requires the approval of their membership.

Mr. MCMILLAN: How about competitive salaries?

Mr. HENDERSON: The Quebec institute found our salary scales to be fair and generally in line with those offered in private firms—not at every level, but broadly speaking, they expressed that point of view.

The CHAIRMAN: Now, Mr. Winch.

Mr. WINCH: Mr. Chairman, I am certain that we are happy with what Mr. Henderson said was good news to give to this committee. But at the same time I am disturbed at what I think to be bad news. I think it is a matter which the public accounts committee can no longer ignore.

Mr. Henderson made a statement just a moment ago that he has been unable for seven years to make an effective and proper accounting of certain operations of the government which involved a very heavy expenditure. He also pointed out in his presentation here this morning that he asked for 179 men for his staff. That request was made some four years ago, but he is not yet in a position to cope with the extension of government work. Because of the extension of the audit work he now has to make a request to the treasury board for an addition to his staff. I think this committee should know what he now feels to be the number that is required to do an effective job.

Secondly, I am most concerned about the statement made by Mr. Henderson that he himself—although he is going to accept the responsibility—will feel a little bit embarrassed that even at this moment he has not got the required staff, although the recommendation was made four years ago, and in particular that the treasury board has still failed to act in an official manner on the appointment of the secretary from the civil service commission who will be in charge of staff and administration.

I do not believe that this committee in its integrity, and in the sincerity of its work could fail to take note of what I have just said, and to express the very strong view to the treasury board that as the Auditor General is appointed by the House of Commons and is responsible wholly and solely to the House of Commons, he and his staff have a job to do, and that neither the treasury board nor anyone else should stop the complete fulfillment of his responsibility to maintain efficiently the checking of the records and reports for this committee and for the house.

Having expressed that thought, because I think it is disturbing information we have received from Mr. Henderson this morning, I would like first of all to

ask how soon he is going to acquire the 179 that he asked for four years ago, and because of the additional work which is falling upon his branch how many extra does he feel he may require to his job efficiently?

I believe that information is required and that the committee should be very firm upon insisting that the department of the Auditor General, responsible to parliament and to this committee, should have the necessary staff in order to do the job required, and that enough men will be added to the Auditor General's staff so that he is able to do an efficient job. The government has been informed by the Auditor General that he has not been able to do an efficient job for seven years in respect of certain departments because he has not been getting the people to accept the responsibility. I hope we may have further comment from Mr. Henderson, in addition to the information as to the staff he now requires. Knowing Mr. Henderson, since he was appointed to this important post, I feel he should bring us up to date on his latest application to the treasury board, and tell us when they will act in their official capacity on the appointment of a secretary in charge of staff and administration.

Mr. HENDERSON: May I speak to that?

The CHAIRMAN: Yes, please do.

Mr. WINCH: I do not want to put you on the spot, Mr. Henderson.

Mr. HENDERSON: Not at all. I am very pleased to answer your question. But may I preface it by saying how very much I dislike bringing these matters, which should be regarded as mere routine things, to the attention of the committee. But I have done so because it has been at your request that I keep the committee posted and up to date. That is, on this particular problem.

I do not know how long the treasury board will require before they approve the office of secretary that I mentioned. Presumably it will not be very long, I hope. We naturally follow up these points. I have outlined them to you, and I am hoping that we would get them through.

So far as additional positions are concerned, we are now at the point where we expect to go to treasury board shortly to obtain permission for the creation of a few extra positions. I will give you my idea of the number in just a moment, because we have filled some of these positions actually already ahead of time with stenographers. We never had anybody to do any typing, for example, at our regional office in Halifax. The senior man there had to do his own typing himself.

Mr. WINCH: You are saying that at your regional office in Halifax you never had a stenographer?

Mr. HENDERSON: No. We finally hired a stenographer to fill the job. I had to hire one to do the job. I had to take her on. So I have an auditor's position provide for it there. That is part of the procedure, and I am not quarrelling with it. But we are now at the point of going to the treasury board to ask them for additional positions which we will require for the current year. That means increasing the approved establishment now of 179 to a larger figure. I would estimate that the larger figure would probably be about 185 or 186. I would not want to be tied down to that figure, but that is our present calculation.

Mr. WINCH: Does that mean that if you could get that figure, you would be satisfied?

Mr. HENDERSON: I would then be free to bring in the balance of my men by next fall.

Mr. WINCH: You would have to replace the stenographer in the auditor's position, to act as stenographer?

Mr. HENDERSON: That is right. I have been forced to put her in an auditor's position now. The number, for the ensuing year, I would assume would be

slightly over 200. I do not want to anticipate it, but it might be around 210 or it might turn out to be 215. I do not contemplate that this office will be very much larger. In fact I expect to see it level off at something like that as the years go on, providing the same pattern continues. I must have freedom of action in respect of setting up these positions so that we can be able to get the right people at the right levels. These are the matters I shall be discussing with the treasury board. What is the number on strength at the present time? it is not about 165?

Mr. G. LONG (*Audit Director, Office of the Auditor General*): I think so.

Mr. HENDERSON: I think we have about 165 altogether, including stenographers, on staff at the present time.

Mr. WINCH: You contemplate a need for about 200 to 250?

Mr. HENDERSON: I am speaking about the year 1966, for the period of 1966-67, and into 1968, assuming the present level of governmental activity remains. I would anticipate that it should be around that figure.

Mr. WINCH: At the moment you indicate a need for 186, while you now have 165.

Mr. HENDERSON: That is right. I want to see these extra positions provided during the now current year which is to end next March, and ask for 186 or so and probably around 200 to 215, beginning April 1, 1965, until March 31, 1966.

We are now in the midst of making these projections at the moment, so we may be able to obtain the people, but that is the size of the figures involved. I do not think it is very much for an external audit service for an organization the size of Canada.

Mr. FORBES: When you spoke of creating the position of secretary for the Auditor General, that would be a secretary for yourself?

Mr. HENDERSON: No, sir. It is the question of having a senior man in charge of personnel and staff matters and administrative matters. My office has never had an officer specially designated for it.

Mr. FORBES: How did they do it in the past?

Mr. HENDERSON: In the past the Auditor General himself and the assistant auditor general handled this as a side issue to their main work. The problem of following up on all the Civil service commission and Treasury board procedures involved in the recruitment and handling of staff, as you know, was so large that in my opinion we were not getting full value from our professional men. I dislike seeing qualified chartered accountants tied up on this type of work unless it is absolutely necessary. Naturally, Mr. Long and I take full responsibility for the actions of our secretary, as we must do. The secretary of the Office makes his suggestions to us and we discuss them together; but the purpose of this exercise is to delegate to him all of the running of that side of the Office and leave us free to concentrate on the professional work which is what I think we are here for.

Mr. FORBES: The work of your Office has increased greatly in the last few years.

Mr. HENDERSON: Indeed it has.

Mr. FORBES: Is this owing to the entry of the federal government into the administration of various projects which formerly were carried out by provincial governments and municipalities?

Mr. HENDERSON: That is one of the factors. It has laid on new programs and has formed new government departments. Also, as you know, it has formed some new crown corporations and agencies. All of these mean additional work for us.

Mr. FORBES: In cases where the federal government makes a contribution to some particular project administered by a province, do you audit these accounts?

Mr. HENDERSON: We work in conjunction with the provincial auditor on this type of project. That is the arrangement we prefer; we share the work.

Mr. MCMILLAN: I take it that you have 179 positions established and have not gone to the treasury board for any more?

Mr. HENDERSON: No, not yet. I am just on the point of going to them because we still have a few slots left. However, in respect of the 18 persons we were short, these are auditors as distinct from stenographers and others. Auditing power is the thing in which I am specifically interested, and always must be, because auditors are my principal tools.

Mr. MCMILLAN: But things are looking better?

Mr. HENDERSON: I think so, sir. That is the view of my officials and myself at the present time. You asked for a progress report, and I am being perfectly frank in giving you the outlook as we see it.

I think the arrangement Mr. MacNeill and I made as announced to the committee last November was a very fair one. Although I have not discussed this particular point with him, I believe he would share my view that we should give this a proper and fair trial. The man who is filling the office of secretary is doing his very best to help us on this problem of recruiting, but we have been held up on it over the past six months for a whole variety of reasons, as I mentioned last month. Therefore, I would urge that we just continue. I promise you I will not be backward in coming forward if I cannot report progress.

The CHAIRMAN: May we move on to paragraph 8, as follows:

Internal Control

8. In previous reports I have pointed out how, in the operations of a government department, crown corporation or other agency, effective internal control, whether in the fields of management, finance or accounting, is of prime importance, not only to the managements concerned in the discharge of their responsibilities, but to the external auditor in planning the scope of his own work. The fundamental principles underlying this have been dealt with at length by the royal commission on government organization in volume 1 of its reports published on September 6, 1962, and I have been glad to note the increasing interest in and recognition of these principles by the responsible officials of our public service.

From the point of view of internal control, the three basic requirements of any organization are accurate costs, adequate periodic financial statements and an appropriate internal audit. The need for accurate costs has been partly recognized by the Department of Finance in arranging for the estimating of the annual costs of certain major common services, by departments, and showing these costs in summary memorandum form at the beginning of the several departmental sections, commencing with the revised estimates for 1962-63 and now continued in the 1963-64 estimates book. However, while showing the approximate value of major services to be received by a department from other departments in this manner does provide useful information, it continues to have the disadvantage of relating the amounts only to the department as a whole, instead of to individual appropriations relating to the various work areas or functions. I hope, however, now that a start has been made, that steps will be taken as soon as practicable to provide for all significant cost factors in the individual appropriations and thus include the actual costs of the various programs or projects in accounts of the responsible depart-

ments, because the departments benefiting from services provided by other departments cannot be expected to be conscious of costs for which they are in fact responsible unless they are charged with them and have to pay them out of their own appropriations. In my opinion this further step could be achieved without the introduction of any complex accounting procedures.

For the past several years I have referred to the need for wider use of effective periodic financial statements for the study and control of costs by government departments and other agencies so that actual performance can be measured against either budget projections based on parliamentary appropriations or actual performance in a comparable prior period, or both. The importance of this was stressed last year by the royal commission on government organization which recommended that "departments and agencies adopt modern management reporting techniques". As part of its comprehensive audit approach, the audit office has sought to assist departments, crown corporations and other agencies in developing effective periodic financial statements.

As a matter of generally accepted auditing practice, the Auditor General, in the discharge of his statutory responsibilities, must have regard at all times for the effectiveness of accounting organizations and systems, internal control and audit, including pre-audit, and the related administrative practices of departments, crown corporations and other agencies. Internal auditing is an integral part of a department's system of management control. Its effectiveness is recognized in determining the scope of the external audit, and where the internal auditor's work is efficiently carried out, the amount of work to be performed by the external auditor can frequently be substantially curtailed. Consequently, the Auditor General is interested in the degree of management's acceptance of reported findings and recommendations of its internal auditor and in the action taken. In previous reports I have pointed out that while many of the larger departments and crown corporations maintain their own internal auditing staffs, a number have not taken steps along these lines even where the circumstances appear to justify it. On the other hand, we find that some internal auditing units are over-staffed and tend to duplicate the work of other groups. In the related field of pre-auditing, staffs are larger and methods more elaborate than modern practice requires.

The solution to these problems does not lie in engaging more staff but in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, crown corporations and other agencies on internal auditing procedures, techniques and programming. At the same time, recognition should be given to the fact that internal auditing is first and foremost a management tool to ensure good performance, and therefore it should as far as is practicable be carried out under the direction of top management by staff experienced in the techniques and requirements of the particular organization if it is to be effective.

Mr. HENDERSON: When examining similar comments I made along these lines in my 1962 report last December, members of the committee expressed interest in this subject which stresses the importance of adequate internal financial control in departments and crown corporations. In your fourth report, 1963, you asked me to continue my examinations into this important area and to report further to the house on steps taken, or which should be taken, to improve the financial management in the various departments, crown corporations and other instrumentalities, and this is having my attention.

It is my understanding that as a part of studies being currently conducted by four management consulting firms into the operations of four of the largest government departments, particular attention is being directed to the field of internal auditing with a view to improving this generally along the lines I have recommended, and which, also, has been urged by the royal commission on government organization. Therefore, we are awaiting the outcome of these studies with particular interest.

It is possible, Mr. Chairman, that when Dr. Davidson is with us a week from today he might have something further to add on this point.

Mr. TARDIF: What four departments are these?

Mr. HENDERSON: The Department of Agriculture, Department of Transport, Department of Veterans Affairs, and Department of Northern Affairs and National Resources.

Mr. TARDIF: That practice is not contemplated for the Department of Public Works?

Mr. HENDERSON: I think not. They picked these four to examine them in depth. I think then, if their conclusions justify it, they can follow up the recommendations of the Glassco commission rather more safely in the others.

Mr. WINCH: Do I understand, under paragraph 8, that you were referring not only to the special study being made of the four departments, but that you also made reference to the Glassco report. The Glassco report, to a considerable extent, dealt with efficiency and inefficiency.

Mr. HENDERSON: We will come to that when we reach paragraph 11 on page 8.

Mr. WINCH: I would like to ask questions on that.

Mr. HENDERSON: I will deal with it at that time.

The CHAIRMAN: The next paragraph is paragraph 9, form and content of the estimates.

Form and Content of the Estimates

9. The importance of the estimates of proposed spending being prepared and presented to the House of Commons in the simplest and clearest manner possible must be recognized if parliament is to be in a position to give them the close study and consideration they deserve. The form of the estimates is likewise important from the accounting point of view because it determines in large measure how the subsequent accounting for expenditure is maintained and reported upon in the public accounts. Both the form and content are important to the Auditor General because of his responsibilities to parliament.

The public accounts committee in its fourth report 1961, while indicating its approval of certain improvements proposed at that time by the treasury board staff, recognized that there were other possible changes in the form of the Estimates, some of them of a fundamental nature, and recommended that these be considered early in 1962. Consideration was, however, postponed by the treasury board staff pending the publication of the reports of the royal commission on government organization, in volume 1 of which the commissioners dealt at length with and made a number of important recommendations concerning prevailing estimates procedures.

On September 30, 1963 the secretary of the treasury board furnished me with a copy of a report which, at the direction of the chairman of the treasury board, he had addressed to the chairman of the public accounts committee for attention when the committee was convened and a chairman appointed. This report outlined changes in the number and nature of votes in the annual estimates designed to reduce

the number of items by consolidation of existing ones. The report states that the treasury board hopes to introduce these changes into the main estimates for 1964-65. These changes are currently being studied by the public accounts committee in the course of its consideration of the form and content of the estimates.

Since 1960 I have recommended that consideration be given to the form of the estimates presentation with a view to providing more meaningful information, and since the four examples I gave in my 1960 report are still pertinent, I now repeat them:

(*a*) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;

(*b*) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving parliament an opportunity to consider the sufficiency of receipts for services rendered in relation to the costs incurred);

(*c*) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations); and

(*d*) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

It is of interest to note that the royal commission on government organization, in its report referred to above, also made recommendations along these lines.

Mr. HENDERSON: Members will recall that in my follow-up report I was able to tell you that the major improvements I had suggested to the subcommittee with regard to the revised vote pattern had been adopted by the treasury board in the presentation of the main estimates for 1964-65. However, these improvements did not include furnishing the supplementary financial information regarding crown corporations and other public instrumentalities, or the presentation of additional staff information in the estimates. The secretary of the treasury board said last December that it might not be practicable to include this information in the main estimates for 1964-65, but it is still my understanding that the treasury board will be giving effect to this when presenting the 1965-66 estimates.

Thus it will be seen that the four examples I gave on page 7 still are very pertinent, and I hope, when the present studies are completed by the treasury board in this whole area, the estimates will be set up to provide these four very basic pieces of information which I have been stressing as so important over the past four years.

The preparation of the estimates of proposed spending and their presentation to the House of Commons in the clearest and simplest manner possible is, to my way of thinking, absolutely essential if parliament is to be in a position to give them the closest study and consideration they deserve. In fact, I would express the hope that the day may come when the estimates may be referred by the House of Commons to a standing committee charged with the task of examining them and reporting back to the house as is done in Westminster.

As the Chairman has mentioned, the secretary of the treasury board will be appearing before the committee next Tuesday, at which time you may wish to question him on this large and important subject. If there are any questions with which we can deal, we would take pleasure in doing so.

Mr. WINCH: I suggest we wait until we have the secretary of the treasury board.

The CHAIRMAN: Paragraph 10, form and content of the public accounts.

Form and Content of the Public Accounts

10. In previous reports I have expressed the view that as the public accounts is in effect Canada's annual financial report to its shareholders —the general public—it should conform to the highest standards of financial reporting in the country and accordingly be presented in a clear and concise manner without being encumbered with unnecessary detail.

Although attention was given to this problem by the public accounts committee in its second report 1961, I remain of the opinion that further consideration should be given towards summarizing or otherwise reducing the number of detailed listings presently included in the public accounts. On the other hand, as mentioned in previous reports, additional important information should, I believe, be disclosed in the public accounts. Examples of this are to be found in paragraph 123 suggesting a more informative disclosure of accounts receivable due to the receiver general, and in paragraph 169 suggesting the inclusion of financial statements of departmental operating activities.

In my report last year (paragraph 93) I suggested that explanatory statements be given for revenue remissions in the public accounts. As more particularly mentioned in paragraph 75 herein, it is gratifying to note that this suggestion has now been adopted in the public accounts for the year under review (pages 37.2 to 37.7).

Mr. HENDERSON: This relates to the form and content of the public accounts. This is a subject which was examined by a subcommittee of this committee in 1961. Despite the useful work done at that time, I continue to be of the opinion that further consideration should be given toward summarizing or otherwise reducing the number of detailed listings presently included in the public accounts, while, on the other hand, additional information should, I believe, be disclosed in the public accounts, examples of which I give in the second paragraph.

At the time we were discussing this matter in my follow-up report, I was pleased to tell you that following the suggestion made in my 1962 report explanatory statements were given in the public accounts for the year ended March 31, 1963, covering revenue remissions.

The CHAIRMAN: Might I just interject here. I should have mentioned that I was in touch with Mr. Balls, the comptroller of the treasury, and he is in accord with the view that this might be the subject of discussion at some future date with a subcommittee. You may recall last month, I think, we discussed the formation of a subcommittee. This is a matter which involves the time and ability of the staff of the treasury board and the Auditor General in sitting down with a subcommittee. I hope to take this up with the steering committee and be able to tell you that something will be done about it.

The next item is paragraph 11, headed findings of royal commission on government organization.

Findings of Royal Commission on Government Organization

11. If administrative action has caused or contributed to waste of public money, it is the duty of the Auditor General to report such instances as he considers should be brought to the notice of the House of Commons. While some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining

its own operations as, for example, through the medium of the internal audit function where this exists in the various departments, crown corporations and other agencies. Such cases are always the subject of close study by the Auditor General because of his responsibilities to parliament.

By the same token, it is the duty of the Auditor General to study reports prepared by or for the managements of departments and agencies directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent that such reports correctly indicate where and how savings can be made, the Auditor General has a responsibility to parliament to follow through and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to enquire why.

The past year has seen final publication by the royal commission on government organization of five volumes containing 24 reports on its examination of the organization and methods of operation of the departments and agencies of the government of Canada. These reports, which have been the subject of widespread publicity, contain several hundred recommendations many of which deal directly or indirectly with areas in which public funds might be saved or better value obtained for money spent. The reports and the recommendations they contain are the subject of continuing study by a government office specifically created for the purpose, namely, the bureau of government organization which is responsible to the president of the privy council. The bureau is engaged in assessing the practicability of the various recommendations and in co-ordinating efforts by the managements concerned toward remedying the situations disclosed. It is essential that all of the commissioners' findings be thoroughly reviewed and discussed with the responsible officials in this way before final solutions can be developed and decisions taken to implement the recommendations in whole or in part, or not at all. On November 5, 1963 the president of the privy council tabled in the House of Commons a listing of 68 of the commissioners' recommendations which the government has approved to date and in respect of which implementation is proceeding.

The real value of a report of this type to top management lies in the accuracy of the fact-finding and the manner in which the consultant assesses and presents these facts in diagnosing the situation under review. Recommendations he may make toward remedying undesirable features of such situations are important but the decision as to the extent such recommendations are to be implemented is the responsibility of the management.

It is not my intention to express views at this time on any of the individual recommendations. With regard to the commissioners' findings, however, I believe it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with not only in the interest of improving efficiency but because of the substantial savings of public funds which could result.

I shall consider it to be my responsibility to follow through on the action taken on such findings of the royal commission on government organization and to report thereon to the House of Commons.

Mr. HENDERSON: The situation I have outlined on this subject on page 8 is new so far as my reports to the house are concerned. It stems from the findings contained in the 24 reports issued by the royal commission on government organization covering the commission's examination into the organization

and methods of operation of the departments and agencies of the government of Canada.

The statements made in my first two paragraphs furnish the key to the study my officers and I are seeking to bring to this work, because I conceive it to be my responsibility to you to study all reports prepared by, or for, the management of departments and agencies which indicate how public money can be saved by the elimination of wasteful practice and unnecessary or uneconomical operation.

On the other hand, I do not conceive it to be my responsibility to assess the practicability of any specific recommendations made because the decision with respect to the extent to which, or the way in which, such recommendations can and will be implemented always must be and is the sole responsibility of the management. I am thus concerned only with the findings of this royal commission because I believe it to be of considerable importance that those findings related to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interest of improving efficiency, but because of the substantial savings of public funds which could result.

Mr. Chairman, I should appreciate any views members may have on this aspect of my responsibility to parliament. If you are not in agreement, I should be particularly interested in hearing your comments.

Mr. WINCH: Mr. Chairman, I believe this committee owes a debt of gratitude to the Auditor General for drawing the attention of the committee to paragraph 11. I think, perhaps, sir, we should have gone into this in years past. However, now it is officially before us. I believe the meetings we have held thus far must have created some disturbance in the minds of the members in respect of whether, although in some aspects the government service was operating efficiently, perhaps there was wasteful expenditure of government funds. This came to my mind in particular with reference to some sections of the Auditor General's report of 1962 where Mr. Henderson informed us of unproductive expenditures running into a great amount of money, and then on questioning said this was only based on a test audit; in other words, only a few examples had been taken.

If my memory is clear I think he indicated it might have been far more serious if a full audit had been made and not just a test audit. As members of the House of Commons we have a definite responsibility to see that the taxpayers' money is spent most efficiently. Also, as members of this committee, we have a responsibility to the House of Commons to make whatever recommendations, or express whatever thoughts we have in respect of practices which are out of date, or methods which are inefficient.

Personally, I am very happy that the Auditor General has made such an intensive study, and has felt it important to draw certain matters, and this particular matter, to our attention. I do not know the views of the other members of the committee, of course, but it is my own view that the responsibility of the Auditor General is not only to audit the accounts and to see that they have the authority of parliament for the expenditures made, and report where he thinks they have been improperly made, but I think the responsibility of the Auditor General goes beyond that; if he, in the opinion of himself and his staff, sees something that has been done improperly in so far as efficiency is concerned, then it is the responsibility of the Auditor General to bring it to the attention of the House of Commons and to this committee.

There are other members here who know this better than I do, because they have been in business. However, I have been connected with organizations over the past 30 years, not only of a political nature, but also of an administrative nature, in that I am a director of some trust funds. I am a managing

director of one, and I want my auditor to bring to my attention anything where he thinks we can spend the money with the same results, but at a saving.

With those general remarks, I would like to express my personal opinion, which I hope is that of all other members, that we feel it is the responsibility of the Auditor General, not only to check the books to see the money is properly expended, but in addition if he finds what in his opinion is an operation which could be conducted at a saving to the people, he should continue this procedure and if he has not done it in the past, start it in the future. I think we have had brought to our attention a most important matter, and I think he should have the assurance of this committee that if he does proceed along these lines, he has the full authority of the House of Commons.

Mr. HENDERSON: Thank you very much. I should appreciate any other views which members may have.

Mr. NOWLAN: We will be having Dr. Davidson appear before us in a week's time. He is the head of the bureau to which the Auditor General refers, and I think it would be wise to defer discussion on this until he appears. There is an overlapping of jurisdiction here as the Auditor General has pointed out. I think we should have all the views and reconcile them. We have the comptroller of the treasury with an auditing staff: we have the treasury board; we have the head of this bureau, and the Auditor General. This brings about a difficult overlapping. As the Auditor General points out, I think this is the time to clear the line. I believe this can come only through discussion between the various officials, and as you say, Mr. Chairman, through a subcommittee. This is a very interesting and complex problem.

Mr. HENDERSON: I take it, then, that you have some question in your mind in respect of whether I have responsibility for looking at waste and extravagance?

Mr. NOWLAN: No; not for waste and extravagance. I know you have no responsibility for administration.

Mr. HENDERSON: I tried to make clear that I do not want it.

Mr. NOWLAN: But you certainly have for waste. However, there again, what is waste? There may be some waste involved by duplication of effort.

Mr. WINCH: What I had to say had nothing whatever to do with the power of the comptroller of the treasury or the power over expenditures made; but, if from the Auditor General's point of view, in the expenditures which have been made and correctly authorized by the comptroller of the treasury and the department he finds there was inefficiency, then he should not interfere with the expenditure, but be prepared to make a report or recommendation to this committee with reference to how the authorized expenditure may have been made in an inefficient manner and by whom. That is the attitude I took.

Mr. NOWLAN: I think it is a matter for discussion when Dr. Davidson is here.

Mr. HENDERSON: Of course, the secretary of the treasury board and the comptroller of the treasury are in a position to do something about it; I am not, other than to put my finger on it and ask the question, what are you doing about it? They have the tools with which to fix it. They are the management and it is their prerogative in this case to adopt the recommendations, amend them or discard them.

Mr. WINCH: Is my assumption correct that what you are saying, or asking the advice of the committee on, is this: Is it your responsibility as Auditor General not only to audit the books, but also to be the watchdog of the House of Commons in respect of how that money is spent?

Mr. HENDERSON: That is precisely the point; that is the way I interpret it. That is the way it has been interpreted from the days of Mr. Gladstone. If the Auditor General feels there is waste and extravagance and feels these things should be brought to the attention of the House of Commons, it is his responsibility to do so. That has been done for the past 80 or 90 years. The same situation prevails in the United States. The other people to whom Mr. Nowlan refers are the management; they have the tools with which to remedy these things; I have not. I bring these things to their attention, but it is for them to decide how to eliminate them.

Mr. WINCH: Have you had the opportunity of making a study of the operations and responsibility of the Auditor General's department in Canada compared to the operations and responsibilities of the Auditor General's department in the United Kingdom?

Mr. HENDERSON: As a matter of fact, it may be of interest to the committee to know that I have given very considerable thought to this concept of my responsibility, so much so that I discussed it for several hours with all the Auditors General of the British commonwealth at a conference in London last fall in order to determine the extent they would pursue this, how they would regard this, and how they operate. Without exception I received 100 per cent endorsation.

Mr. WINCH: This is the practice in those countries.

Mr. HENDERSON: Yes, sir; that is their concept. I just mention that in passing. Believe me, I am not looking for any extra work, but I do believe this was something I have to do.

Mr. WINCH: Have you a transcript of that conference?

Mr. HENDERSON: It was an informal gathering and we do not usually quote one another.

Mr. MCMILLAN: I agree with the Auditor General, but does not the implementation of any part of the Glassco commission report rest with the government?

Mr. HENDERSON: Yes, sir, entirely; not with me.

Mr. MCMILLAN: There was a question which came up yesterday in the house. I think the government was asked whether or not the budget of the C.B.C. was being referred to the special committee. That immediately brought to mind Mr. Harkness' motion that we take up the accounts of the C.B.C., with the idea of seeing whether the Glassco commission's recommendations were being implemented. It occurred to my mind that probably we were taking up something which would not be within our terms of reference. It did not seem to me to be too clear, I wondered whether it might be a matter of policy rather than a matter of auditing. I would like your opinion on that, Mr. Chairman.

The CHAIRMAN: I talked yesterday to Mr. Ouimet and told him that I was sending over to him the terms of reference generally to this committee and also this particular resolution so that he might have a chance to examine it. I also indicated that in my view—of course I could not speak for the committee—and in my experience this committee could not enter into the realm of policy. We simply examine the financial statement and deal with questions on the post examination of moneys which had been spent, because I thought he was interested in the experience which he and his officials had when they appeared before a broadcasting committee which was set up.

I told him that in my view this public accounts committee did not in any way resemble a broadcasting committee which had special terms of reference.

You have brought up the question whether or not implementation of the Glassco commission recommendation is a matter with which this com-

mittee should be concerned, or would have jurisdiction under its terms of reference to deal with. That is something we can talk about later on. I think possibly at the time when Mr. Ouimet and his officials appeared we could look at it. If there is any real question whether we have the right to deal with it, I am sure the committee would not want to enter into the matter. Certainly as Chairman I would be bound to call your attention to it at the time. I am glad you have brought this to my attention. Do we have the motion here?

Mr. McMillan: I do not think the motion as such included a reference to the Glassco commission, but Mr. Harkness mentioned it at the end of the motion.

The Chairman: The motion reads that the public accounts committee call the officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented.

I have in front of me only seven recommendations. of the Auditor General and the Glassco commission which have been implemented, and these must be related to the first part of it, which is the examination of the accounts. I think that the Auditor General's recommendation and the Glassco commission's recommendation must be related to the whole examination of the account. I do not think we would have any jurisdiction to go beyond this. That is my view. The committee would have to decide it for themselves.

Mr. McMillan: It occurred to me that we would need to have their current budget in order to go into it.

The Chairman: That is one of the things I discussed with Mr. Ouimet. I hoped to be in touch with him this morning. The question is whether under the current budget we are limited by our general terms of reference from the House of Commons to 1962 and 1963.

Mr. McMillan: Before you discuss what they are doing currently, you need to have their current budget.

Mr. Nowlan: May I ask what jurisdiction the Auditor General has over the C.B.C. at the moment? Does the Auditor General audit the accounts of the C.B.C.?

Mr. Henderson: I have no jurisdiction over the C.B.C. I am only the auditor of it.

Mr. Nowlan: You are the auditor of the C.B.C.?

Mr. Henderson: Yes, sir.

Mr. Nowlan: So you would not be able to discuss, criticize, or comment on the evidence to be given by officials of the C.B.C.?

Mr. Henderson: If requested to do so by the committee, I might, provided that I did not trespass into the policy field.

Mr. Nowlan: I know that you have had some considerable experience in that field.

Mr. Winch: I think we will have a most important witness, since the Auditor General previously had something to do with the C.B.C. in the way of audits?

Mr. Henderson: I was the chief financial officer of the corporation prior to present office.

Mr. Winch: You should prove to be a rather interesting witness when we get down to it.

Mr. HENDERSON: I appeared before the broadcasting committee on June 1, 1961, when the broadcasting committee examined its affairs, and at which time I was asked to draw upon my experience as chief financial officer, and also as auditor. That was three years ago. You will appreciate that I am not as sufficiently au fait with everything today as I would be were I recently one of its officers.

Mr. FANE: When the witnesses of the C.B.C. are here, are we to be allowed to question them on all their expenditures?

The CHAIRMAN: Well, so long as it comes within the terms of the motion. We are limited first by our terms of reference from the House of Commons, and second, we are limited to stay within the terms of reference of the motion which the committee accepted at its last meeting, and which motion I just read. It will then become the task of the Chairman with the guidance and assistance of the members of the committee to interpret that motion in case there should be any dispute. But I am sure there will not be.

Mr. FANE: How naive can you be?

The CHAIRMAN: Now, may we continue. Are there any more questions under paragraph 11?

Mr. TARDIF: I think this should be taken up. They are actually definite terms of reference. I know that the Chairman will hold the committee to the terms of the motion, and for myself, I resent the use of the word "naive".

Mr. O'KEEFE: I resent the rather veiled innuendo, but not too heavily veiled.

The CHAIRMAN: I do not think there was too great an imputation. I think that Mr. Fane felt that I would exercise my responsibility to make sure that we kept clearly within the general terms of reference and within the specific terms of this particular resolution.

Mr. FANE: My remark was made solely with the purpose of expressing to the Chairman the fact that he might be a little naive in hoping that nobody would ask questions that they should not ask.

Mr. TARDIF: The only reason I took it up was that it might not read in exactly the way it was said, when it appears in the record.

Mr. FANE: No. They do not perhaps know that I have known the Chairman all his life.

Mr. TARDIF: You cannot put your smile on the record.

Mr. WINCH: It is on the record now.

Mr. MCMILLAN: Desirable as this examination may be, I think the terms of our motion actually go beyond the terms of reference. I think it would take us into the realm of current operations.

The CHAIRMAN: Well, I feel this way about it. When did the Glassco commission make its report?

Mr. HENDERSON: I think it was in 1962 or 1963, somewhere in there. It would have been 1962, I think.

The CHAIRMAN: I do not want to be bound by this kind of thinking now. I think we should wait until we come to it. But speaking generally I think that the motion as it reads now limits us to the extent that the Glassco commission recommendations have been implemented, as indicated within the Canadian Broadcasting Corporation's financial statement for the fiscal year ending March 31, 1963. I think that is how I would read the motion. Thank you, Mr. Henderson. Now, are there any more questions under paragraph 11?

Mr. HENDERSON: We now turn to the summary of expenditures for the fiscal year ending March 31, 1963.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1963, prepared by the Department of Finance for inclusion in the public accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as exhibit 1 to this report. The statement shows a deficit of $692 million for the year, in comparison with a deficit of $791 million for the preceding year.

As you can see paragraph 2, shows a deficit of $692,000,000, for that year, and for the year before $791,000,000, that is for the preceding year.

Paragraph 13 deals with expenditure as follows:

Expenditure

13. The summary of appropriations, expenditures and unexpected balances, by departments, for the year ended March 31, 1963, as published in the public accounts, is reproduced as Exhibit 3 to this report and shows appropriations of $6,690 million, expenditure of $6,570 million and unexpended balances of $120 million.

Paragraph 14 reads:

14. Of the $6,690 million of appropriations available for expenditure in the year, $2,588 million was provided by continuing statutory authorities and $4,063 million was granted by Appropriation Acts (Nos. 3, 5, 6, 7 and 8 of 1962 and the special Appropriation Act, 1963) while $39 million remained available from continuing 1961-62 appropriations (Votes 614 and 662).

Of the $6,570 million of expenditure during the year, $2,588 million (39 per cent) was incurred under the continuing statutory authorities, with $3,982 million (61 per cent) being spent under the authority of the appropriations granted for the year.

Of the $120 million of unexpended balances at the end of the year, $93 million lapsed in compliance with section 35 of the Financial Administration Act and $27 million of the Department of Labour vote 32*a* remained available for expenditure in 1963-64 because of the special wording in the appropriation, which is as follows:

> Payments in accordance with terms and conditions approved by the governor in council to provinces and in respect of Indian bands under the municipal winter works incentive program during the 1962-63 and 1963-64 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 15th day of October, 1962 to such day in the fiscal year 1963-64 as may be determined by the governor in council; and to authorize payments in those fiscal years to provinces in respect of previous municipal winter works incentive programs in accordance with terms and conditions approved by the governor in council—$30,000,000.

The date determined by the governor in council in accordance with this provision was May 31, 1963.

In this paragraph you will note the expenditure of $6,570 million during the year, and that 39 per cent was incurred under continuing statutory authorities with 61 per cent being spent under the authority of the appropriations granted for the year.

The CHAIRMAN: Paragraph 15 is next:

15. In considering the total of $93 million for lapsed balances at the close of the fiscal year (lapsed balances totalled $247 million at the close

of the preceding year) it should be kept in mind that parliament had not, up to the time of its dissolution on February 6, 1963, approved the main or supplementary estimates for the year and the financing of expenditure was therefore by means of interim supply during the first ten months of the year and governor general's special warrants during the last two months of the year. The amount of $93 million largely represents the extent to which provision was made by the special warrants beyond what proved to be required to make "payments urgently required for the public good". Comments regarding the procedure followed in determining the amounts provided by the special warrants are made in paragraph 45 of this report.

Mr. HENDERSON: Paragraph 15, shows how $93 million of the unexpended balances of the $120 million for the year lapsed in compliance with section 35 of the Financial Administration Act, compared with the total of $247 million at the close of the preceding fiscal year. This amount of $93 million largely represents the extent to which provision was made by the special warrants beyond what proved to be required to make "payments urgently required for the public good" under the Governor General's special warrant procedure. We shall be referring to this later under paragraph 45 of the report.

I deal now with paragraph 16.

16. The following table summarizes the expenditure, by departments, for the fiscal year 1962-63, in comparison with the corresponding amounts for the two previous years:

	1960–61	1961–62	1962–63
Agriculture	$ 264,915,000	$ 286,684,000	$ 234,827,000
Canadian Broadcasting Corporation	66,766,000	78,161,000	80,816,000
Citizenship and Immigration	61,049,000	65,016,000	66,237,000
External Affairs	103,023,000	95,571,000	85,197,000
Finance	1,460,027,000	1,511,953,000	1,355,080,000
Labour	121,336,000	168,885,000	348,236,000
Mines and Technical Surveys	59,120,000	67,599,000	71,130,000
National Defence	1,517,531,000	1,626,104,000	1,574,854,000
National Health and Welfare	887,147,000	1,040,276,000	1,123,421,000
National Revenue	73,261,000	75,330,000	78,608,000
Northern Affairs and National Resources	71,613,000	79,367,000	87,564,000
Post Office	178,372,000	185,003,000	189,344,000
Public Works	200,892,000	188,813,000	171,385,000
Royal Canadian Mounted Police	56,023,000	60,497,000	65,424,000
Trade and Commerce	24,447,000	42,447,000	30,365,000
Transport	336,447,000	410,391,000	416,019,000
Veterans Affairs	292,298,000	333,223,000	335,602,000
Other departments	183,834,000	205,326,000	256,233,000
	$5,958,101,000	$6,520,646,000	$6,570,342,000

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variations between the departmental expenditure totals listed above for 1961-62 and 1962-63.

Paragraph 16 is a simple summary of expenditure by departments for 1962-1963 compared with the two preceding years.

I shall now deal with paragraphs 17 to 33:

17. *Agriculture.* The decrease of $52 million or 18% in expenditure by this Department in 1962-63 in comparison with the preceding year was more than accounted for by decreases of $40 million—from $47 million to $7 million—in the deficit of the Prairie Farm Emergency Fund (see paragraph 46), $40 million in payments to western grain producers (there being payments of only $139,000 in 1962-63) and $14 million in assistance payments on storage costs of grain. However, these reductions in the department's expenditures were partly offset by an increase of $50 million—from $22 million to $72 million—in the net operating loss of the Agricultural Stabilization Board, mainly due to payments for the stabilization of the price of butter.

18. *Canadian Broadcasting Corporation.* The appropriations providing for grants to this Corporation were charged $81 million during the year, an increase of $3 million or 3.3% over 1961-62. The increase was due to the higher net operating requirements of the radio and television services which amounted to approximately $73 million in 1962-63 compared with $70 million in the preceding year.

19. *External Affairs.* The decrease of $10 million or 11% in this expenditure was more than accounted for by a reduction of $8 million (17%) in contributions to the Colombo Plan Fund, and to there being no expenditure in the year comparable to the $6 million outlay in 1961-62 for the United Nations Congo Ad Hoc Account. On the other hand, there were increases of $2 million in the cost of representation abroad and $1.5 million in direct assistance to other countries.

20. *Finance.* The 1962-63 expenditure of $1,355 million by this Department was $157 million or 10% less than the total spent in the preceding year. There was a significant decrease of $261 million—from $503 million to $242 million—due to the termination of payments under the Federal-Provincial Tax-Sharing Arrangements Act, 1956, c. 29 (under the Federal-Provincial Fiscal Arrangements Act, 1960-61, c. 58, payments of $368 million were made to the provinces with effect from April 1, 1962 out of a special account to which are credited provincial taxes collected on behalf of the provinces). The decrease of $261 million was partly offset by increases of $79 million (10%) in interest on the public debt, $10 million in premium, discount and exchange expense (a credit in 1961-62) and $7 million (36%) in grants to universities.

21. *Labour.* Expenditure by this Department increased by $179 million or 106% over the preceding year, largely accounted for by payments to the provinces to provide financial assistance for vocational and technical schools and training programs increasing by $172 million—from $36 million to $208 million.

22. *Mines and Technical Surveys.* The increase of $4 million or 5% in this expenditure in 1962-63 was largely due to an increase of $3 million (22%) in outlays under the Emergency Gold Mining Assistance Act, R.S., c. 95.

23. *National Defence.* The expenditure of $1,575 million in 1962-63 by this Department was $51 million or 3% less than in the preceding year due to a reduction of $67 million (9%) in expenditure of the Royal Canadian Air Force, partly offset by an increase of $14 million—from $11 million to $25 million—in Mutual Aid to NATO countries. Expenditures of the other Services were approximately the same as in 1961-62.

24. *National Health and Welfare.* The expenditure of $1,123 million represented an increase of $83 million or 8% in 1962-63 compared with the preceding year and was largely accounted for by increases of $53 million (19%) in the government's contributions under the Hospital Insurance and Diagnostic Services Act, $11 million (2%) in family allowance payments and $7 million (24%) in old age assistance.

25. *National Revenue.* Of the $3.3 million or 4.4% increase in expenditure recorded for this Department in 1962-63, $0.7 million (1.7%) was in the customs and excise division and $2.6 million (7.3%) in the taxation division, due to general increases in administrative costs in both divisions.

26. *Northern Affairs and National Resources.* Expenditure by this Department increased by $8 million or 10% in comparison with 1961-62. The most significant change was in the northern administration branch where expenditure was up $10 million—from $32 million to $42 million. Expenditure by the water resources branch was up $3 million, more than doubling the amount spent by this branch in the preceding year. These increases were partly offset by decreases of $3 million (10%) in the amount spent by the national parks branch and of $2 million (14%) in contributions to provinces to assist in the development of roads leading to resources.

27. *Post Office.* This expenditure increased by $4 million or 2% in the year, due mainly to general increases in the cost of operations.

28. *Public Works.* The decrease of $17 million or 9% in expenditure by this Department compared with the preceding year was mainly accounted for by a reduction of $9 million (21%) in outlays connected with the construction of the Trans-Canada highway and one of $6 million (18%) in harbours and rivers engineering services.

29. *Royal Canadian Mounted Police.* Expenditure incurred by the force increased by $5 million or 8% during 1962-63 mainly in the cost of operation and maintenance of the land, air and training divisions.

30. *Trade and Commerce.* Expenditure by this Department decreased by $12 million or 28% during the year under review due primarily to decrease of $11 million in outlays by the dominion bureau of statistics—from $12 million to $1 million—in respect of the 1961 decennial census of Canada.

31. *Transport.* Although the expenditure of $416 million by this Department in 1962-63 represented an increase of only $6 million or 1.4% over the preceding year, there were significant changes in several individual expenditure classifications. There were increases of $20 million—from $2 million to $22 million—in capital subsidies for the construction of commercial and fishing vessels, $12 million (42%) for railway and steamship services, and $9 million (18%) for marine services. Largely offsetting these increases were reductions in the deficits of the Canadian National Railways and Trans-Canada Air Lines of $18 million (27%) and $3 million (45%) respectively, and a decrease of $13 million (9%) in air services, together with a decrease of $3 million (3%) in outlays by the Board of Transport Commissioners.

32. *Veterans Affairs.* An increase of $8 million (9%) in war veterans allowances and other benefits was largely offset by minor decreases in other items of expenditure classification resulting in the over-all expenditure of $336 million by this Department being only $2 million or 0.7% more than in the preceding year.

33. *Other departments.* The increase of $51 million in the amount shown for "other departments" in the table in paragraph 16 was due largely to the $25 million write-off in 1962-63 of the undepreciated capital cost of the NRU reactor of Atomic Energy of Canada Limited and the $11 million expenditure by the Office of the Chief Electoral Officer for the general election in June 1962.

Paragraph 17 to paragraph 33 simply show the nature of the major changes taking place in the expenditures of the various departments, following the order in which they are shown in the tabulation under paragraph 16.

I do not know whether members have any questions respecting these individual departments, Mr. Chairman, but if they do, we shall do our best to answer them. My audit directors concerned with the departments are here and will be happy to answer them right off, or to obtain the information that you might want. We have sought to explain the major swings in the figures.

Mr. WINCH: I do not believe the Auditor General would have it here, but if he does not think it would take too much work, under paragraph 27, in connection with the post office, I wonder if he could explain how this expenditure increased by $4 million in operations? Is it possible?

Is it possible to find out whether there was a general increase, or was it due to an increase in overhead for the carriage of second and third class mail? Would it be possible to obtain that kind of breakdown for us?

Mr. LONG: Well, the charges applicable to any particular class of mail are in memorandum form and are determined by a special study. The expenditure accounts do not show this breakdown of costs because you cannot spread individual salaries or individual transportation costs over the various classes of mail. This is something you have to get from a cost ascertainment study by the post office. In the case of an increase to this extent I would guess that most of it is due to an increase in salary over the whole operation.

Mr. WINCH: And the same with respect to paragraph 29 for the R.C.M.P.?

Mr. HENDERSON: I would expect so. Would that not be the case, Mr. Smith?

Mr. D. A. SMITH (*Supervisor, Auditor General's Office*): I am not aware of any particular reason for this increase which I presume was spread over the expenditure picture.

Mr. HENDERSON: It is the biggest single factor for most of the increases in so far as operating expenditures are concerned, because wages and salary are quite the biggest body of costs that we have, as you know. If there are no further questions under this section might I now refer to the revenue portion which begins on page 13, under paragraph 34 and 35.

Revenue

34. The Summary of Revenue, by main classifications and departments for the year ended March 31, 1963, prepared by the Department of Finance for inclusion in the public accounts and certified by the

Auditor General, is reproduced as exhibit 4 to this Report. The summary shows tax revenues accounting for $5,237 million of the total revenue of $5,879 million.

35. The following table summarizes the revenue, by principal sources, for the past three years:

	1960-61	1961-62	1962-63
Tax revenues:			
Personal income tax	$ 1,711,160,000	$ 1,792,656,000	$ 1,744,626,000
Corporation income tax	1,276,629,000	1,202,054,000	1,182,837,000
Income tax on dividends, interest, etc., going abroad	88,174,000	112,306,000	129,137,000
Sales tax	720,617,000	759,678,000	805,971,000
Other excise taxes	290,658,000	262,526,000	260,378,000
Customs duties	498,698,000	534,516,000	644,992,000
Excise duties	344,945,000	362,799,000	381,866,000
Estate tax	84,879,000	84,579,000	87,143,000
Other tax revenues	17,000	51,000	27,000
	5,015,777,000	*5,111,165,000*	*5,236,977,000*
Non-tax revenues:			
Return on investments	283,769,000	307,502,000	311,861,000
Net postal revenue	173,594,000	183,679,000	192,772,000
Other non-tax revenues	144,540,000	127,278,000	137,099,000
	601,903,000	*618,459,000*	*641,732,000*
	$ 5,617,680,000	$ 5,729,624,000	$ 5,878,709,000

We give a breakdown here of the total revenues, which as you can see amount to $5,879 million arising from the tax revenue and non-tax revenues, and we compare that with similar revenue income for the two preceding years.

Paragraph 36 is next:

36. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c.200. These collections, which amounted to $691,139,000 in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 106.

Paragraph 36 shows that the amount for revenues totalled does not include collections of taxes levied under the Old Age Security Act. This total of $691 million in the year was credited to the Old age security in the summary budget which is shown later in the report under paragraph 106 which will be coming up for discussion later.

Next is paragraph 37.

37. *Excise taxes.* The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1963, with comparable amounts for the two previous years:

	1960-61	1961-62	1962-63
Cigarettes	$ 172,197,000	$ 185,176,000	$ 195,313,000
Manufactured tobacco	18,697,000	19,599,000	19,123,000
Toilet articles and preparations	8,406,000	9,397,000	10,142,000
Television sets and tubes	8,466,000	9,570,000	10,059,000
Phonographs, radios and tubes	7,460,000	8,853,000	9,875,000
Jewellery, clocks, watches, chinaware, etc.	5,943,000	5,577,000	5,793,000
Wines	3,224,000	3,350,000	3,727,000
Cigars	2,755,000	2,775,000	3,372,000
Sundry excise taxes	4,212,000	3,943,000	3,350,000
Automobiles	59,627,000	25,270,000	
Refunds and drawbacks	— 329,000	— 10,984,000	— 376,000
	$ 290,658,000	$ 262,526,000	$ 260,378,000

The reduction of $34 million in 1961-62 in collections of excise tax on automobile sales, and the elimination of such collections in 1962-63, resulted from the repeal of the tax effective June 21, 1961. The repeal of this tax, which was accompanied by remission of the tax on automobiles in the hands of dealers, also resulted in the large amount of refunds and drawbacks in 1961-62.

Paragraph 37 contains a summary of excise taxes collected, and it indicates the non-existence of any excise tax on automobiles in 1962 and 1963, as explained in the note.

Paragraph 38 reads:

38. *Customs duties.* The increase of $110 million in customs duties in 1962-63, in comparison with the preceding year, was largely due to the collections under the surcharge on imports order of June 24, 1962, by means of which customs duties on various classes of imports were increased by 5%, 10% or 15% ad valorem, and which remained in effect, with modifications, during the balance of the fiscal year.

In this paragraph we make reference to an increase of $110 million in customs duties for 1962 and 1963 which is largely due to collections under the surcharge on imports order of 1962.

The CHAIRMAN: Paragraph 39 is next:

39. *Excise duties.* A listing of the excise duties collected during the year ended March 31, 1963, in comparison with the corresponding amounts for the two previous years, is given in the following table:

	1960-61	1961-62	1962-63
Cigarettes	$ 140,365,000	$ 151,034,000	$ 157,049,000
Spirits	108,502,000	114,088,000	122,099,000
Beer	90,971,000	92,716,000	98,147,000
Other excise duties	9,328,000	9,521,000	9,463,000
Refunds and drawbacks	— 4,221,000	— 4,560,000	— 4,892,000
	$ 344,945,000	$ 362,799,000	$ 381,866,000

Mr. HENDERSON: Paragraph 39 represents a list of excise duties collected during the year as compared to the two previous years.

Paragraphs 40 and 41 follow:

40. *Return on investments.* The following is a listing of the revenue from the various investments in 1962-63, along with the comparable figures for the two previous fiscal years:

	1960-61	1961-62	1962-63
Bank of Canada	$ 90,175,000	$107,693,000	$ 96,680,000
Central Mortgage and Housing Corporation	59,576,000	71,754,000	79,925,000
Exchange Fund Account	32,536,000	32,606,000	35,227,000
Loans to National Governments	30,280,000	29,485,000	28,145,000
Deposits with chartered banks	6,645,000	6,394,000	14,395,000
Securities Investment Account	5,063,000	15,068,000	12,351,000
Farm Credit Corporation	4,127,000	5,962,000	8,482,000
Veterans' Land Act loans	5,212,000	5,895,000	6,549,000
Northern Ontario Pipe Line Crown Corporation	4,299,000	4,310,000	4,087,000
Canadian National Railways	4,982,000	1,452,000	3,824,000
National Harbours Board	3,884,000	3,943,000	3,631,000
Eldorado Mining and Refining Limited	4,935,000	5,000,000	3,000,000
Polymer Corporation Limited	3,000,000	3,000,000	3,000,000
The St. Lawrence Seaway Authority	13,149,000		
Other loans and investments	15,906,000	14,940,000	12,565,000
	$283,769,000	$307,502,000	$311,861,000

41. The amounts shown for revenue from the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the receiver general as required by section 28 of the Bank of Canada Act, R.S., c.13.

The Central Mortgage and Housing Corporation amount for 1962-63 comprised $74,337,000 ($66,022,000 in 1961-62) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and $5,588,000 ($5,732,000 in 1961-62) representing the profit for the corporation's financial year ended December 31st which was transferred to the receiver general as required by section 30 of the act.

The absence of a return from the investment in the St. Lawrence seaway authority in 1961-62 and again in 1962-63 was due to the necessity of deferring payment of the interest which accrued on loans made to the authority. Of the $13,149,000 shown as revenue from the investment in the authority in 1960-61, $9,500,000 was received out of further borrowings by the authority from the Minister of Finance expressly for the purpose of paying the interest, as was mentioned in the 1961 report (paragraph 63).

These paragraphs show revenues derived by the crown from its various investments in 1962 and 1963 compared with previous years.

Mr. WINCH: May I ask one question on paragraph 40? These are investments which are basically in crown corporations. From my understanding after looking over the annual report of the Polymer Corporation Limited, which is quite a profitable enterprise, is there some peculiar arrangement whereby revenues and profits do not vary from year to year so that they will always be able to make a $3 million return to the government? If its revenue varies and the profit varies, apparently the return to the government on the investment never varies. Is there any arrangement?

Mr. HENDERSON: I would not say there is any arrangement, to my knowledge. Polymer is among our most successful crown corporation operations. In recent years it has been expanding in terms of setting up plants and subsidiary companies which, as you know, principally are within the European common market. They have completed erection of a very large specialty rubber plant in Strasbourg in France and more recently a butyl plant in Antwerp in Belgium. In order to do this, they have sought to use their earnings to the maximum extent possible and there has been a drawing down of earnings rather than going out and borrowing money. That may be one of the reasons why their dividend has remained constant despite increased profits.

You will see the full particulars of Polymer's operations on page 116 of the report under paragraph 157, and we shall be coming to it. However, I think this would be the short answer to your immediate inquiry.

Mr. Stokes, do you have anything to add?

Mr. A. B. STOKES (*Audit Director, Department of the Auditor General*): I might contribute the comment that the dividend rate is increasing for the year ended December 31, 1963. The return for the year ending December 31, 1964, if I understand it correctly, will go up $1 million.

Mr. WINCH: In view of the fact that we will be reaching the paragraph mentioned by Mr. Henderson, paragraph 157, would it be possible at that time to have available information in respect of earnings where it applies to what I think is an arrangement with Mexico whereby Polymer supplies the know-how and additional assistance. If I could, I would like to have information with regard to the basis of that when we reach this item. In other words, I would like to know what the return is for Canada's know-how in Mexico.

Mr. HENDERSON: Would it be satisfactory if we were to convey the question to the officials at Polymer and perhaps they could make available a statement for the committee?

Mr. FANE: Mr. Chairman, may I ask Mr. Henderson whether I am right in inferring from paragraph 40, return on investments, that these children of the government made that much money last year as shown in the right hand column.

Mr. HENDERSON: The principal source of this money does not come so much from the earnings of these corporations—although it does in the case of Polymer—as it does from interest collected by the government on loans it has made to the various companies. The companies themselves may not necessarily be in a profitmaking business, as for instance the Farm Credit Corporation, but substantial sums of money are advanced to these companies to enable them to operate and this is the interest earned by the government on its advances. Polymer would be an exception; that is a straight dividend. There is also a straight dividend in the case of the Bank of Canada. The $96,680,000 represents the annual profits earned by the bank and surrendered to the receiver general.

Mr. WINCH: Would it be possible to have a breakdown of the corporations shown in paragraph 40 to show what is interest and what is profit?

Mr. HENDERSON: That would be a relatively simple computation.

The CHAIRMAN: Could we go into that when we come to the particular crown corporation itself?

Mr. HENDERSON: There is a separate paragraph in this report in respect of each of these crown corporations, except, of course, the Bank of Canada and Central Mortgage and Housing Corporation which I do not audit them.

Mr. WINCH: Might we have a chart showing this?

Mr. HENDERSON: Fine.

Mr. FANE: The $23,420,000 from the Canadian National Railways is just interest they have paid the Canadian government for money they had loaned to them?

Mr. HENDERSON: Yes; that would be the case in that instance.

Mr. FANE: Where does the $60 odd million that the C.N.R. was in the red come into a deal like this?

Mr. HENDERSON: That is provided for by a special appropriation in the estimates.

Mr. FANE: I realize that.

Mr. HENDERSON: That goes into expenditure for the year; that would not be treated as any return on investment.

Mr. FANE: No, definitely; but I was just wondering how, their being so much in the red, there is $3,824,000.

Mr. HENDERSON: That represents the interest which the government would charge them and which they would have paid, and the government pays the $60 million deficit. So, on a net basis you might say the government is out $57 million.

Mr. FANE: Thank you very much.

Mr. MCMILLAN: Under Central Mortgage and Housing Corporation you showed $79,925,000 interest. Is there a table which shows the flow of capital, the amount of capital returned, and the amount of capital put out each year?

Mr. HENDERSON: Do you mean of the loans made?

Mr. MCMILLAN: Yes; is there such a table? There must be some losses taken every year.

Mr. HENDERSON: Yes. We are not the auditors for the Central Mortgage and Housing Corporation, so I do not report that in any detail in this report at all.

Mr. WINCH: Neither are you the auditor of the C.N.R.

Mr. HENDERSON: No. We are not the auditors of the C.N.R., so I do not include the details of that. However, in respect of all of the others for which I am the auditor, you will find full particulars at the back of my report of not only money advanced by the government, but also the results of their operations in detail. In the case of the Central Mortgage and Housing Corporation, the $79,925,000 you see there consists of $74,337,000 of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act and $5,588,000 which represents the profit for the corporation's financial year which, under the act, is required to be transferred to the receiver general.

Mr. WINCH: Some of that is profit?

Mr. HENDERSON: The $5,588,000 is profit.

Mr. WINCH: They make a profit over and above the interest?

Mr. HENDERSON: Yes, sir. I cannot speak in any detail here because I am not familiar with their accounts.

The CHAIRMAN: Gentlemen, I think the witching hour is approaching. We will be followed by the defence committee in a few minutes. Next Thursday,

under the genial chairmanship of Mr. Tardif, we will carry on with this examination and, if it meets with your approval—as I think it does—when we are having witnesses here such as Dr. Davidson we will send you a note stating the paragraph with which we will be dealing.

Mr. WINCH: Would it be possible for the stering committee to bring in for the information of the members at least a provisional agenda for the next few weeks. There are members who perhaps will have to be away but who would like to be here when specific witnesses are to appear.

The CHAIRMAN: I have discussed this with Mr. Henderson, and we shall attempt to do that. Also having in mind the uncertain date of our existence here until the summer recess, we have attempted to work this out. We have also discussed the possibility of an interim report to the house.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

Public Accounts, Volumes I, II and III (1963)

Report of the Auditor General to the House of Commons—1963

THURSDAY, JUNE 25, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

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

21039—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cardiff,
Chaplin,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Fane,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,
*Grégoire,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,
Pilon,
Regan,
Ricard,
Richard,
Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

*Replaced by Mr. Beaulé on June 23.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, June 23, 1964.

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

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

21039—1½

MINUTES OF PROCEEDINGS

THURSDAY, June 25, 1964.
(10)

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

Members present: Messrs. Cameron (*High Park*), Fane, Forbes, Francis, Grafftey, Gray, Hales, Harkness, McMillan, O'Keefe, Pilon, Southam, Stefanson, Tardif, Tucker, Winch (16).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Laroche, Crowley, Chapman, Millar, Hogan, Stokes, Douglas and Smith of the Auditor General's office.

The Auditor General supplied answers to questions by Mr. Winch at sitting of June 23 and was further questioned thereon. (*See Evidence*).

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1963.

Mr. Henderson reviewed paragraphs 42 to 48 inclusive and was further questioned thereon, assisted by his officials.

On paragraph 47, *Sale of terminal grain elevator,* the Committee agreed to hear witnesses from the Department of Agriculture.

The questioning of Mr. Henderson still continuing, the Vice-Chairman announced that Dr. G. F. Davidson, Secretary of the Treasury Board, would appear at the next sitting on Tuesday, June 30.

At 10.55 a.m., the Committee adjourned until 9.30 a.m., Tuesday, June 30, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 25, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. So that we can produce a lot of work to surprise the regular Chairman, we shall start right away. For the first time this morning they have supplied the Chairman with a gavel, but as a gavel is not necessary in this committee, I will put it aside. I know we probably will do a great deal of work so that we can finish up in time to have the long week end promised by the Prime Minister.

Mr. Henderson has several statements to make in connection with some inquiries made at the last meeting.

Mr. A. M. HENDERSON (*Auditor General*): The first statement, Mr. Chairman, is in reply to a question by Mr. Winch at the last meeting concerning the operations of Polymer Corporation in Mexico. We have been in touch with the officials of Polymer and they have asked me to advise the committee that early in 1960, Polymer Corporation Limited entered into an agreement with Petroleos Mexicanos (Pemex) for the sale of technical "know-how" for the construction and operation of a general purpose synthetic rubber plant in Mexico. Under the terms of this agreement, Pemex undertook to pay about one-third of the agreed-to price for this "know-how" during the early stages of design work and to pay the balance over the first five years of operation of the plant. The initial payments were completed in 1961. The full development of the project was delayed but is now proceeding and Polymer anticipates further payments commencing early in 1966.

This arrangement is in line with Polymer's policy of seeking to strengthen its position in international markets by making certain elements of its "know-how" available to groups in other countries, always providing such arrangements are economically sound and accrue financially and otherwise to the benefit of the Canadian company.

Mr. WINCH: Mr. Chairman, I presume the reason there is no more detailed information possibly might be that they do not want their competitors to know the basis of their operations or agreements.

Mr. HENDERSON: They would not wish to disclose the full details of their agreements publicly if it could be avoided for the reason they are engaged in very intensive international competition not only in Mexico but also in the European countries.

Mr. WINCH: I think I understand the situation. Is the Auditor General satisfied from his examination that the last sentence is correct; that is, that the arrangements are economically sound and accrue financially and otherwise to the benefit of the Canadian company?

Mr. HENDERSON: I can report to you that on the basis of the operations to date that has been the case.

Mr. WINCH: Thank you.

Mr. HENDERSON: At the last meeting a further question arose having to do with the table covering the return on investments in paragraph 40, page 15, where you see the listing of revenue from the various investments in 1962-63, along with the comparable figures for the previous two fiscal years. The committee asked whether these figures could be broken down as between interest

earned by the government on advances made to these crown corporations, and other instrumentalities, as distinct from dividends or profits. I have here a schedule indicating the breakdown over the three years which you might wish to place on the record.

The VICE-CHAIRMAN: Is it agreeable that this be placed on the record and printed in our Minutes of Proceedings and Evidence?

Agreed.

The VICE-CHAIRMAN: This schedule is as follows:

RETURN ON INVESTMENTS—1962-63

	Interest			Dividends and/or profits			Totals		
	1960-61	1961-62	1962-63	1960-61	1961-62	1962-63	1960-61	1961-62	1962-63
	$	$	$	$	$	$	$	$	$
Bank of Canada	—	—	—	90,175,000	107,693,000	96,680,000	90,175,000	107,693,000	96,680,000
Central Mortgage and Housing Corporation	54,344,000	66,022,000	74,337,000	5,232,000	5,732,000	5,588,000	59,576,000	71,754,000	79,925,000
Exchange Fund Account	—	—	—	32,536,000	32,606,000	35,227,000	32,536,000	32,606,000	35,227,000
Loans to National Governments	30,280,000	29,485,000	28,145,000	—	—	—	30,280,000	29,485,000	28,145,000
Deposits with chartered banks	6,645,000	6,394,000	14,395,000	—	—	—	6,645,000	6,394,000	14,395,000
Securities Investment Account	—	—	—	5,063,000	15,068,000	12,351,000	5,063,000	15,068,000	12,351,000
Farm Credit Corporation	4,127,000	5,962,000	8,482,000	—	—	—	4,127,000	5,962,000	8,482,000
Veterans' Land Act loans	5,212,000	5,895,000	6,549,000	—	—	—	5,212,000	5,895,000	6,549,000
Northern Ontario Pipe Line Crown Corporation	4,299,000	4,310,000	4,087,000	—	—	—	4,299,000	4,310,000	4,087,000
Canadian National Railways	4,982,000	1,452,000	3,824,000	—	—	—	4,982,000	1,452,000	3,824,000
National Harbours Board	3,884,000	3,865,000	3,555,000	—	78,000	76,000	3,884,000	3,943,000	3,631,000
Eldorado Mining and Refining Limited	—	—	—	4,935,000	5,000,000	3,000,000	4,935,000	5,000,000	3,000,000
Polymer Corporation Limited	—	—	—	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
The St. Lawrence Seaway Authority	13,149,000	—	—	—	—	—	13,149,000	—	—
Other loans and investments	10,451,000	11,198,000	10,062,000	5,455,000	3,742,000	2,503,000	15,906,000	14,940,000	12,565,000
	$137,373,000	$134,583,000	$153,436,000	$146,396,000	$172,919,000	$158,425,000	$283,769,000	$307,502,000	$311,861,000

Mr. WINCH: May I ask a question arising from this? Can the Auditor General give us some further explanation in respect of the Northern Ontario Pipe Line Crown Corporation? I notice there is nothing under dividends or profits, and only interest. Is that because the government of Canada made a loan which, I understand, is being repaid and the company now is no longer responsible to the House of Commons once they either have been bought out or all loans are paid?

Mr. HENDERSON: The Northern Ontario Pipe Line Crown Corporation is the subject of a separate note in this report. Do you have the particulars, Mr. Smith?

Mr. D. A. SMITH (*Audit Director, Office of the Auditor General*): No, I do not have the particulars.

Mr. WINCH: My purpose in asking is that if my memory is correct, in the original act, does it not say an investment or loan? If it was an investment, why is there nothing under dividends or profits?

Mr. HENDERSON: Under paragraph 154 on page 114, there is set out the situation with respect to the Northern Ontario Pipe Line Crown Corporation. It will be seen from this paragraph how the corporation constructed the northern Ontario section of the all-Canadian gas pipe line and leased it to Trans-Canada Pipe Lines Limited with an option to purchase. Then, if you will turn to the last note of this paragraph on page 115, you will see that as of December 31, 1962, Trans-Canada Pipe Lines Limited indicated its intent to exercise the option to purchase the northern Ontario section in 1963. In point of fact, the option was exercised and the purchase completed on May 29, 1963, following which the corporation dischaged its liability, that is, the principal amount which is due to the government of Canada for outstanding loans and accrued interest thereon. However, I would like an opportunity to check, this, the interest involved in this case, which is shown probably under other loans and investments. That is the amount applicable to the year.

Mr. WINCH: With permission of the committee I would like to discuss this matter at a later time when we come to this section, because I would like to have a clear explanation for Canada putting up money when it looks risky, and being out of it when there is no risk.

Mr. HENDERSON: There is revenue derived from interest on the Northern Ontario Pipe Line Crown Corporation of $4,087,000, as shown on this table.

Mr. WINCH: But there is $4,087,000 interest and not profit.

Mr. HENDERSON: That would be interest on the moneys advanced.

Mr. WINCH: I would like to come back to it later.

Mr. HENDERSON: That might be done when we reach paragraph 154.

Mr. WINCH: Could you give us any comment on the national harbours board? My reading of their report shows a fairly large net profit, but I note they only turned over in 1961-1962 $78,000 and $76,000, and that it was all for interest. Does the auditor when he examines reports like that look at the authority to make a decision on the payment of interest and additional surplus, and whether or not under the terms of the National Harbours Board Act it should be turned over to a greater extent to the federal treasury? Is that part of your examination?

Mr. HENDERSON: We would make such a comment to management if we felt it should be brought to their attention. Unless the reasons advanced were satisfactory, I would refer to the matter in my comments to the house.

Mr. WINCH: I have one further question.

Mr. HENDERSON: This again, I might add, is the subject of a detailed paragraph, namely, 152 on page 110 of the report, and we shall be coming to it.

Mr. WINCH: Perhaps we might hold the two matters until then. It is my understanding that the board operates individually and makes a profit. I am interested in those corporations which operate independently as harbour boards and which do very well. It is applied over the whole system, although they do operate individually.

Mr. HENDERSON: That is right. This could make quite an interesting discussion when we come to paragraph 152.

Mr. WINCH: You will keep that particular aspect of it in mind?

Mr. HENDERSON: Yes, sir.

Mr. SOUTHAM: Paragraph 40 was called at the last meeting, but I should like to ask a question on it at this time. Dealing with the total revenues of return on investments, the last item says "Other loans and investments". Could the Auditor General tell us what these other investments are?

Mr. WINCH: This is a most interesting question in view of the fact that interest on other loans and investments is shown as $12,565,000. Especially is this a most interesting question in view of the fact that interest on other loans and investments shows $12,565,000. They must be quite substantial loans.

The VICE-CHAIRMAN: They are either that, or rather numerous.

Mr. WINCH: They must be, in order to carry interest at $12,565,000.

Mr. HENDERSON: We will be happy to furnish the details. Unfortunately we do not have them with us this morning; but they are readily ascertainable. I do not think we have them at hand. They would be contained in the public accounts of Canada, volume II. It is just a question of referring to them, but we can furnish the details.

The VICE-CHAIRMAN: Is that satisfactory or would you rather Mr. Henderson furnish a schedule at the next meeting, if he can do so at that time?

Mr. WINCH: The members of the house are very busy, and there are very many committees.

Mr. HENDERSON: We can do that. We shall furnish it as supplementary to the one which we put in today, breaking down the interest as compared to dividends.

The VICE-CHAIRMAN: I think that answers the question. Now, paragraph 42:

> 42. *Net postal revenue.* The following table shows the gross postal revenue, less disbursements therefrom, and the resulting net postal revenue for the past three fiscal years:

	1960-61	1961-62	1962-63
Gross postal revenue	$ 201,952,000	$ 213,518,000	$ 222,300,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	24,050,000	25,171,000	25,239,000
Other disbursements	4,308,000	4,668,000	4,289,000
	28,358,000	*29,839,000*	*29,528,000*
Net postal revenue	$ 173,594,000	$ 183,679,000	$ 192,772,000

Mr. HENDERSON: Paragraph 42 at the bottom of page 15 deals with net postal revenue. It shows the total gross postal income taken into revenue over the past fiscal year. We shall be dealing with this further when we come to

paragraph 165 where we summarize post office transactions for the year. This is a reference under the revenue section, and perhaps you might wish to defer your questions until we reach paragraph 165.

The VICE-CHAIRMAN: Is that the wish of the committee? Shall we defer our questions until we reach paragraph 165?

Agreed.

Now, paragraph 43:

> 43. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 35 for "other non-tax revenues" for 1962-63 with comparable figures for the two previous fiscal years is given in the following table:

	1960-61	1961-62	1962-63
Privileges, licences and permits ...	$ 27,206,000	$ 23,271,000	$ 25,008,000
Proceeds from sales	23,981,000	25,902,000	26,531,000
Services and service fees	35,672,000	42,453,000	46,186,000
Refunds of previous years' expenditure	40,544,000	18,163,000	22,392,000
Miscellaneous	17,137,000	17,489,000	16,982,000
	$ 144,540,000	$ 127,278,000	$ 137,099,000

Mr. HENDERSON: This gives an analysis of the miscellaneous revenues figure as shown previously under paragraph 35 on page 13 where we show "privileges, licences, and permits". You will note that in 1962-1963 the total non-tax revenue was $137,099,000. In this paragraph 43 we break it down.

Mr. WINCH: Under "privileges, licences, and permits" in 1962-1963 you have $25,008,000.

I would like to ask the Auditor General if, at a future meeting, he can produce for 1962-63 under "privileges, licences and permits" the amount received from any oil company or corporation for exploration on the continental shelf of the coast of British Columbia, and under what authority was a licence, fee or permit charged to the corporations involved. He might know what we have done in view of the fact that British Columbia denies the right of Canada to collect on any permit or licence for exploration on the continental shelf. Would it be part of your investigation to find out under what authority this is collected?

Mr. HENDERSON: That would be within our orbit of authority.

Mr. CAMERON (*High Park*): I think that authority under which a government collects would not be under your jurisdiction.

Mr. HENDERSON: We should be able to tell you the amount.

Mr. WINCH: But not under what authority?

Mr. HENDERSON: We can cite the authority that has been used to collect it, but I could not be expected to express an opinion on its validity.

Mr. WINCH: You can cite the authority?

Mr. HENDERSON: Yes, that would be common information.

The VICE-CHAIRMAN: If you have not the authority, the committee could find out from another department how this authority is exercised.

Mr. WINCH: I know that something was collected on the continental shelf of British Columbia, and in view of the fact it has just been announced in the

past two or three weeks that British Columbia is going to take this matter to the supreme court, I would like to know under what authority they had been collecting.

Mr. HENDERSON: We can only show the facts as set forth in the books, which presumably would meet your request. Mr. Smith, have you taken note of that?

Mr. MCMILLAN: Mr. Chairman, I wonder if I could ask where the income from leases and so forth under the Department of Transport would be shown?

Mr. HENDERSON: Mr. Smith, can you answer that?

Mr. SMITH: In terms of the public accounts, this detail would be shown in the section of the public accounts relating to the Department of Transport, and in particular to the section relating to revenue.

Mr. LONG: It would be classified as privileges, licences and permits.

Mr. MCMILLAN: It would be included in the top figure here.

Mr. CAMERON (*High Park*): What does the item "proceeds from sales" mean? Sales of what?

Mr. HENDERSON: That has been a standard categorization, sir. This is a good question. If you want us to amplify, we could readily do this. Are we in a position to explain what those sales would be, Mr. Long?

Mr. LONG: This should be all sales. There is a fairly detailed directive as to how to classify all types of revenue, and we could probably produce that.

Mr. CAMERON (*High Park*): I suppose that crown agencies such as the Crown Assets Disposal Corporation would not be in there. It just concerns departments that have something to sell.

Mr. LONG: Mr. Smith where are the crown assets revenues shown?

Mr. SMITH: In the revenue of that corporation.

Mr. LONG: The money that comes to Canada?

Mr. HARKNESS: In this case Crown Assets acts as a selling agency, would it not?

Mr. HENDERSON: It turns over the entire proceeds of collections arising from the sale of government property to the government, keeping back sufficient moneys to cover its expenses.

Mr. CAMERON (*High Park*): You must assemble it from the information you get?

Mr. HENDERSON: We can readily get it. Would it be satisfactory if we amplified that with the figures at the next meeting?

Mr. CAMERON (*High Park*): Yes.

Mr. MCMILLAN: Would wharfage charges be included under that item?

Mr. LONG: I would think so because it would not fit under any of the other items.

The VICE-CHAIRMAN: Is that satisfactory, Mr. Cameron?

Mr. CAMERON (*High Park*): Yes, Mr. Chairman.

The VICE-CHAIRMAN: Any further questions on that paragraph?

Mr. SOUTHAM: I notice under paragraph 43, "other non-tax revenues", the last item, "miscellaneous", has a very substantial amount for 1962-63. Would the Auditor General have a resume of what comes under this section?

The VICE-CHAIRMAN: That question has already been asked and the Auditor General has promised to bring a breakdown.

Mr. HENDERSON: We will break down that figure.

The VICE-CHAIRMAN: Are there any further questions?

We are now on paragraphs 44 and 45, comments on expenditure and revenue transactions.

44. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and also to any other matter that he "considers should be brought to the notice of the House of Commons".

Pursuant to this direction, I consider that the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review should be brought to the attention of the house in this report.

45. *Governor General's special warrants.* At the dissolution of parliament on February 6, 1963 interim supply had been granted generally to the extent of ten-twelfths of the amount of the revised main estimates 1962-63. In order to carry on the public business until such time as the new parliament assembled on May 16, 1963, recourse was had to Governor General's special warrants, issued under the authority of section 28 of the Financial Administration Act, as a means of providing the necessary supply. The special warrants relating to the fiscal year under review were as follows:

(*a*) one for $239,143,321, on February 8, 1963, which provided funds on the basis of one-twelfth of the amount provided in the revised main estimates and supplementary estimates (A) and (B) for 1962-63; and

(*b*) one for $402,163,293, on March 4, 1963, which provided funds estimated as sufficient to meet expenditures urgently required for the public good during the balance of the fiscal year.

In making their estimates of the amounts they required under the final special warrant for the year, departments were instructed by the treasury board staff that the maximum that could be included for each vote heading should not in any case exceed the total of the amounts included in the tabled estimates (i.e., revised main estimates and supplementary estimates (A) and (B) for 1962-63) plus amounts included in supplementary estimates (C) approved by the treasury board (though not laid before the House of Commons) and departments were instructed to make an internal review in order to estimate the amount that would lapse in each vote and take such amount into consideration. Departments were also instructed not to include provision for estimates items that:

(*a*) were essentially legislative, or

(*b*) involved accounting transactions within the consolidated revenue fund that could hardly be said to involve "payments" which were urgently required.

The amounts authorized by these special warrants were subsequently included in the amounts authorized by the Special Appropriation Act, 1963 which was passed by the House of Commons on July 15, 1963.

The issuance of Governor General's special warrants is provided for by section 28 of the Financial Administration Act, subsection (1) of which reads as follows:

> Where a payment is urgently required for the public good when parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the governor in council, upon the report of the minister that there is no appropriation for the payment and the report of the appropriate minister

that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the consolidated revenue fund.

It will be noted that the above subsection simply authorizes a "payment" which is "urgently required for the public good" when there is no other appropriation pursuant to which the payment may be made. The subsection does not provide for any control over the entering into of commitments during a period for which parliament has made no provision nor does it appear to contemplate provision of a continuing spending authority to the executive for the financing of general government services during such a period. However, this appears to have been assumed by the treasury board staff in carrying out the procedure followed in preparing the special warrants for February and March 1963.

A strict interpretation of subsection (1) of section 28 would undoubtedly call for the issuance of a large number of warrants with a consequent increase in administrative handling. With clearer statutory authority we would not think the procedure whereby a single warrant is prepared in advance to cover the requirements of each month is unreasonable provided its contents are limited to providing for payments essential for ensuring the maintenance of basic governmental services. Had this approach been fully employed in the preparation of the special warrants under review, a number of the items included therein would have been omitted because they did not meet the test of being "urgently required for the public good". Examples are as follows:

1. Both special warrants included an item "to supplement other votes, subject to the approval of the treasury board, for the payment of salaries, wages and other paylist items". Obviously payment of the amounts was not urgently required when the special warrants were issued, and the governor in council in effect delegated to the treasury board his authority under section 28 of the act although there is no provision for such delegation.
2. The special warrant dated February 8, 1963 included authority for the payment of an amount of $717,959 into the national capital fund. The balance at the credit of this fund at March 31, 1963 was $6,776,000, and it therefore cannot be said that the item of $717,959 authorized on February 8, 1963 was "urgently required for the public good."
3. The special warrant dated February 8, 1963 also included authority for the payment of an amount of $136,250 to the receiver general as interest for the month of March on loans made to the National Capital Commission for the purpose of acquiring property in the national capital region. Comment with respect to this procedure appears in paragraph 59 of this Report. As such a payment is in effect an internal bookkeeping entry, it should not have been provided for by the special warrant.
4. Included in the special warrant dated February 8, 1963 was an amount of $750,000 for loans to The St. Lawrence Seaway Authority. Inasmuch as parliament had, by interim supply, authorized loans totalling $7.5 million and the authority borrowed only $1 million in February, 1963 and $6 million in March 1963 of which $4.7 million was immediately invested in short term investments, it is obvious that the item of $750,000 did not meet the requirement of being "urgently required for the public good".

5. Included in the two special warrants were amounts totalling $114,950 to cover the administrative expenses of the National Gallery of Canada, without taking into consideration $49,926 available for this purpose in the gallery's special operating account.
6. In May 1962 the Department of Northern Affairs and National Resources was given executive authority to inform a chartered bank that provision for a grant of $50,000 to the Dawson City Festival Foundation would be included in estimates to be presented to parliament in the autumn. On the strength of this, the bank advanced $50,000 directly to the producers of a musical comedy which was to be the "centre-piece" of the Dawson City Gold Rush festival. The payment of a grant of $50,000 to the foundation, in order that the bank might be recouped, was authorized by the special warrant issued on March 4, 1963. Since the prior concurrence of parliament is requisite to the payment of a grant-in-aid to a non-governmental organization, it is the audit office view that the grant to the foundation should not have been made under the special warrant.
7. A cheque for $6,000 to the corporation of the town of Sioux Lookout in respect of utility services provided the Sioux Lookout Indian hospital was issued on April 30, 1963 and held until June 5, by which time an agreement with the town had been executed. The issuing of the cheque as a charge to 1962-63 expenditure was, in our opinion, irregular because it could hardly qualify as "urgently required for the public good" when the cheque was held by the department and, indeed, it would have been irregular in the circumstances even if parliamentary appropriations had been available.

We would recommend that a detailed study be made of the financing problems which result when parliament has been unable to make provision for the carrying on of governmental services between sessions. An amendment to the Financial Administration Act might then be considered which would have the effect of assuring appropriate parliamentary control in this important area.

Mr. HENDERSON: Here we reach the comments I have had to make in respect of the expenditure and revenue transactions which are made, as stated in paragraph 44, pursuant to section 70 of the Financial Administration Act, whereby I am required to call attention to specific classes of transactions noted during my examination and also to any other matters which I consider should be brought to the notice of the House of Commons. The first paragraph, paragraph 45, deals with Governor General's special warrants.

Mr. WINCH: In an endeavour to save time, before the Auditor General makes a statement on this, may I ask, in view of the last paragraph on page 19, whether he would refer that to the last paragraph on page 17 where he says:

> The subsection does not provide for any control over the entering into of commitments during a period for which parliament has made no provision—

I take it this means any commitments. This being such an important matter, I thought I might make reference to it at this time, and because of this the Auditor General might go into a little more detail in his explanation than otherwise if I had not spoken before he made his presentation.

Mr. HENDERSON: Perhaps I had better outline this briefly first.

You will have noticed how, under section 70 of the Financial Administration Act, the Auditor General is required to call attention to every case in which he observed that "a special warrant authorized the payment of any

money", which perhaps will serve to explain the attention I have given to the manner in which special warrants, issued under the authority of section 28 of the Financial Administration Act, were used as a means of providing the necessary supply. We only, of course, deal with two of the warrants here, that is the ones in February and March, 1963, up to the end of the fiscal year—not the two which were issued in April and May, 1963, which come into the 1963-64 fiscal year.

On page 17 I describe how the treasury board staff assembled departmental needs and in the middle of the page I quote the pertinent section of the Financial Administration Act. You will note that this section simply authorizes a payment which "is urgently required for the public good" when there is no appropriation pursuant to which the payment may be made. It does not provide for any control over the entering into of commitments during a period for which parliament has made no provision—

Mr. WINCH: That is a new commitment?

Mr. HENDERSON: Yes,—nor does it contemplate provision of a continuing spending authority to the executive for the financing of general government services during such a period. However, this appears to have been assumed by the executive, and will probably continue to be assumed by the executive. Your comments on this will be very helpful.

Then, on page 18 I list seven instances of items included in these warrants which we do not think met the test of "being urgently required for the public good".

A discussion of this subject by the members of the committee would be most helpful both to the audit office and, I think, to the members of the treasury board, and we are hoping that when Dr. Davidson is present next Tuesday we can discuss it further.

Now, the seven cases listed are set out on page 18. From them you can see the test of urgency we have applied in respect of whether or not they should have been included in the warrants.

The VICE-CHAIRMAN: Are there any questions on Mr. Henderson's comments?

Mr. WINCH: Just one, Mr. Chairman. As Mr. Henderson says, perhaps we might go into more detail when Dr. Davidson is before us. However, let us take No. 5 as an illustration where there are two special warrants in the amounts of $114,950. Is it good auditing practice that if there is $50,000 available from a special operating account there should not be, therefore, any need for a special warrant in that amount? Is that a correct understanding of your position?

Mr. HENDERSON: Well, would you say that $114,950 should have been asked for in these warrants as being urgently required for the public good when already there was $50,000 sitting there in the special operating account for that? The only authority is contained in section 28 of the act under paragraph 17 which states:

> Where a payment is urgently required for the public good when parliament is not in session and there is no other appropriation pursuant to which payment may be made,...

Now, $50,000 was sitting there approved for that need. Therefore, the test of urgency might have been applied just to the difference.

Mr. WINCH: Is it the opinion of your department which made this audit that there was the authority to use this $49,926 for the same purpose for which a special warrant was taken?

Mr. HENDERSON: Yes, indeed. Otherwise I would not have inserted the comment I did under paragraph 5. Admittedly this is a difficult section to interpret. Perhaps, you know better than I the history of section 28. I think before the Financial Administration Act was amended it said that the only money which could be sought under the Governor General's special warrants procedure related to urgent repairs to buildings, and was even more restrictive than the present wording. I think it was enlarged in 1951 when the act was amended, but the only basis we have to go on is the wording of section 28 which I quote on the middle of page 17.

Mr. GRAFFTEY: As a matter of interest, is there a sort of general reply given to you by the various officials when they ask for moneys which do not fall under the conditions you specify? Take the first item; unless this action was taken I understand no salaries would have been paid.

Mr. HENDERSON: I think they would—and I think you would—interpret continuance of salaries as being urgently required for the public good. My officers and I would hope so. However, in respect of some of these other cases, the sort of questions I have raised arise.

I would suggest that your question be addressed to Dr. Davidson, the secretary of the treasury board, when he is with us next Tuesday. Dr. Davidson and his associates in the treasury board have themselves encountered a number of problems in determining what should go into the special warrants.

As I indicate on page 17, their interpretation largely has been provision of a continuing spending authority for the financing of general government services; in other words, carrying on business as usual. From our point of view, section 28 seems to be very restrictive, because it says:

> —where a payment is urgently required for the public good when parliament is not in session, and there is no other appropriation pursuant to which the payment may be made.

The key words are "urgently required for the public good". Some of the items listed in the seven examples indicate to what extent urgency did, in fact, exist.

Mr. GRAFFTEY: In respect of the seven examples, was parliament sitting in most of these cases?

Mr. HENDERSON: No, sir. You will remember parliament was dissolved early in February, 1963.

Mr. WINCH: Am I correct that you cannot use a Governor General's warrant if parliament is sitting?

Mr. HENDERSON: That is correct; you cannot. This is the only means the executive has to obtain supply when parliament is not in session.

Mr. HALES: Would you give us a run down of the steps through which this appropriation would follow, staying with example No. 5 which Mr. Winch mentioned. The National Gallery made an appropriation or asked for $114,950. I suppose there is a comptroller in that department, and he would be the man who would ask for this. Then, would you take it on from there through its various steps to see how this happened?

Mr. HENDERSON: On page 17 in the first paragraph I say that in making their estimate of the amount they required under the final special warrant for the year, departments were instructed by the treasury board staff that the maximum that could be included for each vote heading should not in any case exceed the total of the amounts included in the tabled estimates.

You may recall at that time the revised main estimates and supplementary estimates A and B for 1962-63 had been laid on the table plus amounts included in supplementary estimates C approved by the treasury board, but

not laid before the House of Commons, and departments were instructed to make an internal review of what they were going to need over the ensuing 30 days; in other words, see what money they had left and take such amount into consideration. Departments were also instructed not to include provision for estimates items that (*a*) were essentially legislative, or (*b*) involved accounting transactions within the consolidated revenue fund that could hardly be said to involve "payments" which were urgently required.

Mr. HALES: Who issued these instructions?

Mr. HENDERSON: The secretary of the treasury board sent these instructions around to each of the departments. They were requested to be guided by these instructions in rendering their estimates, and the minister responsible for each department then would certify what funds were needed.

Mr. HALES: Then the comptroller in the National Gallery did not follow the instructions that were issued to him?

Mr. HENDERSON: That might follow from the comment that I have made. Some of these cases well might be arguable, in fairness to that comptroller who is not here, in respect of the special problem with which he was faced; but his minister saw fit to approve this.

Mr. HALES: He made the request and the minister approved it and it went on to treasury board?

Mr. HENDERSON: Yes, and they would look it over with a very sharp eye to question anything; but presumably some of these might have been missed, or there might have been some other reason.

The VICE-CHAIRMAN: It would not go forward without having the approval of the treasury board?

Mr. HENDERSON: No. Mr. Long might add something to this.

Mr. WINCH: Could Mr. Long also tell us, although it had the approval of the minister and went to the treasury board, whether the treasury board had the information that there was nearly $50,000 in another account for the purpose for which they were asking for this special warrant; did they know that was there?

Mr. G. R. LONG (*Acting Assistant Auditor General, Auditor General's Office*): I would think the treasury board would know this, but I believe what Mr. Hales is getting at can be explained by the fact that the treasury board is trying to keep these warrants in the same pattern as the estimates tabled in the house. They are faced with having to have these expenditures approved by the house, so they try to keep them within the framework of the estimates. In this case the gallery intended these expenditures to be made from parliamentary appropriations and not from the open account. Treasury board would be quite willing for them to carry on within the estimates so long as the expenditure required to be made was urgently required.

Mr. HALES: The comptroller in that department had no business to request this money when he was given instructions to do otherwise?

Mr. LONG: But he was also instructed that the amount asked for should not exceed the total of the estimates tabled. The whole policy here is to obtain the warrant approval in the same pattern as the estimates have been lined up.

Mr. HALES: Did he or did he not follow instructions?

Mr. LONG: I think he followed instructions.

Mr. HALES: If he followed instructions, No. 5 should not be in here.

Mr. LONG: Except that he perhaps should have been told not to include the amount if there was another place from which payment could be made; but

he was not told that. If there is any other source from which a particular payment can be made, it should not be included in the warrant, notwithstanding the fact that it was in the original estimate.

Mr. HENDERSON: We are not blaming the comptroller. We are just showing examples of what has happened.

The VICE-CHAIRMAN: I am wondering whether this was an extra expenditure and the original $49,926 was already committed.

Mr. WINCH: We have been told already that this money was available.

Mr. HENDERSON: Yes, sir.

Mr. WINCH: And was in an expense account.

Mr. HENDERSON: In some of the other cases shown here, it seemed to us they should have been omitted because they would not meet the test of being urgently required for the public good. This is the essence of the whole question for parliamentary control of spending. Do you feel they should hew to the original wording of section 28 having to do with every item being urgently required for the public good, or are you content to accept the interpretation I loosely described earlier as "business as usual" or the wording I have used on page 17, "for the financing of general government services during such a period"; in other words, in the usual way?

Mr. HALES: I think that parliament's intention is certainly not to carry on business as usual. When parliament has adjourned, we are under Governor General's warrants, and it is a different situation. When instructions are issued and the moneys are available, and they can be transferred, I do not think that the comptroller had any business to ask roughly for $115,000. He should only have asked roughly for $65,000.

The VICE-CHAIRMAN: Could it be that it was for the purchase of something which cost more than the $49,000 which was available? Could we find that out? It might be for a purchase which could not be postponed. It could be that.

Mr. CAMERON (*High Park*): What is the special operating account?

Mr. HENDERSON: I shall ask Mr. Douglas to answer.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): Perhaps I might read from section 8, subsections (2) and (3) of the National Gallery's Act as follows:

> 8. (2) There shall be a special account in the consolidated revenue fund called the National Gallery special operating account to which shall be credited all money received by the board by way of donation, bequest, revenue or otherwise.
>
> (3) Any expenditures for the purposes of this act may be paid out of the National Gallery special operating account or out of money appropriated by parliament for such purposes. 1951 (2nd sess.), c.16, s.8.

The VICE-CHAIRMAN: Thank you very much.

Mr. WINCH: I think that answers everything. The power was there, and the money was there, but it was not used.

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

Mr. GRAFFTEY: I think we should have a chance to bring this subject up again in more detail. It often is the case that the national gallery may have an opportunity to make a certain purchase at a time when it has to act on it immediately. Very often the national gallery has missed out on good international purchases because they have been hamstrung. Maybe it is a good excuse or it is not. I know that some years ago this was the case.

Mr. HENDERSON: If you will look at item 7, which dealt with a cheque for $6,000 to the corporation of the town of Sault Lookout, you will see the cheque was issued on April 30 but it was held by the department until June 5.

Mr. SOUTHAM: I would agree with the question raised by Mr. Hales in respect of the national gallery authorities and the power they have under the act which was just cited. If they had this authority, then this example in number 5 perhaps should not have been inserted. Possibly you should not have raised the question at all. My point is that if you raised the question, then we as a committee should examine it to see if there is or is not a problem here. If there is, then it should be rectified.

Mr. HENDERSON: We raised it because we knew that the $50,000 in question was available.

The VICE-CHAIRMAN: As I have said before, are you sure there was sufficient money with which to do what they wanted to do, to cover the request for $114,000?

Mr. HENDERSON: No doubt they would like to have had more money to do more things. But I would return to the wording of section 28, "urgently required for the public good".

Mr. HALES: Would you mind repeating it, please?

Mr. HENDERSON: I am reading subsection (1) of section 28 of the Financial Administration Act as follows:

> Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the Governor in Council, upon the report of the Minister that there is no appropriation for payment and the report of the appropriate Minister that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the Consolidated Revenue Fund.

Mr. HALES: I think it is parliament's intention that the act should be followed to the letter, and I think it is the duty of the public accounts committee to see that it is followed to the letter.

Mr. WINCH: I have no way of questioning the need for the $114,950. The point I am trying to make is that the national gallery should not have been asking for $114,950 by special warrant, but rather asking for $114,950 less the amount of $49,926, which they had available.

The VICE-CHAIRMAN: If Mr. Grafftey is right in his conception about the purchase, if it was a purchase, for $114,950, perhaps you might like to find out about it and inform the committee.

Mr. WINCH: Have they still got that $49,000 in the special reserve? I would still like to find that out.

Mr. HENDERSON: The comment here is based on the special warrants for February and March. In my 1964 report I would expect that we may have similar cases arising with respect to the warrants for the months of April and May.

Mr. WINCH: I think this is something that the committee should watch. I could be wrong, but if my memory is correct, in the 97 years of Canadian parliaments, moneys spent by Governor General's warrants have never been called into question by succeeding sittings of the legislature or of the next parliament. We have to look into it as a succeeding parliament, because it may run into millions. There is of course always the O.K. of authorization. It may lead over the years to a tendency not to make a particular recommendation to the authority and the power of parliament, because they know they will get the money anyway. I think it is a very important point and one in which members of the committee should be interested.

The VICE-CHAIRMAN: Would it apply in view of the fact that these warrants have to be passed by parliament anyhow?

Mr. WINCH: After 97 years, you do it automatically.

The VICE-CHAIRMAN: It could be questioned at any time. What is the pleasure of the committee about it?

Mr. FORBES: Could we assume that these various departments were relying upon an estimate of their requirements, and that they could not anticipate a purchase of so much? If they did not have the money available, in view of the fact that they were getting the money under Governor General's warrant —probably they do not go to the Governor General every day—they would want to be making provision for a month or two ahead, just as we do under our votes for supply.

Mr. CAMERON (*High Park*): This special operating account would be taken into account when fixing the estimates for 1962-1963. So all they were doing would be to get the rest of it.

Mr. HENDERSON: Yes, it would appear in the estimates.

Mr. CAMERON (*High Park*): If they did not use the $49,000 with which to pay expenses, they would have to recoup themselves in the following year.

Mr. HENDERSON: That is right.

Mr. CAMERON (*High Park*): So it is a question of a dog chasing its tail?

Mr. HENDERSON: This has been the subject of special study by the secretary of the treasury board and his associates for some time, and we have had some lengthy discussions with them. I know that Dr. Davidson will appreciate the opportunity to outline some of these problems to you when he comes here next Tuesday. That is one of the purposes for which we have asked him to come.

Mr. HALES: I think we can conclude it on the basis, that Dr. Davidson will be here next Tuesday. But I think we ought to have the comptroller from the national gallery appear along with Dr. Davidson to explain to the committee the whys and wherefores of it.

Mr. HENDERSON: It is because of the importance of this subject and as a result of my discussions with the officers of the treasury board that we came to the conclusion that the most practical solution, recognizing the payments with which they are faced, would be to make a detailed study of the financial problems which come up when Parliament is not sitting and to see if the executive might come up with a better way to cope with it. I think they would welcome it.

The VICE-CHAIRMAN: I think we should have a further opportunity to look into the business in regard to paragraph 45 which covers the Governor General's special warrants. Are there any more questions on paragraph 45? If not let us now turn to paragraph 46:

> 46. *Prairie Farm Emergency Fund deficit.* The deficit in the operations of this fund during the year ended March 31, 1963 was $7,295,000, a decrease of $40,438,000 from the deficit of $47,733,000 incurred in the preceding fiscal year, which had been the largest since the inception of the fund in 1939.
>
> The fund operates as a special account within the consolidated revenue fund to record transactions under the Prairie Farm Assistance Act, R.S., c.213. Under the act, a levy of 1% is imposed on the purchase price of grain purchased by licensees under the Canada Grain Act and the moneys collected, which totalled $8,239,000 during the past year, are paid directly to the receiver general and credited to the account. Awards made in accordance with the provisions of the act are charged to the account and during the past year these totalled $15,534,000.

Section 11 of the act, in providing for this special account, states in subsection (8) that:

> If at any time the fund is insufficient to pay awards made under this act the Minister of Finance may, out of unappropriated moneys in the consolidated revenue fund, with the approval of the governor in council, make an advance to the fund of the amount required to meet the deficit.

Although crop yields had improved considerably over the previous year, it became evident once again that the fund would be insufficient to pay the awards payable under the act during 1962-63. Accordingly, on the submission of the Minister of Finance, the governor in council granted authority to the minister to make advances to the fund out of unappropriated moneys in the consolidated revenue fund sufficient to pay awards made pursuant to the act. The amount of such advances, $7,295,000, was treated as a deficit and charged directly to expenditure. As mentioned in last year's report (paragraph 58) the Department of Finance has always followed this practice without seeking parliamentary approval.

On the other hand, the audit office has continuously taken the view, restated last year, that parliament should be requested to appropriate funds to cover the deficits, and thus given an opportunity to review the results of the fund's operations. This view was supported by the public accounts committee in its fifth report 1961 (paragraph 27) when, after referring to the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the estimates to cover the net operating loss of the agricultural stabilization board in any year, it recommended:

> that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the estimates to cover any deficit that might be anticipated in the operation of the prairie farm emergency fund.

Early in 1963 the Department of Agriculture gave consideration to proposing such an amendment to the Prairie Farm Assistance Act and a letter dated March 22, 1963, addressed to the secretary of the treasury board by the deputy minister of agriculture, included the following:

> . . . the purpose of the Auditor General's recommendation for parliamentary review is appreciated, and provision for this will be included when other proposals for amendments to the Act are presented for ministerial consideration.

Mr. HENDERSON: This paragraph deals with the prairie farm emergency fund deficit. This problem was discussed last December when dealing with it in my 1962 report. When we discussed my follow up report on May 26 last, I was able to point out to you that in supplementary estimates tabled on March 6, 1964, provision was in fact made for the fund's operating loss for the year ended March 31, 1964, under vote 175e. It was thus included in appropriation act No. 2, 1964, assented to on April 6, 1964. Consequently the point of our criticism has been met.

The VICE-CHAIRMAN: Is that satisfactory to the committee?

Mr. HALES: Before we leave paragraph 46, the act must have been amended to make these changes possible.

Mr. HENDERSON: No. I think it was our view and also this committee's view in its previous reports that a deficit arising under the prairie farm emergency fund should be included in the estimates and approved by parliament; in other words, there should be appropriation by parliament rather than

merely writing off the sum without such approval, which had been the practice here. And the Minister of Finance has seen fit to change this and thus give recognition to the point raised in this committee's previous recommendations.

The VICE-CHAIRMAN: Are there any further questions?

Mr. FRANCIS: Does the Auditor General conduct any spot checks within the operations of this prairie farm emergency fund in terms of the regularity of the payments, and so on?

Mr. HENDERSON: Would you care to speak to that, Mr. Stokes?

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): You read a statement to the committee on this point. It is recorded in the minutes of the third meeting.

Mr. HENDERSON: Yes, indeed. We did so. I made a statement several meetings ago on the subject, which you will find in the minutes of evidence.

The VICE-CHAIRMAN: Now, paragraph 47:

> 47. *Sale of terminal grain elevator.* From 1933 until August 1962 the crown-owned terminal grain elevator located at Port Arthur was leased to and operated by a company engaged in the grain trade. Order in council p.c. 1962-1/1643 of November 22, 1962 (amended by p.c. 1963-1/68 of January 21, 1963) authorized sale of the elevator to the lessee for $750,000 and set the annual date of the current lease, August 1, 1962, as the effective date of sale. The elevator was not offered for sale by public tender but was sold by verbal agreement to the company, at the appraised value placed on the elevator by a firm of consulting engineers less the estimated cost of replacements and improvements required in the ensuing fiscal year. Due to delay in conveyance of title to the purchaser, stemming in part from survey imperfections in the Port Arthur waterfront area, payment was not made until April 22, 1963.
>
> The Department of Justice in completing the transaction raised the question of a possible claim by the crown for interest from the effective date of sale (August 1, 1962) to the date of payment (April 22, 1963). Correspondence on the files of the Department of Agriculture disclosed that the verbal agreement had failed to provide for payment of any interest on the purchase money after the effective date of sale, or for payment of rent. Therefore no claim for interest was made, and the rent which had been paid by the purchaser for the period August 1, 1962 to January 31, 1963, in the amount of $37,500, was refunded.

Mr. HENDERSON: Paragraph 47 concerns the sale of a terminal grain elevator. This note outlines the circumstances under which the crown owned terminal grain elevator at Port Arthur was sold privately by verbal agreement to the company leasing it, on August 1, 1962. However, the purchaser did not pay for it until April 22, 1963. Not only was he not charged any interest on the purchase money, but he was refunded the rent which he had continued to pay from August 1962 until January 31, 1963. Consequently, he had the use of the elevator free for almost nine months.

The VICE-CHAIRMAN: That was a pretty good deal.

Mr. WINCH: It is rather unusual, and I am certain the committee would like to have some more information. Did the Auditor General check to see if this was a sale made by order in council without tender, and the reason why, it being government property, it was not turned over to the Crown Assets Disposal Corporation for sale by tender?

The VICE-CHAIRMAN: I wonder if you would also like to know what the original cost of the elevator was, how old it was, and what the present valuation is.

Mr. WINCH: I would also like to know the revenue received, and its depreciated value. That question is most important. As I have said, I would like to know how it happens that government property is sold without tender by a private arrangement, under the authority of an order in council, and is not turned over to Crown Assets Disposal Corporation. I am thinking of the Kitsilano reserve which was turned over to crown assets. It was then open to public tender agreements. But might I ask Mr. Henderson if he could state whether or not government property can be sold without being turned over to Crown Assets Disposal Corporation, and if so why would it be done in such a case as this?

The VICE-CHAIRMAN: Do you mean "can" or "should"?

Mr. WINCH: I mean both.

Mr. HENDERSON: Mr. Stokes will speak to that question.

Mr. STOKES: I think it has been developed in the case of crown property that it can be sold with the approval of the governor in council without first being declared surplus to Crown Assets Disposal Corporation.

Mr. FORBES: May I ask what company it was which had this elevator under lease, and what company acquired it at the time? That might clear up the situation.

The VICE-CHAIRMAN: What might be part of the question which the committee would like to have answered.

Mr. HENDERSON: Do you have the name of the company?

Mr. STOKES: It had been leased to the McCabe Grain Company Limited of Winnipeg, but I would have to go back to determine how long the lease was for.

Mr. FORBES: It was sold in 1962 to another company, you say?

Mr. STOKES: No, it was sold to the McCabe people.

Mr. FORBES: They had the lease of it, and then they purchased it?

Mr. STOKES: That is right.

Mr. WINCH: Perhaps we might go further into this matter at a future meeting with the responsible officers before us, because there may be other questions which the committee might like to ask. For example: over the years it had been leased what were the returns to the government; why the determination to sell; what was the cost of maintenance over the years; and was there sufficient capitalization? Why was it done by a completely verbal sale and not by public tender? I think this is a matter of such importance that we might go into it.

The VICE-CHAIRMAN: And does that also include the present valuation?

Mr. WINCH: Of course. As just mentioned, they not only got away without paying interest, but they received a refund of the rent. I would like to know who was the friend of whom?

Mr. HALES: I would like to know who drew up the agreement for sale, whether it was done by a legal firm or by the governmental department of justice, and whoever drew it up, what method they used in connection in the matter of interest or rent.

Mr. WINCH: Who made the verbal agreement between the company and the officer of the crown?

The VICE-CHAIRMAN: Perhaps it might be just as well if we invited the deputy minister of the Department of Agriculture to come to answer this question. He would know the questions we were interested in by reading the transcript, and we could invite him to come and answer the questions that the committee is anxious to ask.

Mr. WINCH: If it were done by an all verbal agreement, then how could there be a transcript of it?

The VICE-CHAIRMAN: I mean a transcript of the remarks made here today. The deputy minister will receive it ahead of time, before coming as a witness to the committee.

Mr. FRANCIS: In case of a sale like this, is there any regular way in which a summary statement is made public involving the original cost, the depreciation over the years, and so on, concerning the assets? I can appreciate how this would not happen probably in the case of minor sales, but $750,000 was the price of this one. May I ask if there is any procedure by which a regular summary of the financial picture is given in the case of public ownership and operation of such a thing?

Mr. HENDERSON: I have a note to the effect that the majority of sales, as Mr. Winch points out, are handled by Crown Assets Disposal Corporation. As a matter of fact, over the past several years they have expanded at the suggestion of this committee. I might say, beginning in 1961, they have expanded the material in their annual report where they set forth, perhaps not precisely, but the sort of thing you would like to see. They show it in summary form.

Mr. FRANCIS: I am not concerned with the Crown Assets Disposal Corporation, but I am concerned about a disposition which did not come within their purview, where there was a substantial amount of money involved. It seems to me there should be a written report and summary of the operations at the time of the disposal of the asset which is made public or made available for anyone to look at.

Mr. HENDERSON: This is one of the reasons I consider it my duty to bring cases like this to your attention, because there is no other way you would know of them.

The VICE-CHAIRMAN: Does that meet with the approval of the committee? Shall we invite the deputy minister of agriculture to answer questions in which the committee is interested?

Mr. FORBES: I think there is an item we should take into account. It says:

> The elevator was not offered for sale by public tender but was sold by verbal agreement to the company, at the appraised value placed on the elevator by a firm of consulting engineers less the estimated cost of replacements and improvements required in the ensuing fiscal year.

I think we should keep it in mind that this was a 1933 elevator and that it would probably become obsolete and require a lot of improvements, and that type of thing. That is the reason the sale was made. I would doubt whether the deputy minister of agriculture would have any knowledge of the deal because I think this comes under either the board of grain commissioners or the national harbours board.

Mr. GRAY: My point is this: I have no objection to having the deputy minister of agriculture here.

I wonder if we should not consult with the Auditor General to determine whether that official would be most appropriate to answer the questions that we would want to put to him and which have already been raised here.

I want to add another question to the ones which were raised. I would like to know the exact statutory authority which would permit this method of sale. The official from the office of the Auditor General indicated that the government has the power to make sales in this way, and I would be most interested to know under what statutory authority they can do that.

Mr. HENDERSON: That could be covered at the time we have the deputy minister present. I might add that the deputy minister of the Department of Agriculture is the responsible official in this case, but as you pointed out, he

may wish to bring with him someone more directly concerned with this particular problem. That is something which should be discussed with him at the time he is asked to come before the committee.

Mr. CAMERON (*High Park*): I would think he would have an appraisal and we could study it so as to know what the depreciation over the years would be.

Mr. HENDERSON: I should prefer, Mr. Chairman, if he could come before you and discuss this. In fairness to the entire transaction that would be the proper thing to do. He would have the benefit of studying this testimony.

Mr. WINCH: May I say, for the information of the officials of the office of the deputy minister of agriculture that, in accordance with our terms of reference, this committee should ask him to bring all the orders and papers that have to do with this matter.

The VICE-CHAIRMAN: Does this committee agree to this?

It is agreed.

The VICE-CHAIRMAN: Paragraph 48 reads as follows:

48. *Questionable charge to Agriculture appropriation* (*Vote 164*). This appropriation reads:

> Amount required to recoup the Agricultural Products Board Account to cover the net operating loss recorded in the Account as at March 31, 1963—$870,014.

The amount of $870,014 recorded for the net operating loss of the Agricultural Products Board for the year ended March 31, 1963 included $364,000 for donations of 4,064,000 pounds of skim milk powder to international charitable organizations. The donations were made in consultation with the Department of External Affairs and the authority relied on was order in council P.C. 1962-1576 of November 6, 1962 which purported to be issued pursuant to subsection (1) of section 4 of the Agricultural Products Board Act, R.S., c.4. This subsection reads, in part:

> Subject to the regulations, the board may, with the authority of the Governor in Council and under the direction of the minister
>
> (c) buy, sell or import agricultural products.

Since there is no reference to donations in this subsection, or elsewhere in the act, the propriety of the board's donating the skim milk powder to the international charitable organization—and, therefore, the propriety of reimbursing the board out of agriculture vote 164 for this portion of the board's net operating loss—is open to question. By way of contrast, during 1960-61 the board was reimbursed for a similar donation by the Department of External Affairs from Vote 673 of that fiscal year, which gave specific authority as follows: "To reimburse the agricultural products board account for whole milk powder donated for international relief purposes—$2,420,000".

Mr. HENDERSON: Paragraph 48 deals with the "questionable charge to Agriculture appropriation". This is a case of vote wording not disclosing additional pertinent information, namely, that $364,000 of the $870,014 net operating loss was to cover a donation of skim milk powder to international charitable organizations. As shown, the Agricultural Products Board Act does not appear to permit any donations of this type and therefore we believe the charging of these donations in this manner to be open to question. This might be a paragraph, Mr. Chairman, to which Dr. Davidson would care to speak when he is discussing instances of this type, that is to say, vote wording.

The VICE-CHAIRMAN: Is it your opinion that this amount should be charged under another heading, or another department?

Mr. HENDERSON: Yes, sir, or else the vote wording should have been enlarged to indicate that this donation was to be included therein.

The VICE-CHAIRMAN: Is it the desire of the committee that we hold this question until we have Mr. Davidson here?

Mr. HARKNESS: Is not the basic point here that donations of this kind, of skim milk powder and whole milk powder and other food products of various kinds, which were made chiefly to underdeveloped countries or to areas where starvation existed or where a natural disaster had taken place, had always in the past and throughout the history of these things been made through the Department of External Affairs, and that the appropriation of the vote to cover the expenditure was always charged to the Department of External Affairs? In this particular case, for this $364,000 of skim milk, this was not done, and it was charged up to the agricultural products board.

Mr. HENDERSON: If you notice, I say at the end of the note, at the top of page 21:

> By way of contrast, during 1960-61 the board was reimbursed for a similar donation by the Department of External Affairs from vote 673 of that fiscal year, which gave specific authority as follows: "To reimburse the agricultural products board account for whole milk powder donated for international relief purposes—$2,420,000.

Mr. HARKNESS: This has been going on for a long time; it extends back many years, and all donations were always made to and charged through the Department of External Affairs.

Mr. HENDERSON: It is my responsibility, as you know, to see that payments conform to the authority of the vote wording, and if the vote wording does not contain that authority, I must raise the matter.

Mr. HARKNESS: As a result of this, you have a charge which should not be there against the agricultural products board, and you fail to have the total amount of the foreign aid provided under that vote in External Affairs. Therefore, you have really two errors there, and things which people can complain about. The amount of foreign aid shown in external affairs is not as big as it was, and on the other hand, the expenses of the Department of Agriculture are greater than they actually were.

The VICE-CHAIRMAN: You might want to take this question up with Mr. Davidson.

Mr. HARKNESS: The only thing we need to find out is why this was done instead of the usual practice being followed.

Mr. GRAFFTEY: Is there no procedure between departments that could regularize this even if it appears under the vote? I am speaking of something that went to the Department of Agriculture instead of the Department of External Affairs.

Mr. HENDERSON: Presumably not, or else they would have charged it elsewhere. It might have been an oversight; they became accustomed to charging it under this vote and failed to recognize that the wording did not include the authority to do so.

Mr. GRAY: I should like to ask two questions here. First of all, is it possible, that the document carrying out the actual donation was in effect a transfer of one dollar which would make it a sale?

Mr. HENDERSON: I think not. Have you any recollection of that, Mr. Stokes?

Mr. GRAY: I am talking about transferring the title of the milk itself to the international organization. I raise that because if that was the case it would be a sale even though it may have been undervalued.

Mr. HENDERSON: The note says that:

> The donations were made in consultation with the Department of External Affairs and the authority relied on was order in council P.C. 1962-1576 of November 6, 1962 which purported to be issued pursuant to subsection (1) of section 4 of the Agricultural Products Board Act.

That being the case we could not find any authority there.

Mr. GRAY: All I am driving at is that if the actual document transferring the title from the government to the world health organization said "we hereby convey to you this note for the consideration of one dollar", it would be a sale.

Mr. WINCH: But have you no record of that sale?

Mr. HENDERSON: I do not know the precise answer to that question.

The VICE-CHAIRMAN: That might be a question that you would want to ask the deputy minister of agriculture.

Mr. HARKNESS: That is not the way in which this sort of transaction has been handled in the past, to my knowledge. Things such as skim milk powder, or other agricultural food products held by the agricultural stabilization board or by this commodity board, were always turned over to the Department of External Affairs, either at cost or at some lesser amount which had been arrived at by considering a sum which would enable the product to be sold on any market that was available.

Mr. GRAY: The other question I wanted to ask Mr. Chairman, was that if the wording of the appropriation, which says "the amount required to recoup the Agricultural Products Board Account to cover the net operating loss, is as broad as it is, why would it not cover a loss to any purpose, whether it is through the making of a donation or through a sale?

Mr. HENDERSON: I am afraid I did not hear your question precisely.

Mr. GRAY: I notice in your comment on item 48 there is in effect a question of the propriety of reimbursing the board out of the agricultural appropriation vote 164 apparently because it may not have been a sale pursuant to the Agricultural Products Board Act. My question is, if the actual wording of the appropriation reads, "amount required to recoup the agricultural products board account to cover the net operating loss recorded in the account as at Mach 31, 1963—$870,014" and this wording does not limit the nature of it, where would the impropriety arise in that instance?

Mr. HENDERSON: I am not raising any question of impropriety on donating milk to international charitable organizations, but I have to be governed by the wording of the vote. The order in council makes no reference to any sale for one dollar, and it only says "to offer to international agencies for relief purposes such quantities of dry skim milk which in the opinion of the Minister of Agriculture would not be required for emergency or welfare purposes in Canada". I also have a copy of a letter written by the deputy minister of agriculture to the secretary of the treasury board which he was kind enough to send to me last March and which states in part "that, with respect to paragraph 48 the Auditor General's observation, a donation of a product by the agricultural products board was improper under the authority of the agricultural products board. We accept that there was an error in this respect."

Mr. HARKNESS: This was the point I was going to bring up. The impropriety is that it is contrary to the Agricultural Products Board Act. The agricultural products board is purely a merchandising organization. The act was passed in order that we would have in the Department of Agriculture a body which had statutory authority to buy and sell these various products which

the stabilization board did not have in this way, and therefore there is no authority in that act for this body to spend any money except the administrative cost of buying and selling.

The VICE-CHAIRMAN: I do not want to curtail the discussion which is very interesting, but I should like to draw to the committee's attention that the defence committee is anxious to use this room.

Next week on Tuesday at 9:30 Dr. Davidson will be the witness, and we will discuss the carryover paragraphs 108, 109 and 110 of the 1962 Report. We will also deal with paragraphs 45, 50, 93, 94 and 95 of the 1963 Report. The meeting is adjourned.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons 1962 and 1963

TUESDAY, JUNE 30, 1964

WITNESSES:

Dr. George F. Davidson, Secretary of the Treasury Board; and Mr. A. M. Henderson, Auditor General of Canada.

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

21104—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Hales,	Rinfret,
Berger	Harkness,	Rochon,
Cameron (*High Park*),	Lessard (*Saint-Henri*),	Rock,
Cardiff,	Loiselle,	Rondeau,
Côté (*Chicoutimi*),	Mandziuk,	Ryan,
Crouse,	McLean (*Charlotte*),	Scott,
Drouin,	McMillan,	Smith,
Dubé,	McNulty,	Southam,
Fane,	Muir (*Lisgar*),	Stefanson,
*Fisher,	Nowlan,	Tucker,
Forbes,	O'Keefe,	Valade,
Francis,	Pigeon,	Wahn,
Frenette,	Pilon,	Whelan,
Gendron,	Regan,	Winch—50.
Grafftey,	Ricard,	
Grégoire,	Richard,	
Gray,		

M. Slack,
Clerk of the Committee.

CORRECTION—(*English Copy Only*)

PROCEEDINGS NO. 9—Thursday, June 25, 1964

Last line on inside front cover should read:
"Replaced Mr. Beaulé on June 23"
instead of
"Replaced by Mr. Beaulé on June 23"

*Replaced Mr. Cameron (*Nanaimo-Cowichan-The Islands*) on June 30 after the morning sitting.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, June 30, 1964.

Ordered,—That the name of Mr. Fisher be substituted for that of Mr. Cameron (*Nanaimo-Cowichan-The Islands*) on the Standing Committee on Public Accounts.

Attest.

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

21104—1½

MINUTES OF PROCEEDINGS

TUESDAY, June 30, 1964.
(11)

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

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Fane, Forbes, Gray, Grégoire, Hales, Harkness, McMillan, Muir (*Lisgar*), O'Keefe, Rinfret, Ryan, Southam, Stefanson, Tardif, Tucker, Winch (20).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Dr. George F. Davidson, Secretary of the Treasury Board; Mr. J. C. Allen, Director, Estimates and Administrative Procedures Division, Treasury Board; and Messrs. Long, Laroche, Chapman, Millar, Smith and Douglas of the Auditor General's office.

The Report of the Subcommittee on Agenda and Procedure was presented by the Chairman, dealing *inter alia* with the schedule of witnesses until the end of July. (*See Evidence*).

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

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

The Chairman then tabled the Reports of the Auditor General to the Board of Directors of the Canadian Broadcasting Corporation on the examination of the accounts and financial statements for the years ending March 31, 1962 and March 31, 1963 respectively. (*Identified as Exhibit No. 2*).

Copies of the tabled reports were distributed to members of the committee.

Mr. Henderson supplied the answer to a question by Mr. Cameron (*High Park*) at sitting of June 25. Mr. Henderson also tabled returns to two other inquiries and the Committee agreed that these be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

The Committee resumed its consideration of the carryover items of the 1962 Report and also the Report of the Auditor General for the fiscal year ended March 31, 1963.

The Chairman introduced Dr. George F. Davidson and Mr. J. C. Allen of the Treasury Board.

Messrs. Henderson and Davidson reviewed paragraphs 108, 109 and 110 of the 1962 Report and paragraph 45 of the 1963 Report; both witnesses supplied additional information and were questioned thereon.

The Committee agreed to sit again at 8.00 p.m. this evening.

The questioning of Messrs. Davidson and Henderson still continuing, at 10.45 a.m., the committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(12)

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

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Fane, Forbes, Francis, Gendron, Hales, Muir (*Lisgar*), Southam, Stefanson, Tucker, Whelan, Winch (14).

In attendance: (same as at morning sitting).

The Auditor General tabled a return to an inquiry relating to paragraph 43 of the 1963 Report, "*Other non-tax revenues*". The Committee agreed that this be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

The Committee resumed discussion of paragraph 45 of the 1963 Report of the Auditor General, *Governor General's special warrants.*

Messrs. Davidson and Henderson reviewed paragraph 45, supplied additional information and were further questioned thereon.

Paragraphs 50, 94 and 95 of the 1963 Report were reviewed by Messrs. Davidson and Henderson and they were questioned thereon.

The Committee reverted to Paragraph 11, *Findings of the Royal Commission on Government Organization,* and to Paragraph 9, *Form and Content of the Estimates* of the 1963 Report, both paragraphs which were carryovers from previous sittings. Messrs. Davidson and Henderson expressed their views on these subjects and were questioned thereon.

The questioning of Dr. Davidson being concluded, the Chairman thanked Messrs. Davidson and Henderson and Mr. Henderson's staff on behalf of the Committee.

The Chairman announced that officials of the Canadian Broadcasting Corporation would appear before the Committee on Thursday, July 2.

At 10.25 p.m., the Committee adjourned until 9.30 a.m., Thursday, July 2, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 30, 1964

The CHAIRMAN: Gentlemen, I see a quorum.

Before we proceed with our meeting may I say that your steering subcommittee, as requested, held a meeting the other day and we discussed, among other things, the question of the agenda and one or two other items.

I am going to read to you the recommendations of your steering committee and ask for the usual motion, if it pleases you.

Your steering subcommittee recommends:

1. That the following be the tentative agenda of committee for the period of June 30th to July 30th:

You will note how optimistic we are; we are stopping at July 30.

Date	*Witness*	*Agenda*
Tuesday, June 30	Dr. G. F. Davidson, secretary of the treasury board	1962 report carry-overs: Para. 108 109 110 1963 report: Para. 9 45 50 93 94 95
Thursday, July 2	C.B.C. officials	1962 and 1963 accounts, etc.
Tuesday, July 7	C.B.C. officials	1962 and 1963 accounts, etc.
Thursday, July 9	L. Richard, president, C.A.D.C. E. B. Armstrong, deputy minister, national defence	Report on sales and surplus equipment national defence items (Armstrong only) 1962 report carry-overs: Para. 74 78 79 81 82 115 1963 report: Para. 64 65 66 67 68 69 70
Tuesday, July 14		Carry on 1963 report (or Mr. Armstrong continues)

Date	*Witness*	*Agenda*
Thursday, July 16	Mr. George Scott, acting deputy minister of transport	1962 report carry-overs: Para. 100 101 115 1963 report: Para. 84 85 86 87 98(1)
Tuesday, July 21	Mr. R. B. Bryce, deputy minister of finance	Exchange fund report 1962 report carry-overs: Para. 62 66 140 141 142 144 145 194 1963 report: Para. 45 52 53 54 55 56 57 58 59 60 61 110 123 124 125 175
Thursday, July 23	Mr. Lucien Lalonde, deputy minister and Mr. G. B. Williams, assistant deputy minister of public works	1962 report carry-overs: Para. 99 115 1963 report: Para. 79 80 81 82 83 96 98
Tuesday, July 28	Dr. A. W. Trueman, director, and other Canada council officials	1962 and 1963 accounts

This is very tentative at the present time.

Date	*Witness*	*Agenda*
Thursday, July 30	Mr. David Sim, deputy minister of national revenue, customs and excise	1962 report carry-overs: Para. 88 89 90 91 92 93 94 1963 report: Para. 75 76 77

Now, gentlemen, this is a tentative schedule, and the officials concerned have been contacted. The dates I have mentioned probably will be the dates of the appearances but, however, they are subject to some change, in which case the committee would be notified.

2. That an interim report be submitted to the House within two or three weeks dealing *inter alia* with the Auditor General's "follow-up" report and his 1962 report.
3. That a subcommittee be formed to further consider the "form of the public accounts".

I should say that the latter comes following discussions which we had here and also following receipt of a letter which I had from Mr. Balls, the comptroller of the treasury in which he referred to this and indicated at some future date, subject to our being able to form a committee and getting together with Mr. Henderson and his staff, a subcommittee might fill a useful function in dealing with the form of the public accounts.

If this meets with your approval I would ask for a motion for the adoption of this report. As I have said, the dates are as firm as they can be at the present time.

Mr. CARDIFF: Could we have a copy of that schedule for reference?

The CHAIRMAN: Mr. Cardiff, this will be printed in today's proceedings.

Mr. WINCH: I will move the adoption of the proposed agenda of the steering subcommittee.

Mr. FANE: I will second the motion.

Motion agreed to.

The CHAIRMAN: Gentlemen, this morning we will have to stop about 10 minutes earlier because of the fact that caucuses are being held and this room will be required.

In view of the fact that the officials are making preparations for appearances before this committee and will appear with the required material I would hope the committee at this time might give serious consideration to having multiple meetings in one day, if found necessary, to complete the work which we will commence in the morning. I realize this may be a strain on us but I think we should bear in mind that the officials are here, and I hope this will be agreed to, if found necessary. Of course, we can deal with it at each hearing before adjournment.

Mr. Davidson is attending a treasury board meeting this afternoon. However, he will be available this evening if we are unable to complete what we have started out to do this morning. I will bring this matter up again before adjournment.

Before calling Mr. Davidson there is one more thing I should say. There is available for tabling this morning the 1962 and 1963 long form reports

made by the Auditor General to the C.B.C. I have discussed this with the officials of the C.B.C. and they will be tabled today. We have available a number of copies in English. The French copies are now being prepared and I think we will be able to have them distributed shortly. However, we will require a motion for tabling in order to make them available to the members of the committee.

In addition, we have a number of the C.B.C. annual reports, both in French and in English. Of course, this report already has been tabled in the House of Commons, as a result of which it is not necessary to table it here. But, in case some members have not access to this report—they may have taken them home with them over the recess to study—it will be available here and can be picked up by members. This will give you an opportunity to consider it before we proceed.

In addition, there will be the annual financial report of the C.B.C. which also will be available.

May I have a motion that these documents be tabled?

Mr. HALES: I so move, Mr. Chairman.

Mr. STEFANSON: I second the motion.

Motion agreed to.

The CHAIRMAN: Before introducing the witness may I first call on Mr. Henderson to comment briefly on those aspects of the 1962 and 1963 reports in which Mr. Davidson is interested. They were all referred to and itemized on the notices sent out to you. You should have them before you.

Mr. WINCH: Before Mr. Henderson proceeds, I understand he now has prepared and has in his possession a number of tables and information requested by this committee. In order that we may avoid the necessity of considering these now may I suggest they be tabled and published in today's proceedings?

The CHAIRMAN: Thank you, Mr. Winch. I had intended to do that.

I would ask Mr. Henderson to refer to these before dealing with the matters which Mr. Davidson is concerned with, and then I would ask for a motion to table them.

Mr. MUIR (*Lisgar*): Could you please give us the chapters in the 1962 report to which reference was made? I have not my copy with me this morning.

The CHAIRMAN: Paragraphs 108, 109 and 110 of the 1962 report and paragraphs 9, 45, 50, 93, 94 and 95 of the 1963 report.

However, before dealing with these Mr. Henderson will refer to some material which was requested previously, so that it can be tabled.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Well, the three points on which we have answers this morning deal, firstly, with Mr. Cameron's inquiry on June 21 concerning the proceeds from sales by crown assets disposal corporation. The corporation retains 4 per cent of all real estate sales and 10 per cent of commodity sales and the remainder which amounted to $8,543,000 in 1962-63 and is recorded in the revenues of the Department of Defence Production. As from April 1, 1964, a change has been made in the former procedure and the Department of National Defence now receives the proceeds of sales of its surplus commodities and under authority included in 1964-65 votes 15, 20, 25 and 30 may use these moneys to supplement its appropriations. The purpose of this is to provide an incentive to the department to clear out surplus materials as recommended by the royal commission on government organization.

The next question on which I would report relates to the inquiry in respect of the composition of the figure with regard to other loans and investments shown at $12,565,000 in the table in paragraph 40 of my 1963 report. I have the particulars here and with your permission I will hand them to the clerk to insert in the evidence.

The final item had to do with Mr. Winch's inquiry in respect of oil and gas exploratory permits, and the information we have assembled in this respect also will be handed to the clerk for inclusion in the minutes of today's proceedings, if that is agreeable.

The CHAIRMAN: Thank you. These will be printed.

Could I have a motion that this material be printed as an appendix?

Mr. MCMILLAN: I so move.

Mr. WINCH: I second the motion.

Motion agreed to.

The CHAIRMAN: Now, would you be kind enough to deal with the matters which Mr. Davidson will be discussing with us today so that we may then launch into that?

Mr. HENDERSON: The first of these is paragraph 108 in the 1962 report, having to do with educational leave costs.

You will recall that we discussed this paragraph from my 1962 report in our sixth meeting held on June 16, at which time we turned also to a similar paragraph, number 93, which appears at page 62 of my 1963 report. Neither the estimates nor the public accounts show the aggregate cost of financial assistance to persons on educational leave, which takes the form of allowances in lieu of salaries, living allowances, tuition fees, book allowances and travelling expenses. Together these costs amount to a large figure, the salary portion, for example, in the year 1961-62 having approximated $265,000.

When we were drafting paragraph 93 for my 1963 report on this subject my officers and I met with officials of the Department of Finance who informed us that they proposed to give consideration to our suggestion with a view to showing educational program costs separately in the public accounts. I have no further advice on this but presumably this consideration should include the separating of this cost in future under separate appropriations at the time the estimates are submitted to parliament, and it will therefore, be of interest to have Dr. Davidson's view on this aspect.

The CHAIRMAN: I do not think Dr. Davidson needs much introduction to the members of this committee. Dr. Davidson has appeared before this and other committees on other occasions in various capacities. He has a long and distinguished career in the public service and is, as I said, no stranger to committees of the House of Commons. He has with him Mr. J. C. Allen, director, estimates and administrative procedures division, treasury board. Mr. Allen, of course, has appeared before this committee on many occasions.

Dr. G. F. DAVIDSON (*Secretary of the Treasury Board*): Thank you Mr. Chairman. You have been kind enough to make reference to previous appearances on my part before this committee in other capacities. I should merely like to add that my appearance this morning before this committee in my new capacity of secretary of the treasury board is still a new and strange experience for me since I have been the secretary of the board for only one and a half months as of this moment. I think I need say no more than that to indicate to the members of the committee that I still lack a good deal of background and experience in dealing with the many problems that we will have to deal with both this morning and on other occasions, and I should merely like to ask the members of this committee to bear that fact in mind when they begin to assess the adequacy of some of the answers that I am in a position to give this morning. I think it would be presumptuous of me in respect of many of the questions, on the basis of six weeks experience in my new capacity, to express too definite opinions regarding what should or should not be done in respect of some of those problems.

The Auditor General has raised a question in respect of educational leave and I should merely like to say that it does seem to me to be logical, that whatever is done in respect of the manner of showing these costs in the public accounts should be equally applicable to the presentation of these costs in the blue book of estimates. I will be glad to follow up the conversation Mr. Henderson has had with the officers of the Department of Finance on the basis of the statement which appears in paragraph 93 to the effect that the officers of the Department of Finance propose to give consideration to the suggestion of the Auditor General with a view to showing the educational program costs separately in the public accounts.

I should merely like to raise one question, Mr. Chairman, for the purpose of clarification. One of the reasons I think which has prompted the department and the treasury board in the past to lump these educational leave payments with salary costs has been the fact that, in their minds at least, this kind of expenditure relating to one kind of leave, namely educational leave, has been identified with the numerous other kinds of leave, such as sick leave, furlough leave, annual leave and all the other variations of leave which are provided in one form or another through the Civil Service Act and otherwise. I take it however, that the distinction is that all the other kinds of leave are provided for by statutory authority and are properly, therefore, to be regarded as salary costs, whereas in the view of the Auditor General this particular kind of educational leave is regarded as something separate and apart from salary costs by virtue of the fact that allowances are paid in lieu of salary. I assume it is that fact in the mind of the Auditor General which sets this particular kind of leave apart from the other kinds of leave to which I have referred.

I merely make this point because I think it would lead us into difficulties if through a decision to separate educational leave costs and provide for that separately in the public accounts we were to find ourselves in the position of having to separate out salary costs owing to leave on account of sickness, or salary costs on account of annual vacations, or other leave costs. If we were to find ourselves in the position of having to separate these out, and have separate appropriations made for them instead of dealing with them as part and parcel of salary costs, there would be difficulties.

I merely wanted to put that distinction on the record as one which strikes me as having some validity. Possibly I could inquire through you, Mr. Chairman, whether this is a point which accords with the view of Mr. Henderson, that this is a different kind of salary cost.

Mr. HENDERSON: May I speak to that point, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. HENDERSON: Dr. Davidson correctly assesses the situation and I am glad that he is going to give it some consideration.

Educational leave in this context is an optional thing which carries with it a number of other expenses. When a person is sent away to a university, or to do some postgraduate work, there are, as he explains, allowances in lieu of salaries. These individuals also receive living allowances, tuition fees and book allowances as well as travelling expenses, and it seems reasonable to us to determine the size of the costs of this educational program. It is on that basis that we felt it would be a useful refinement and certainly add to your information were they to be separately shown.

Mr. DAVIDSON: Perhaps I could make one additional observation observation, Mr. Chairman. I am grateful to Mr. Henderson for his elaboration of this point. He did, however, refer to the desirability of using this separation of the educational leave costs into a separate item of the public accounts and estimates as a means of showing to members of parliament the cost of this educational program for public service employees. It does seem to me that it would be a

little risky to place too much reliance upon such a figure, if and when it does appear in the estimates and public accounts, as being a true reflection of the cost to the employer of providing this kind of educational support to its employees; because there are in fact, as I am sure Mr. Henderson will confirm, other kinds of training and educational costs which are part of what the government as an employer provides for the training of its employees.

It would not be accurate I think to conclude that the segregation of this particular item in the estimates and public accounts is going to give to parliament a truly accurate picture of the total costs to the government as an employer of providing educational and other training support to the employees on the public payroll. I am thinking, for example, of quite a wide variety of training programs and career development programs, and other types of expenditures which are directly related to the same objects as those for which educational leave is provided, namely, to improve the qualifications and capacity of the members of the public service. I think Mr. Henderson would agree that while this may give a valuable reflection of what is paid out by the public service as a whole by way of this particular kind of educational support, namely, educational leave allowances and related expenditures, there will still be in the background an unidentified substantial sum of money spent departmentally, and through the civil service commission and otherwise, for training programs for civil servants who are regarded as being on duty while they are actually undergoing that training.

The CHAIRMAN: Are there any other questions in respect of this item?

Mr. CAMERON (*High Park*): Is the point about sick leave, and so on, not that that type of leave is statutory? This is not statutory; it is under the regulations. It says here that the new regulations which came into force in April of 1962 made no provision for the payment of salaries for people granted such leave. Then the treasury board gave the green light, so to speak, in cases in which the deputy minister reported that he was granting leave in certain circumstances and thought the remuneration should be made on whatever basis the minister thought appropriate. Is that not the point?

Mr. DAVIDSON: I think that is the point. This is not a kind of leave provision specifically provided for in the statute. Technically, the payments made to the individuals who are granted educational leave are not salary payments as are the payments made to people on sick leave. The payments made to people educationally are allowances made under the authority, as I understand it, of section 7 of the Financial Administration Act to people who are on leave of absence without pay.

Mr. CAMERON (*High Park*): What is wrong with Mr. Henderson's suggestion that there should be an estimate showing what that will be in any current fiscal year? Then it would be necessary for the deputy minister to say that Mr. So and So is entitled to attend Queen's University, for example, and is to be paid such a salary; and the treasury board will have a report on it and can go back and justify such an expenditure.

Mr. DAVIDSON: Exactly. I did not suggest there was any reason why that should not be done.

Mr. CAMERON (*High Park*): I thought you were suggesting that it might not show all the expenditures under that head.

Mr. DAVIDSON: I think that is a correct statement, but that is not a reason for not doing it. It is rather a warning to the members of the committee that they should not expect this figure, if and when it does appear, to be a complete reflection of the total costs to the government of the educational support and training that they are providing to members of the public service.

Mr. CAMERON (*High Park*): No, but it is an estimate of what it may cost.

Mr. DAVIDSON: For educational leave only, yes.

Mr. CAMERON (*High Park*): What other kinds of leave are there? What kinds of leave are there other than statutory leaves and this one particular exception?

Mr. DAVIDSON: Obviously I am not making myself clear. I was not suggesting that there were other kinds of educational leave payments. I was suggesting that the figure showing the costs of providing educational leave should not be taken as the total cost to the government of providing educational support and training for the members of the public service because there are other kinds of expenditure involved as, for example, when the government puts on training courses under its own auspices. In such a case, civil servants are detached from their duties in order to attend those courses provided by the government. In those cases the civil servants are considered to be on duty.

Mr. CAMERON (*High Park*): Why are they considered as being on duty? Is there a statute or a regulation that says they are on duty?

Mr. DAVIDSON: This is training provided by the government itself as part of the training program for its own employees.

I subject my views to Mr. Henderson on this, but I think I am correct in stating that training programs provided by the government itself for its own employees do not involve the requirement of releasing the person concerned on leave of absence without pay.

Mr. CAMERON (*High Park*): We will have to depend upon Mr. Henderson to check on that, but would you have any objection to this being dealt with in the manner suggested by Mr. Henderson if there is an estimate showing how much it is proposed to spend or how much may be spent in any fiscal year for such purposes?

Mr. DAVIDSON: I have no objection whatever to this, but I do think that it should be tied up to whatever is done on the public accounts side.

Mr. HENDERSON: It would be an excellent start in providing this important information for what is a very large employer. It could be that having made that start we could go on and put into that figure the other training programs that are paid by other departments in order to wind up, as Dr. Davidson says, with a more truly correct picture of the total cost of training our employees. This would be, at least to our way of thinking, a very worth while start; and that is why we raised it.

Mr. MCMILLAN: What, roughly, is the total cost? I see the salary part is $265,000.

Mr. HENDERSON: For the educational program part, yes. I do not think we have that figure, Dr. McMillan, because under the present arrangement the costs are throughout all the appropriations. We are seeking to pull them together in order that you can see the total figure.

Mr. DAVIDSON: And the travel charges.

Mr. HENDERSON: Yes, in the case of the other programs he mentions, but in our view this would be an excellent way to start it if it carries the blessing of the committee.

Mr. HALES: I think parliament would like to know this figure and I think we should make a start in this direction. It will be improved from time to time.

I would like to ask one or two questions, and my first question has to do with travelling expenses when one is away.

The CHAIRMAN: To whom are you directing your question?

Mr. HALES: To Mr. Henderson.

Are the travelling expenses paid to one who is on leave included in the travelling expenses of that department?

Mr. HENDERSON: Yes.

Mr. HALES: When you set up this system, these will go in as part of the educational allowance?

Mr. HENDERSON: That is right.

Mr. HALES: Does any one department more than another use this educational leave?

Mr. HENDERSON: Dr. Davidson might have a view on that. I think these facilities are available generally to all departments, are they not?

Mr. DAVIDSON: Yes, sir. I would venture to guess—and I am speaking quite without specific knowledge on this—that in those departments where there is a higher proportion of what you might call professional classes of employee, the use of educational leave is likely to be higher than in other departments.

Mr. HALES: On what basis is this granted? Is there any guarantee on behalf of the employee that he will remain in government service for any specific length of time after he has obtained the leave?

Mr. DAVIDSON: I will have to check on this. I know there is an educational policy that has been developed by the treasury board that is generally applicable to the service and is, of course, the basis on which the deputy ministers of each department make their applications to the treasury board for permission to grant educational leave allowances in the specific cases in which they are interested. Certainly the implied obligation is that the individual will return to his employment after he has completed his training program.

Mr. HALES: And remain for a certain length of time? That is what I want to know.

Mr. DAVIDSON: I will have to get that for you.

Mr. HENDERSON: I might mention for the benefit of the committee that in this same report, paragraph 74, which we have not reached yet, deals with the improper use of a government owned automobile by an employee when he was taking a course at a university under this particular educational leave program. We will be dealing with that paragraph when we reach it, but it explains in rather more detail how an employee operates under this particular program although, unfortunately, in this case I had some criticism to make as to the way in which it was done. I have discussed that with the deputy minister concerned and he has been good enough to give me a statement about it which I will discuss with you when we reach the paragraph.

The CHAIRMAN: For the benefit of members of the committee who have just arrived, may I say that we are now dealing with paragraph 108 of the 1962 report and paragraph 93 of the 1963 report of the Auditor General. Dr. Davidson, the secretary of the treasury board, has come here to discuss these with the committee. The other material you have been given, which is in connection with the Canadian Broadcasting Corporation, is for Thursday and is of no concern with the affairs of the committee this morning.

Mr. MUIR (*Lisgar*): I would like to ask Mr. Henderson if there are items in the various departmental appropriations for these programs for each department. Is there any way of getting this so we may study it?

Mr. HENDERSON: Not at the present time, Mr. Muir, no. If these discussions—to which, I gather, Dr. Davidson has subscribed with his associates in the Department of Finance—are continued we should be able to work it out.

Mr. MUIR (*Lisgar*): How do the various departments work in this respect? How do they show the costs?

Mr. HENDERSON: The individual costs go into their own expenses. For instance, the travelling expenses, while the person is going to university, go into the department's travelling expenses, along with the travelling expenses of

people engaged on government business. In this proposition these expenses would be pulled out and shown separately in order that we could show the total costs for educational training.

Mr. MUIR (*Lisgar*): In other words, have we no idea of what this job training program costs?

Mr. HENDERSON: We cannot go beyond that figure now because the costs have ended up in all the various categories in all the different departments which have sent people away on such courses. It may turn out to be a more difficult problem, but this is the general idea, if it has the blessing of the committee.

Mr. FORBES: I take it that these courses are special courses applicable to the departments in which the employees are working.

Mr. HENDERSON: Generally speaking, yes. I know in the case of the Department of Agriculture employees are sent away perhaps on a postgraduate course or brushing up course. That is not always the case but generally they take advantage of some course that is offered by a particular university. These departments consider it good business to send a bright young man away for three or four months to attend these courses. That is the sort of criteria they bring to it. Is that not so, Mr. Davidson?

Mr. DAVIDSON: Yes, so far as the detachment of individuals for the purpose of educational leave is concerned.

Mr. HALES: Mr. Henderson, would it be your department which lays down instructions in respect of program training costs? As I see it, it will be a problem to assess actually what is the program training cost.

Mr. HENDERSON: We would continue our discussions with the Department of Finance and treasury board staff, but we do not take action administratively in these matters. It is more a question of agreeing with them in respect of what they would propose to show. They probably would say: "This is how we propose to do it; have you any comments or suggestions to make?" Then, after informal discussions we probably would work that out together. We do that in respect of a number of things. But, the carrying out of it and the presentation of it is the responsibility of the Department of Finance and the treasury board staff, for the reasons I have given.

The CHAIRMAN: Are there any further questions in respect of this matter?

Mr. CARDIFF: Are these courses given to these men to improve them for the positions they now hold or are they to give them a better education to fit them for doing a different kind of job?

Mr. HENDERSON: It may be that they have their eye on a particular man and feel that if he were subjected to a particular course at a particular university he might groom himself to undertake some larger responsibility in a particular department or, in another department.

Mr. CARDIFF: And, is the employee paid his regular salary while off duty?

Mr. HENDERSON: He is paid an allowance in lieu of salary and given his expenses. In the case set out in paragraph 74 you will note that the tuition fees were $250, which the government paid, and they paid his travelling expenses. In this case he had a government car while he was doing it. This is the point I am criticizing in paragraph 74.

Mr. DAVIDSON: It is precisely because this employee while on leave is not being paid a salary but is being paid an allowance in lieu of salary that Mr. Henderson feels the costs should not be shown as part of salary costs.

Mr. CARDIFF: I now understand it. I just could not figure out how this worked. I thought perhaps he was on leave and drawing his salary while attending this course.

Mr. HENDERSON: He might have been in the department only a short time or he might be a long term employee.

Mr. SOUTHAM: I would like to refer to the third paragraph under paragraph 93, where it states:

> ...where the deputy head is of the opinion that an employee who has been granted such leave without pay warrants some assistance from public funds during training, submissions indicating the reasons why financial assistance is warranted and requesting payment of allowances in lieu of full or partial salary should be submitted to the treasury board.

In other words, the full responsibility of deciding who should qualify for these educational programs falls entirely on the deputy head. In your opinion, is there sufficient control on the expenditures of such money or do you feel that there should be some other way to tighten this up?

Mr. HENDERSON: I would ask Mr. Long to speak to this, as he is very familiar with the situation.

Mr. LONG: Mr. Southam, the deputy head grants leave without pay for them to attend a university or take a course. The cost is involved when treasury board authorizes payment of an allowance in lieu of salary which may be equal to the salary, half of it, or some other fraction of it, but treasury board does retain control of the costs.

Mr. SOUTHAM: In other words, the deputy head is the one fully responsible for making the recommendation to treasury board. But, my question is this. Is there any laxity or evidence of it, say, in consultations between the deputy head and treasury board?

Mr. HENDERSON: They discuss this together and the deputy head more or less is responsible for any recommendations for the expenditure, provided the treasury board will accept it.

Mr. DAVIDSON: That is right.

Mr. SOUTHAM: Mr. Henderson, are you satisfied with this procedure?

Mr. HENDERSON: Yes. I would not have any reason to criticize that. I think the deputy head should be thoroughly capable of deciding.

Mr. DAVIDSON: I wonder if Mr. Henderson would not agree with me that this is one of the types of cases where the Glassco commission is critical of the fact that so many of the individual decisions have to come to the central treasury board to be made by the board on behalf of the department; and that if one were to follow here the philosophy which underlines the recommendations of the Glassco commission one would alter this procedure and substitute for it a procedure by which the treasury board would have the responsibility for formulating a policy and use of guide lines, laying these down in a way that would make it possible for the departments to administer this policy without losing control of the program. I myself would venture the suggestion that it is toward that kind of an objective that we should be working rather than being content with a procedure by which every single application for leave throughout the entire public service has to go to the ministers on the treasury board to be decided.

The CHAIRMAN: May we move on now to paragraph 109, as follows:

> 109. *Cost of gasoline used in departmental motor vehicles at Ottawa.* As noted in last year's report (paragraph 83) the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from central supply points had been referred to the government motor vehicle committee for consideration.

As the result of a survey completed by the committee in January 1962, it was estimated that the annual cost of gasoline purchased for crown-owned vehicles in the Ottawa area amounted to $73,700, of which $33,276 was for gasoline obtained from commercially operated service stations. On this basis, it was estimated that the cost would have been reduced by $14,000 if all gallonage had been supplied by crown-operated facilities.

On September 28, 1962 we were informed that the study of this matter by the government motor vehicle committee was almost complete and that a presentation was to be made to the treasury board in the near future.

Mr. HENDERSON: This relates to the cost of gasoline used in departmental motor vehicles at Ottawa.

Members may recall that we also discussed this matter in the committee on June 16 last, when I explained to the committee how we had been informed on November 5, 1963 by the secretary of the treasury board that the government motor vehicle committee was studying another alternative for supplying crown-owned vehicles with gasoline requirements on a bulk basis which would produce a better price than that which is presently paid but would allow the provision of gasoline through service stations. Since then we have had no further information from the board but we have noted in the audit that a special discount of 3 cents per gallon, which had been allowed on purchases by the House of Commons, was discontinued by the oil company on August 19, of last year.

Mr. DAVIDSON: Well, I insist that our efforts to meet the suggestion of the Auditor General in respect of this paragraph cannot be directly tied up with the withdrawal of the special discount allowed to members of parliament! At least, I hope not! If that is the case, I think the Auditor General must share the blame with us for that unhappy result!

The Auditor General's 1962 report does state in paragraph 109:

> On September 28, 1962, we were informed that the study of this matter by the government motor vehicle committee was almost complete and that a presentation was to be made to the treasury board in the near future.

The CHAIRMAN: Did you have a comment, Mr. Gray, or were you reserving your place for questioning?

Mr. GRAY: Mr. Chairman, did I understand Mr. Davidson to say that at one time members of parliament were allowed a discount in respect of gasoline for their vehicles?

Mr. DAVIDSON: It was not I; I think it must have been Mr. Henderson.

Mr. HENDERSON: This would be by the House of Commons staff.

Mr. GRAY: Are you referring to the trucks that bring supplies to the house?

The CHAIRMAN: This does not refer to members of parliament. Perhaps I should say this before a wrong impression is created in the minds of the public.

Mr. GRAY: I just thought I should bring up that point.

Mr. DAVIDSON: Following through on that last sentence in paragraph 109 of the Auditor General's report for 1962, I would like to report that, in fact, as indicated in that sentence, a report was presented to treasury board in October, 1962. The matter was then considered by cabinet but cabinet decided not to alter the existing arrangements at that time, and they informed treasury board of that decision. The secretary of the treasury board at that point took the initiative, and asked the treasury board staff to investigate the possibility

of working out alternative arrangements which would produce economies in the government's annual gasoline bill, starting from the Ottawa area, which was the subject of the comment by the Auditor General in paragraph 109, but also extending to the larger area of the government's motor fuel requirements across Canada. Some progress has been made in that regard. A survey has been undertaken in which departments have been asked to supply a range of information relevant to the purposes of the inquiry. This information is now in the process of being assembled by the staff of the treasury board. It is hoped that when we get this information assembled in proper fashion we will be able then to go to the Department of Defence Production, which is, as members know, in the process of being converted into a central procurement agency for the government as a whole, and put to the Department of Defence Production with concurrence of the treasury board the proposal that the Department of Defence Production should explore the possibility of arranging for the government's gasoline requirements to be put out on tender on some pooled basis which will make it possible for us to realize over the entire area of the public service the kinds of economies through pooled purchasing which are referred to in paragraph 109 of the Auditor General's report.

That is the position in which we are at the present time, Mr. Chairman. We have, as I say, this information now in the process of being assembled, covering the larger picture. We intend, as soon as we are in a position to do so, to present a coherent picture to the ministers of the board, and, subject to their concurrence, we will then turn to the Department of Defence Production with the proposal that it should explore this possibility as part of its total responsibility in the procurement field.

Mr. GRAY: Dr. Davidson, I am wondering whether the figures you are assembling will take into account the extra cost of establishing crown-owned distribution points?

Mr. DAVIDSON: This system does not necessarily depend upon crown-owned distribution points, Mr. Gray.

Mr. GRAY: The reason I ask that question, doctor, is that I note in paragraph 109 of the report, at page 51, the following statement:

> On this basis, it was estimated that the cost would have been reduced by $14,000 if all gallonage had been supplied by crown-operated facilities.

This question should perhaps be directed to Mr. Henderson, but I am wondering whether the suggestion contemplates the setting up of new facilities, which would incur an additional cost to the government, or whether facilities are in existence at the present time to handle this type of supply?

Mr. HENDERSON: Mr. Gray, I think the suggestion was based on facilities in existence and I do not think it is contemplated to set up new distribution points. That is my recollection.

Mr. HALES: Mr. Chairman, I think we should proceed until we have completed the report by the treasury department so that we will be in a better position to review it.

The CHAIRMAN: Yes. This will be covered by Mr. Henderson's follow-up report next year.

If there are no further questions in respect of this item may we now deal with paragraph 110?

> 110. *Cost of advertising.* In 1961-62 the total cost of advertising passed by the advertising unit of the comptroller of the treasury's office, including agency and non-agency advertising was in excess of $5,000,000.
>
> Prior to 1954 there was an arrangement with the Canadian Daily Newspapers Association whereby government advertising enjoyed a

special rate, but this arrangement was allowed to lapse. During the course of the audit we noted that a publisher had drawn the attention of a government department to the advantage of entering into a contract for classified advertising, pointing out that there was a difference of twelve cents per line between the contract rate and the casual rate—from 34 cents to 46 cents. The minimum annual usage to qualify for the contract rate in this case would be 2,000 count lines whereas the department had used 2,624 lines of classified advertising in the previous two months.

We suggested to the Department of Finance on April 13, 1962 that the field of government advertising might usefully be reviewed in the interests of greater economy. The department replied on September 17, 1962 that the treasury board several months earlier (on May 23, 1962) had approved our suggestion in principle and that officers of the treasury board were currently looking into the matter.

Mr. HENDERSON: Paragraph 110, dealing with the cost of advertising, was likewise discussed on June 16 last by the members of this committee, and it was in response to Mr. Tardif's question on that date that I furnished particulars to the committee at the next meeting, on June 18, quoting the advertising rates of Ottawa newspapers. At that time I pointed out that the government does not at the present time receive any special rates from these Ottawa newspapers despite its large advertising volume.

As the note states, in my 1962 report, there had been an arrangement prior to 1954 whereby the government enjoyed such a rate, but the arrangement was allowed to lapse. It was as a result of noting how a publisher had drawn the attention of a government department to the advantage of entering into a contract for classified advertising—thereby saving money to the government to the extent shown—that I brought this matter to the attention of the Department of Finance on April 13, 1962, suggesting that the field of government advertising could at least be reviewed in the interests of achieving greater economy because the total cost of advertising was running in excess of $5 million annually. The department advised me on September 17, 1962 that the treasury board had approved our suggestion in principle and that officers of the treasury board were currently looking into the matter.

Next year, on May 28, 1963, the treasury board issued a circular letter directing that departments and agencies placing advertising in daily newspapers were to negotiate the purchase of advertising with certain newspapers in accordance with the current volume rate shown in a schedule attached to the circular. However, a month or so later, on July 22, 1963, the treasury board issued another circular in which the secretary stated that a number of difficulties had been encountered in negotiating the rates outlined in the schedule, some newspapers insisting that formal contracts covering the minimum amount required to qualify for the volume rates were prerequisite to the granting of the volume rates to any one department or agency. He said that consequently for the time being departments and agencies should merely endeavour to negotiate the best rate possible, keeping in mind the volume rates outlined in the schedule. He advised that the matter would remain under review.

The audit office has been keeping this matter under review because clearly some form of over-all contract covering all government departments could result in appreciable savings.

The CHAIRMAN: Dr. Davidson, would you like to make a comment in respect of this paragraph?

Mr. DAVIDSON: Yes. I should merely like to follow up Mr. Henderson's statement. I think the last date referred to by the Auditor General was July, 1963. My notes indicate that in September, 1963, the treasury board staff on the instructions of the board communicated to the Department of Defence

Production the objective of the board, which is to work toward a position where it will be possible to negotiate bulk rates for the advertising requirements of the government of Canada. As I have mentioned in connection with the previous paragraph, the Department of Defence Production is now in the process of being converted into a central procurement agency for the government as a whole, and it is considered, therefore, that this is the agency through which the government should endeavour to effect this bulk arrangement for the placement of government advertising.

In April, 1964, the deputy minister of defence production indicated that his department was prepared to take on this assignment and that he had set a target date of October 1, 1964 for the completion of negotiation with the newspapers for the purchase of advertising on a bulk rate. This will be done through the regional purchasing branch of the department of defence production.

In respect of this information the treasury board through the assistant secretary, replied to the deputy minister of defence production expressing the willingness of our staff to provide any further assistance necessary to the Department of Defence Production in order to enable it to complete its work on the target date to which reference has been made, and that is the position at the present time.

Mr. HARKNESS: Dr. Davidson, are you dealing there with classified advertising?

Mr. DAVIDSON: My understanding is that this consideration deals with all advertising.

Mr. HARKNESS: The Auditor General's report was particularly directed toward classified advertising.

Mr. HENDERSON: If I may just say a word or two in this regard, that was the case in point that we noted in the course of our work and which brought this to a head, Mr. Harkness, but we are now working toward achieving this objective in respect of the placement of all advertising.

Mr. HARKNESS: In this connection it is my understanding that newspaper advertising contracts have in the past and are still, as far as I know, being placed by advertising agencies; is that correct?

Mr. DAVIDSON: Are you referring to the situation in terms of advertising programs?

Mr. HARKNESS: Yes.

Mr. DAVIDSON: Yes. As I understand it, there is still the opportunity of pooling the government's space and lineage requirements whether it be in respect of classified or other advertising in such a way as to take advantage of lower rates. That is my understanding.

I must say, however, that our inquiries to date have indicated that the savings to be achieved through this pooling of the total requirements are not likely to be as great as we had expected them to be when we started the inquiry.

Mr. RYAN: My question dealt with the pooling of advertising, Mr. Chairman, and Mr. Davidson has made the situation clear.

Mr. CAMERON (*High Park*): Will the cost of setting up a special department in this respect offset any savings to be effected?

Mr. DAVIDSON: The decision to set up the Department of Defence Production as a common procurement agency for the government departments as a whole has in fact already been taken, but the addition of this function to that department's responsibility will, I suppose, add to some extent to the cost of operating that department.

Mr. CAMERON (*High Park*): Will there be a net savings?

Mr. DAVIDSON: The purpose of setting up the Department of Defence Production a common procurement agency is to make it possible for that one central agency—which has in the past been doing the procurement for the Defence Department and has in fact been procuring about $800 million to $900 million of the government total procurement requirement of $1.2 billion, —to do the complete job or the largest part of the job for the civilian departments as well, and thus make it possible to effect some reduction in the purchasing establishments of other government departments.

Mr. CAMERON (*High Park*): I notice civil service opportunities quite frequently in newspapers taking up one quarter to one half a page. Under the new system will the civil service say to the Department of Defence Production: "Here are the opportunities. Will you please arrange for publication in the necessary newspapers?"

Mr. DAVIDSON: As I understand the situation, Mr. Chairman, the placement of individual advertisements will not be the function of the Department of Defence Production, however, the Department of Defence Production will enter into arrangements with the newspapers which will make it possible for the total lineage requirements of the government to be accounted for as a common placement of advertisement by a single customer, so that as the bulk of the lineage increases the government will take advantage of lower rates.

Mr. CAMERON (*High Park*): Will the Department of Defence Production check the accounts for payment?

Mr. DAVIDSON: I will have to beg off in respect of that question because I am not familiar with the detail.

Mr. SOUTHAM: I should like to make a comment, Mr. Chairman.

I think on the basis of what is set forth here under paragraph 110 Mr. Henderson should be commended. Paragraph 110 states:

> Prior to 1954 there was an arrangement with the Canadian Daily Newspapers Association whereby government advertising enjoyed a special rate, but this arrangement was allowed to lapse.

The paragraph then gives a specific illustration of the savings, and I think if this was found adaptable, practical and economical in 1954, it stands to reason it would be much more so today because, in view of the increase in Canadian government advertising, the government has become one of the biggest customers and as such should enjoy the more advantageous rates. I am pleased that Mr. Henderson has brought this situation to our attention, and I feel a savings can be effected to some extent by following this procedure.

Mr. HALES: Following along Mr. Cameron's line of thought, I do not think there will be much of a savings effected as a result of a central purchasing department if another empire is going to be created in that department to perform this function. I just cannot understand how this is going to operate unless they take the civil service commission, as he mentioned. They will continue to do the advertising but defence production will simply set the rate that will be paid for that advertising. If they do that, then they will have to check the invoices to make sure the proper rate is charged. This is all confused in my mind.

Mr. DAVIDSON: May I explain, Mr. Chairman, what is my understanding of this arrangement now and what it is designed to be in the future?

Let us say that the daily newspaper association has an arrangement by which a single customer who places 50,000 lines of advertising pays a certain rate for the first 50,000 lines and gets the benefit of a lower rate for the second 50,000 lines and the benefit of a still lower rate for the third 50,000

lines. In that context, the government at the present time has been considered to be 20 or 30 separate single customers, each one of which has been paying rate number one for the first 50,000 lines it has placed, rate number two for the second 50,000 lines it has placed and rate number three for the third 50,000 lines it has placed.

The proposition is that a master contract will be entered into and the government will be considered to be one customer rather than 20 or 30 customers. One can immediately see that the effect of pooling the lines of advertising placed by the separate departments will be that only one group of 50,000 lines for the government as a whole will be charged at the highest rate, and it will enable the government to obtain the benefit of the lower rates for subsequent advertising.

This is my understanding in a rough and simple way of the way in which this operates at the present time and the way in which the pooling arrangement is designed to produce some economies. This does not involve any great amount of elaborate administration on the part of any one department that would require a large organization to be set up to handle it. It merely means that all the government's line requirements are to be credited to one single account rather than to a series of separate accounts as at the present time.

I would like to check with Mr. Henderson whether that roughly corresponds to his understanding of the issue here.

Mr. HENDERSON: Yes, it does correspond. It has been very heartening to know the steps you now have under way to follow this thing through. I suggest we might allow the matter to stand on the basis that I will follow this up with Dr. Davidson and his colleagues on the treasury board, bearing your comments in mind. He certainly has brought all the consideration possible to it in so far as what savings can be brought about. We have to do our sums, of course, and see what savings will be effected. I hope it will go into effect and realize some savings; and that is the purpose of the exercise.

The CHAIRMAN: What is the feeling of the committee with regard to sitting this evening? We have made excellent progress this morning but we have to adjourn in about five minutes' time because of the caucus. Can we be assured of a quorum this evening? Is it agreeable to the members that we should sit this evening?

Agreed.

Then we have another five minutes this morning.

Mr. HENDERSON: We might, therefore, pass over paragraph 9, which is the form and content of the estimates, and paragraph 11 which has to do with my comments on the work I am doing in connection with the findings of the royal commission on government organization, a matter with which we might deal tonight.

May we pass now to paragraph 45, which deals with the Governor General's special warrants.

We discussed this comment at the committee's 9th meeting on June 25; the minutes of proceedings are not yet available. The comments of the members on that occasion supported the point of view I had advanced, namely that it would be an advantage were a detailed study made of the financial problems which result when parliament has been unable to make provision for the carrying on of governmental services between sessions. Pending the making of this study and, of course, any possible amendments to the financial Administration Act which would have to be made, my officers and I formed the impression from last Thursday's discussion that parliament expects that the precise wording of section 28 (1) of the Financial Administration Act should be interpreted strictly, that no commitments should be entered into during such a period for which parliament has made no provision, nor should

the section be interpreted as providing a continuing spending authority to the executive for the financing of general government services during such period.

We left the matter open on the basis that we would resume this discussion today when we had the benefit of Dr. Davidson's advice.

Mr. WINCH: I presume Dr. Davidson understands the key points in the minds of the committee members on this matter of Governor General's warrants. We all understand they can only be used when the house is not sitting, but I believe I am correct in saying that the question in the minds of all of us is whether or not the Governor General's warrants can be used for something new, something outside the general procedure, outside the public business.

The CHAIRMAN: We might have Dr. Davidson's comments on that.

Mr. DAVIDSON: I am going to be brash enough to say that I have never had any experience with Governor General's warrants and I hope I never do, but that is not a decision that I will be making in my present capacity as secretary of the treasury board. I have not had the benefit of reading the discussion which took place here on Thursday because I do not think the proceedings of that meeting of the public accounts committee have been printed yet.

Mr. HENDERSON: That is correct.

Mr. DAVIDSON: I am a little bothered, I must say, by what Mr. Winch has just said. As I read section 28, subsection (1), there seems to me to be little doubt about the fact that the authority for the use of special warrants as set out in section 28 (1) of the Financial Administration Act is at best an imperfect instrument for meeting the contingency created by the abrupt dissolution, for example, of parliament on February 6, 1963, with supply not voted. I would be inclined to agree with what I understand to be the position of the Auditor General as set out in paragraph 45 where he indicates that in his view section 28 (1) seems to be designed primarily for meeting another kind of contingency. Section 28 (1) seems to contemplate a relatively tranquil state of affairs when parliament is dissolved after supply for the year has been voted, but some emergencies arise following dissolution and no specific appropriations exist to meet these contingencies in the supply that has been voted for the year and is otherwise sufficient for normal government operations. In such a situation the wording of section 28 (1) of the Financial Administration Act applies and seems adequate, but for the situation in which parliament is dissolved with supply not voted, section 28 (1) is less than adequate. Nonetheless, when parliament was dissolved on February 6, 1963, there was really no alternative but to make use of section 28 (1). Dissolution took place on February 6; no funds had been voted to meet expenses for the month of February.

Section 28 (1) seems to me, Mr. Winch, to be designed to meet the very point about which you express concern. It seems to me to be designed to meet primarily a situation in which parliament dissolves with normal supply voted and with the departments of government able to carry on in the ordinary way, but in which some unforeseen contingency arises when a sum of money that is not in the voted estimates is urgently required for the public good. What "urgently required for the public good" really means is a matter of judgment, and we can have many arguments as to whose opinion should prevail. However, section 28 (1), it seems to me, is designed specifically to make it possible for the executive authority to use the Governor General's special warrants to obtain the money for that specific purpose.

Mr. WINCH: May I suggest that between now and eight o'clock Mr. Davidson may have access to the minutes of the proceedings of our last meeting so that he may understand the confusion in our minds, and also may

I suggest Mr. Davidson look at example number five on page 18 in which we see that $114,950 is asked for when, according to our information from the Auditor General, they had available $49,926 which could be used for any purpose whatever. They did not use that for part of the requirement; they asked for the whole business. It is that kind of matter upon which we would like to have an understanding.

The CHAIRMAN: I will see that Mr. Davidson has a chance to see the proceedings of the last meeting. The meeting is now adjourned until eight o'clock.

EVENING SESSION

TUESDAY, June 30, 1964.

The CHAIRMAN: Thank you, gentlemen, for being so prompt. I see a quorum. We shall resume where we left off, save that Mr. Henderson has a brief comment he wishes to make in respect of some information required. So before Dr. Davidson resumes, I shall call upon Mr. Henderson.

The CHAIRMAN: Thank you, gentlemen, for being so prompt. I see a quorum.

Mr. HENDERSON: Mr. Chairman, there remained one more item or breakdown of information which you asked that I undertake to furnish. You may recall that it had to do with other non-tax revenues which we were discussing under paragraph 43. In particular you asked for a breakdown of miscellaneous other non-tax revenues, a figure of $16,982,000, as shown in the table on page 16. I would like to furnish the details of this breakdown in accordance with the request, for printing in your minutes of proceedings.

The CHAIRMAN: Thank you. Is it agreed that this breakdown be printed as an appendix?

Agreed.

(See appendix two.)

We were dealing with paragraph 45 in the 1963 Auditor General's report, and Dr. Davidson was making some comments at the time of our adjournment. I now ask Dr. Davidson to continue prior to the questions being asked.

Mr. DAVIDSON: Mr. Chairman, I had made a brief comment at the end of the meeting this morning with reference to a question put to me by Mr. Winch. The gist of what I had to say was that it seemed to me that section 28, subsection (1) of the Financial Administration Act, as written, is better designed to deal with a situation in which there is a completely unforeseen expenditure which has to be made, and for which there is no covering appropriation than it is designed to deal with a situation such as was encountered last February when parliament was dissolved without a vote of supply. In consequence, section 28, subsection (1) was used for a purpose which, in the ordinary reading of the section, would not seem to be the primary purpose for which it was written. And now, may I read from the section. It reads as follows:

> 28. (1) Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the Governor in Council, upon the report of the Minister that there is no appropriation for the payment and the report of the appropriate Minister that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the Consolidated Revenue Fund.

No reference is made in this text to a distinction between payment with respect to an item that is in the printed or supplementary estimates before parliament at the time of dissolution, and an item which is not in the printed estimates. I take it that the Auditor General, in the paragraphs which he has written following the section which I have quoted, takes much the same view of the primary meaning of this section and its primary purpose as I have just indicated.

Now, Mr. Winch also asked me to read the evidence of the proceedings of this committee of last Thursday in order to get a better background of the problems that were concerning members of the committee; and he asked me, in the light of this, to turn my attention to illustration No. 5 which is shown in the list, reported by the Auditor General on page 18 of his report, of items which, in his view, could not be regarded as being payments urgently required for the public good, within the purview of section 28, subsection (1) of the Financial Administration Act.

I have looked at item 5, which is the item referring to the National Gallery of Canada, where there were two special warrants totalling $114,950 provided to take care of administrative expenses of the National Gallery of Canada without taking into consideration $49,926 which were available for this purpose in the gallery's special operating account. As I understand it, the question that was put to me was: Did I not think that the amount provided by special warrant should have been limited to the difference between these two amounts, and should the national gallery not have been required in effect to use up, to exhaust the surplus that was available in their special operating account before they drew upon the special warrants?

If I were completely clear in my mind as to the purpose of the special operating account of the national gallery, I could answer that question.

Mr. WINCH: Might we have it read again?

Mr. DAVIDSON: I think I have it before me. I have no doubt what the words are, but I have some doubt about what the words mean. Section 8 of the National Gallery Act reads as follows:

> 8. (2) There shall be a special account in the Consolidated Revenue Fund called the National Gallery special operating account to which shall be credited all money received by the Board by way of donation, bequest, revenue or otherwise.
>
> (3) Any expenditures for the purposes of this Act may be paid out of the National Gallery special operating account or out of money appropriated by Parliament for such purposes.

On the face of it, this means that when anyone gives a donation or makes a bequest to the national gallery, the moneys go into the special operating account, and those moneys may be used to meet the operating expenses of the national gallery in any year to reduce thereby the demands upon parliament. There is no doubt about it that that is what those words, taken literally, mean. But those words taken literally also mean that an expenditure for the purposes of this act, whether it be for operating purposes or whether it be for capital purposes—whether it be for the ordinary day to day expenditures, or whether it be for the purchase of works of art—may be paid out of the special operating account. In fact, over the years, since it seemed that a special operating account based upon such principles of input and output did not seem to have much purpose, some ground rules and restrictions have been placed upon the use of the operating account.

In practice, one of the restrictions that has been placed on the operating account, I believe, is that any money paid into the account by way of a donation is set aside in a sort of special trust subaccount and is treated rather

separately, the implication being that it would not be right to take a donation or a bequest and simply use it for the ordinary operating expenses of the fund, since in most instances at least the donor would have some more significant intention in mind in making a contribution to the national gallery in this way.

In like manner certain restrictions have been in practice placed upon the use to which the fund may be put. For example, there has been an exchange of correspondence between my office and that of the Auditor General in which it has been made clear that at different times the national gallery has been told that they should not use the money in this special operating account for the purchase of works of art. Now, there is nothing in law which prevents them from doing that, but by direction they have been told that they should not use it for that purpose, and there have been other occasions when the national gallery has in fact been asked to proceed on the basis of policy that this money was not to be simply regarded as an additional amount of money for its ordinary operating expenses, because this would in fact be a back door method by which the national gallery could get more money to spend for administrative purposes than parliament intended it to get through the appropriations it made for this purpose from year to year.

I cannot, I must say, criticize the national gallery authorities too much at this stage for not knowing what the special operating account is really designed for. If I were asked today to give the committee a clear statement as to the clear intent and purpose of parliament when it set up this special operating fund, I could not say that in my opinion it was clearly intended to be used for the purchase of works of art, because there is another special account for this very purpose. Equally I could not say that in my opinion parliament intended this special operating account to be set up merely as a supplement to money that parliament votes from year to year for ordinary operating expenses of the gallery. Had that been the case, I do not believe that parliament would have provided that contributions from individual donors or bequests would be put into this account, nor do I believe that parliament would have considered it an appropriate way to exercise control of the administrative expenses of the gallery to have made it possible to supplement the operating expenses that parliament provides in the year to year vote, through a reserve account of this kind that is made up in part from the sale of catalogues, reproductions, fees for exhibitions and other services, donations for specific purposes, and miscellaneous revenues. I must therefore conclude that there is a very grey area so far as the proper decision in respect to this item is concerned. I think it is a matter of opinion whether or not this was an item that was properly included in a special warrant in the amount in which it was included. The one thing I am satisfied with as a result of my examination is that we certainly need to clarify the position with respect to this special operating account so there will be no doubt in anyone's mind in the future whether the purpose of this special account will be for works of art or for operating expenses or for any other purpose.

I think that is all I would have to say by way of a preliminary statement on this matter.

The CHAIRMAN: Thank you. Are there any comments?

Mr. MUIR (*Lisgar*): I think Dr. Davidson has given us very logical reasons for this vote, but I am wondering for what purpose the gallery uses this special account.

Mr. DAVIDSON: I have here, Mr. Muir, a statement which shows from year to year the purposes for which use. The receipts have been derived from the sources which I have mentioned to you—from the sale of catalogues and reproductions, from fees in connection with exhibitions and other services, from donations made from time to time from outside groups for specific

purposes, and from miscellaneous revenues. The disbursements have been from time to time for works of art, for operating expenses, for supplementing appropriations, for payments from trust funds or donations. These latter items are the payments made from that portion of the special operating account which is recognized as a trust fund for the receipt of earmarked donations. These then are the different kinds of payments which have been made under those heads in the past.

It is quite clear from this list of disbursements that the special operating account has been used for both purposes; it has been used at times for purchase of works of art and it has been used at times for operating expenses. There is nothing to say, as far as the law is concerned, that it cannot be used for either or both of those purposes, I would venture myself to say—and this is a matter of opinion and a matter of judgment—that it would have been unusual, to say the least, to have had recourse to the use of the entire balance remaining in this fund to meet the situation created by the dissolution of parliament. I say this, in view of the fact that this special account has been established by parliament to carry funds forward from year to year, presumably, for some purpose, and also in view of the fact that, had this fund been drained to meet the situation that presented itself at the end of March, 1963, there was in fact no way by which it could have been replenished in order to enable the gallery to carry on, using the resources of this fund, in any way in future years.

I admit this is a pretty grey area. It is quite clear that if the purposes and intents for which this fund had been created had been such as to prevent the money in it from being used for operating expenses of any kind, then clearly the sum of $114,000 would have been the proper sum to have included in the special warrant. It is equally clear that, if this special operating account had been very clearly intended to supplement the ordinary administrative expenses provided by parliament, the position would have been the reverse, that the provision by special warrant of $114,000 would have been in excess of the sum that should have been provided.

I submit, Mr. Chairman, that the uses to which this fund has been put over the years have created just enough doubt about the purposes for which this fund is really intended to justify the conclusion that it is not clear that the essential purposes of this fund are that it should be used to supplement the administrative expenses that parliament appropriates in its annual appropriations from year to year.

Mr. MUIR (*Lisgar*): Yet it would have been quite in order to use some of this sum provided the $114,000 had not been adequate if they were doing it in the way in which it had been done in the past.

Mr. DAVIDSON: On the record of the past, Mr. Muir, it is quite fair to suggest that some portion of this fund should have been recognized as being available for operating expenses in an emergent situation such as presented itself to parliament. It is equally clear to me that so far as the law is concerned it would have also been fair for the gallery authorities to take the position that some portion of this fund should properly be reserved for purchases of works of art. The law says any expenditure for the purposes of this act may be paid out of the national gallery special operating account or out of the money appropriated by parliament for this purpose.

Mr. MUIR (*Lisgar*): Have you any idea of the amount in this fund?

Mr. DAVIDSON: The record of the past five years, which will perhaps give you some guide, indicates that the total receipts in any one year—and this does not include the balances carried forward from one year to another—

have run from $33,000 to $27,000, $59,000, $29,000 and $26,000. Expenditures have run from $35,000 to $10,000 in 1959-60, $13,000 odd in 1960-61, $52,000 in 1961-62 and $26,000 in 1963. The balances carried over amounted to $13,000 in 1958-59, $31,000 in 1959-60, $77,000 in 1960-61, the high figure, and $54,000 in each of the past two years.

I might add one comment of interest to the committee: the particular matter which concerned the staff of the treasury board about the use of this fund arose from the fact that in accordance with provisions of the act, moneys derived from the sales of catalogues and reproductions and other printed material of this kind were being deposited into the special operating account. This meant that moneys appropriated by parliament were being used to print the catalogues and other articles that were for sale, and the revenues derived from these products which were printed at the expense of parliamentary funds were being deposited in this special operating account, thus giving parliament, to that extent, correspondingly less control over the total funds it would wish to make available for the operating requirements of the national gallery.

We took up this matter with the national gallery authorities in 1960-61 and told them that we did not think from that point on the revenues derived from the general sale and distribution to the public of catalogues and reproductions should be deposited into this fund. From 1961-62 those funds have gone to the Queen's printer who has been the responsible agent. The result has been a very sharp diminution in the revenue accruing to the gallery from this particular source of revenue in 1961-62. This is shown by the fact that prior to 1961-62 the revenue from sales and catalogues was $21,000; it was $17,000 in 1959-60, and almost $50,000 in 1960-61. At that point we became interested, and in 1961-62 the revenues going into the special account from this source dropped off to $8,000 and, in 1962-63, to $2,600.

Mr. CARDIFF: The reason there is so much difference in the revenue each year would be the lack of, shall we say, donations in those particular years.

Mr. DAVIDSON: The principal reason is the reason I mentioned; that is, as of a given year the money derived from the sales of reproductions and catalogues in the national gallery was returned to the Queen's printer rather than put into the special operating account.

Mr. HENDERSON: May I interject to point out that the misgivings Dr. Davidson mentioned about parliamentary control are something I drew attention to both in my 1962 report, where I deal with the national gallery, and in this 1963 report on page 139. In the last paragraph I pointed out how parliamentary control may be weakened by the supplementing of specific appropriations for purchases of works of art by expenditures from the national gallery special operating account. In a sense, this is a separate matter from the questions I am raising under paragraph 45 in respect of the Governor General's special warrants.

It is a fact, as Dr. Davidson says, that parliamentary control does stand to be weakened, but I may hasten to add that I certify the financial statements of the national gallery separately just like those of any crown corporation or agency each year and the full particulars of the income and outgo of this special operating account are set out as a part of the financial statements thereby providing complete disclosure of its operations. That may commend itself to you as providing the necessary detail to satisfy you. Dr. Davidson is perfectly correct in terms of the fact that they are able to spend this money themselves. I thought I should mention that, because as I have said, it is covered in paragraph 76 later in this report.

Mr. WINCH: Mr. Chairman, I think Dr. Davidson has explained this just about as fully as it can be explained, particularly when he points out there

is a grey area which will have to be studied. It is this grey area which brings me to what I think is the meat of the entire situation in respect of the Governor General's warrants. I believe it is the responsibility of this committee to ask Dr. Davidson as the secretary of the treasury board what certain studies are going to be made, or whether he can give us any indication now with regard to his views. I realize that Dr. Davidson has been only a month and a half in this position; however, I have known him for about a quarter of a century—

Mr. DAVIDSON: Do not put it that way.

Mr. WINCH: —and he has been known in provincial and federal governments for his ability as a trouble shooter and cleaner upper. I would imagine that is why he is in his present position. Could Dr. Davidson give us his comment or any information with relation to any special studies which can be made so that this committee will not have to be as much concerned as we have in the past, and are now, by such statements as we see at the bottom of page 18:

> —"urgently required for the public good" when the cheque was held by the department, and, indeed, it would have been irregular in the circumstances even if parliamentary appropriations had been available.

I am not asking you for any statement on item 7 in paragraph 45, but I am referring to the emphasis placed by the Auditor General in respect of the operation of the Governor General's warrants and the fact that he comes out not only with a number of cases and points out there is not the authority or it is wrongly done, and not only was it irregular and not for the public good or urgently required, but would have been irregular under any circumstances. When the Auditor General puts that in a report to the House of Commons, we would like to ask you whether you can express any opinion on this whole matter of the Governor General's warrants.

Mr. DAVIDSON: It is a little easier to express an opinion when you have been six weeks in a job, that it is when you have been six years in a job. So far as I am concerned, without getting into the argument about these detailed illustrations—some of which quite frankly I must say I would have to argue about—I am sure that in any year when special warrants are resorted to there always will be situations of this kind arise in which questions of judgment are involved. It is inevitable that the Auditor General in his capacity will have a different view in some individual instances of what is an item "urgently required for the public good" than the authorities who are responsible for the administration and decision at the time the decision is being made.

Having that in mind, and also having in mind the point which Mr. Henderson and I both referred to earlier—that is the relative inadequacy of section 28 (1) to meet the kind of situation which was encountered in February, 1963, as well as that encountered in February, 1958—I certainly cannot help but agree with the concluding paragraph of the Auditor General here that this problem should be examined in depth.

We will endeavour to see whether we can devise a provision to be considered by the government and by parliament which will authorize a regime for the use of special warrants which will be applicable to the kind of situation we now have encountered twice in the past ten years. From that point on, if we succeed in devising such a legislative provision, it will be for the government, and ultimately for parliament to decide whether or not it will approve of the inclusion of such a formula in the legislation.

I am sure the members of the committee will understand that from my point of view, if I have any responsibility for preparing such a legislative amendment, it will be my duty to present this to the ministers on the treasury board, and it will be for them and for the members of the government to take the decision

with regard to whether or not they are going to recommend such a provision to parliament as a whole. Certainly, there are unresolved problems in this area which require study. On the basis of my brief acquaintance with the situation, I am satisfied that improvements could be made in the legislative provisions for the use of special warrants.

I see no reason why there should be any reluctance on anybody's part to undertake this examination to see what proposals can be developed. I would add, again, the caveat that in any proposal which I have the responsibility of developing, it will be my duty to report to the responsible ministers, and I am not at all clear that it will be possible for me to appear before a committee of this kind, and indicate to the members of the committee the nature of the confidential advice I have given the ministers of the crown to whom I am responsible. I hope the members of the committee will understand my reason for adding that caveat.

Mr. WINCH: The committee desires, shall we say, that the ministers on the treasury board keep in mind that special warrants, no matter what procedures are devised, have to be of such a nature that the ultimate authority of parliament in respect of the expenditure of funds is protected and, if I can put it this way, money under any system of Governor General's warrants must not be spent unless absolutely necessary, because that means they are getting the authority of parliament after the expenditure is made which is not the purpose of parliament.

Mr. HENDERSON: I should like to point out to the members that in a situation of this kind, there are a number of dangers which are inherent. One of the first points to which I directed my attention in respect of what was likely to happen was the instruction which issued by the treasury board staff. On page 17 in the top paragraph I say what the instruction were. You will notice that one of these instructions by the treasury board staff to the departments was that the departments were to make: "an internal review in order to estimate the amount that would lapse in each vote and take such amount into consideration."

We were approaching the end of the fiscal year, and that instruction could, as I read it, be taken several ways. Perhaps being an auditor I might be excused for taking this to mean that this might be considered an invitation to the department to see what they could spend the money on before the balance of the money lapsed, which is something we endeavour to watch very carefully as fiscal years come to a close in order to see that purchases and so forth are not suddenly accelerated in the closing months and weeks because a department has money left over.

In 1961 this point was the subject of quite a bit of discussion in this committee. I was asked what steps I took and how I watched money that was apt to lapse in the votes. I was asked whether there was a great flurry of purchasing during the closing months of fiscal years or not. I think perhaps some of you will recall that discussion. This perhaps might serve to explain the very point that you mentioned when under Item 7 we were dealing with the cheque for $6,000 issued on April 30, which is the last day of the 30 days following the close of the fiscal year. I refer to the cheque for $6,000 which was issued to the corporation of the town of Sioux Lookout on April 30 and which was held until June 5.

I would hope that different wording could perhaps be used in issuing instructions to departments because it did seem to me a little bit like an invitation for departments to look over the situation to find things they perhaps might include.

I should like to ask Dr. Davidson if he has any comment in this regard, and whether he would agree with what I have said.

Mr. DAVIDSON: Before I comment, Mr. Chairman, I should like to ask Mr. Henderson a question. Do I understand from you that the words you have

referred to in this paragraph are words that were taken verbatim from instructions that the treasury board sent out to the departments?

Mr. HENDERSON: Yes, that is correct. These are not in quotation marks but they paraphrase the words that were employed in the instructions that went out from the treasury board to the various departments.

Mr. DAVIDSON: I do not have the words of that instruction before me.

Mr. HENDERSON: My point is, if I may say this, that this is dangerous wording to use in respect of expenditures and particularly in the last month or so of the fiscal year.

Mr. DAVIDSON: As I say, Mr. Chairman, I do not have the wording of the letter of instruction before me. If these words are in that letter of instruction I must agree that they are not the words I would use. However, I should like to add that I do not believe for one moment, and really cannot believe that Mr. Henderson believes for one moment, that the purpose of the use of these words by the responsible members of the staff of the treasury board was to say in veiled language to the departments to whom this letter of instruction was directed that they should estimate the amount of money that would lapse in each of their votes and then hurry up and spend as much of that as they could before the end of the year.

It seems quite clear to me that any reasonable interpretation of the purpose and intent of these words would indicate that they were used to issue a warning to the departments concerned that they should be careful to deduct from any amount that they were going to ask be supplied to them by way of a special warrant any amounts that they did not need because these amounts were going to lapse through the lack of requirement for these votes to be provided before the end of the fiscal year. I must say, quite frankly, to put any other interpretation on these words seems to me to strain beyond reason the reasonable interpretation which any reasonable man would place upon those words. I say again, I can hardly believe that Mr. Henderson is seriously suggesting that these words were intended to convey some instruction to the departmental officers concerned to inflate their requirement to the maximum in order to avoid any vote lapse.

Mr. HENDERSON: I am not suggesting that I believe the letter contained precise instruction of that kind. If I were departmental management and told by the treasury board to estimate the amount that would lapse in each vote and to take such amount into consideration, it would not seem unreasonable to me that, whereas the treasury board might put one interpretation on that instruction I, being in charge of the operation of my department, might conceivably be tempted to place the opposite interpretation on those words.

Mr. FRANCIS: Mr. Chairman, is there more than one possible interpretation, that this is an invitation to do what can be done by way of transfer from one item to another?

Mr. HENDERSON: We naturally go to particular pains at the close of each fiscal year to look over the spending patterns, of the departments as best we can, in order to satisfy ourselves that there is in fact no accelerated disbursement. This is not an easy job and it involves the question of looking into the operation of a department in some considerable detail. In most cases we raise these matters with the departments and discuss cases where we think an explanation is required.

Mr. FORBES: How would this account have been handled had the government not been defeated on February 5? Would this have been done by supplementary estimate?

Mr. HENDERSON: Most of the items in these warrants, Mr. Forbes were the subject of supplementary estimates, some of which had been laid on the table

and others which had been prepared but not laid on the table. Presumably the normal process would have been continued and supplementary estimates would have been passed and there would, of course, not have been any Governor General's warrants.

Mr. FORBES: There is no question about the validity of the account but rather a question in respect of Governor General's warrants for the expenditures?

Mr. HENDERSON: As soon as the Governor General's warrant procedure comes into effect the responsibility rests exclusively on the executive to decide what expenses are urgently required in the public good when parliament is not in session and there is no other appropriation pursuant to which payment may be made. Each minister certifies in respect of his department what in his opinion is urgently required in the public good, and these certifications, to which lists are attached, are sent to the treasury board which, as I think I mentionned last week, goes over these things with a fine tooth comb to satisfy itself that they were due for proper inclusion. I know a great many are questioned. I may say to Dr. Davidson that my officers and I did discuss this situation, and had a very useful discussion, about it with Mr. Bryce and Mr. Balls at the time this note was drafted and before it was included in my report. It was our combined view at that time that there was merit in the suggestion contained in the note. We recognized that this was a difficult area, or, as Dr. Davidson referred to it, a grey area and it might make sense to undertake a detailed study along these lines.

The CHAIRMAN: Dr. Davidson, perhaps I may be allowed to ask a question. Would I be right in suggesting that section 28 (1) of the Financial Administration Act was passed in contemplation of a situation arising following prorogation or a dissolution, when the normal situation would prevail and estimates would have been passed making provision for future proper expenditures, and that having been done, before a new parliament appeared on the scene an additional force was required to be sent to Cyprus, for example, or if a flood occurred requiring emergency relief, such a situation would fall squarely within the wording "Urgently required for the public good"? So far as the normal expenditures of the government are concerned, there is sometimes an increasing doubt whether these special requirements do fall within the words "Urgently required for the public good".

The executive, faced with having to find the money to pay for the services, I suppose takes the view, rightly, or wrongly, under the interpretation of this section, that they have to pay wages and make contract obligations good and then in their thinking it is urgently required for the public good. But, if we have a situation where there is dissolution, sometimes unexpectedly, it might be advisable to consider some variation or some addition to this particular section to cover such a situation so, if there are warrants to be provided, there need be no doubt about their validity. In this way we would not have the doubt which does exist from time to time.

Mr. DAVIDSON: I share that view completely. And, when one looks at section 28 (1) against the background of the circumstances of February, 1963, and February, 1958, one really wonders how it was that parliament did not make a more explicit provision for this kind of situation. But, as Mr. Henderson explained in his testimony on Thursday, I think it was, this section replaced an earlier section in which special warrants authority existed for the purpose of putting back roofs on government buildings that had been blown off and a few other contingencies of that kind. I do not think anyone, not even the Auditor General, would argue that these expenditures were not urgently required for the public good.

The CHAIRMAN: The words used were "when parliament is not in session". What would be the situation if the House of Commons recessed by an order for a period of three months and some emergency arises. Is parliament then in session for the purpose of this very section?

Mr. DAVIDSON: Mr. Allen tells me there is an interpretation, which I have read but which I cannot put my finger on at the moment, to the effect that any parliamentary adjournment, where parliament is rising for a period longer than two weeks, is regarded as an occasion where the use of special warrants would be legally justified or in order.

Mr. HALES: Just before we leave this section and to level off the subject, I would like to ask Dr. Davidson what plans has treasury board to take care of or to look into this accelerated spending toward the end of the government year. It is only human nature that if an estimate for a department is in the vote that that department is going to spend that money when it may or may not be necessary to spend it. Have you any comments in this connection?

Mr. DAVIDSON: I have never been through the end of a fiscal year yet in my present position. I would have to say quite frankly in the six weeks that I have been with treasury board that problem has not arisen.

Mr. Allen, who is here with me from the treasury board staff might wish to make a comment in this connection. Mr. Allen has vastly more experience than I have in this regard.

Mr. J. C. ALLEN (*Director, Estimates and Administrative Procedures Division, Treasury Board*): Mr. Chairman, I suppose our view is not diametrically opposed to that of the Auditor General in this regard, but it is bound to be different inasmuch as the Glassco commission has said at the moment most of the programs of most departments come under the scrutiny of treasury board throughout the year in the form of contract clearances and many other detailed clearances along the way, so that one of the ways in which we think this is controlled is through the submissions by departments to the treasury board weekly meetings in respect of proposals for contracts and that sort of thing, and were there to be a flood of these at year end due primarly to the availability of money rather than due to a reasonable need for these purchases, construction projects, or whatever it may be, this would be very obvious to the ministers on the board. I suppose I could venture the guess that those ministers would be more interested in the merits of the case than the desire to spend the money.

The only other thing I might add, Mr. Chairman, is that it is our impression, and I hope it will be Dr. Davidson's a year from now, that clearances by the treasury board, with the advice of this staff, of the main estimates and the supplementary estimates, we think, limits the provision made in the estimates to a reasonable amount that will be required to be spent for the year.

The CHAIRMAN: Thank you, Mr. Allen.

Have you a question, Mr. Forbes?

Mr. FORBES: I have one further question. What becomes of the money that is voted to a certain department for an expenditure within a calendar year and half of it is left; does that revert to the consolidated revenue fund?

Mr. DAVIDSON: It never gets out of that fund. The voting of funds by parliament merely means that parliament is saying to the executive authority that this money is available to be taken out of the consolidated revenue fund on an as and when needed basis for the purpose parliament has voted it; but if the expenditure is not incurred then the vote authority lapses at the end of the year and the funds which have never taken out of the consolidated revenue fund to meet an expenditure which never has been incurred remain where they are.

Mr. MUIR (*Lisgar*): I would like to put a supplementary question to Mr. Henderson in clarification of example 7. I was wondering if he was suggesting the $6,000 cheque was drawn against a surplus appropriation for that fiscal year so it would not show as a reduction of the appropriation for the next year. Is that what you were suggesting?

Mr. HENDERSON: Yes. Amounts that relate to the period April 1 to March 31 may be paid during the 30 day period following March 31. In effect, at March 31, 1963, the books could be kept open for the 30 day period provided for in the Financial Administration Act, so the last day would be April 30 in order to get it into the year ended March 31. This is to allow for a normal time lag in respect of bills and that sort of thing. But, one day later would place it in the 1963-64 year.

Would you like to comment on this, Mr. Long?

Mr. LONG: The point here is that this amount was not payable until the agreement with the town had been executed; that did not happen until June 5 and, therefore, the amount should not have been payable before the end of April.

Mr. MUIR (*Lisgar*): In other words, that $6,000 should have been shown as a surplus that lapsed?

Mr. LONG: Yes.

Mr. MUIR (*Lisgar*): And it should have been taken out of the appropriation for the next fiscal year?

Mr. DAVIDSON: I fully agree with that. But, the only thing that needs to be added, and this is added by the department itself by way of extenuation, is that the months for which this $6,000 was due were the months January, February, March and, I think, either December 1962 or April, 1963, so at the time the cheque was requisitioned, namely on April 30, the money actually was due to the municipality of Sioux Lookout at that time but for the fact that the agreement had not formally been entered into.

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

Mr. HALES: Perhaps we should leave my question until later on. It has to do with acceleration of expenses, and I am not quite satisfied with the steps we are taking to overcome this. Looking at page 146 of the 1962 Auditor General's report I notice that the unexpended balance that lapsed that year was $247,437,015.

I take it that those departments all over-estimated that amount of money.

The CHAIRMAN: We could get an answer to this but we will have ample opportunity to deal with this in full when we reach a similar item in the 1963 report. While we have Dr. Davidson here we still have four items which were specifically directed to our attention. We have had a very useful discussion on item 45. Having in mind that $650 million was involved indirectly, I think we can say it has been a fruitful and useful discussion.

Mr. CARDIFF: I would like to make one comment. Would it not be much more appropriate to pass the estimates instead of fighting over a flag in the house. After all, it is more important.

Mr. CHAIRMAN: Thank you, Mr. Cardiff. I think the expression is "I will take that under advisement".

Mr. Henderson, might we now proceed with the other items to which Dr. Davidson will be directing his attention? There are several items under the 1963 statement.

Mr. HENDERSON: The next item, Mr. Chairman, is paragraph 50 in the 1963 report before you which deals with grants and contributions included

in general appropriations. We did discuss this matter rather briefly last Thursday because the principle outlined in the first paragraph of this note is fundamental, and, as members of the committee recognize, it is my responsibility to report any deviations from it that we find in the course of our work. Although the particular comment here relates to a Department of Citizenship and Immigration vote, the important of accurate wording in a vote text is of interest to Mr. Davidson as the secretary of the treasury board, and because we have had several instances of this during your consideration of my two reports it would be very helpful to have his comments.

Mr. DAVIDSON: Mr. Chairman, I hope you will not expect me to be completely objective about this particular instance that the Auditor General has singled out for comment because this is a misdemeanour of my own at a time when I was deputy minister of citizenship and immigration, and I am bound to argue the defence of the proposition even if as secretary of treasury board I would take a dim view of this being done by any other deputy minister.

To speak more seriously, there is a problem here which I would like to put to the committee, and I would like to say at the outset that I recognize the danger of there not being close and accurate control of the expenditure of an item such as this through the vote wording in the estimates. We are talking here about grants to organizations. There are several kinds of grants to organizations. There is the kind of grant that is made to a well-known organization such as the Canadian Red Cross Society which receives a grant of $10,000 a year, which is pretty much an out and out donation and which is made in recognition of the general work that the Red Cross Society is carrying out. There is no particular relationship between what it is that the government is trying to do in a specific area of operation and the grant that is made to the Red Cross Society. That is one kind of a grant.

There is a second kind of grant that is made to the Red Cross Society, and that is the kind of grant that is made, let us say, to the Red Cross Society because of the work that it does in veterans' hospitals—work which if the Red Cross were not doing it with the financial support that the government is giving it, would possibly have to be done in part or in whole by the Department of Veterans Affairs itself.

To come a little bit closer to home, there are, for example, two kinds of grants that were in question in the Department of Citizenship and Immigration when I was there. There was, for example, a grant such as is made every year in the same amount exactly to the Boys Clubs of Canada, or to the Boy Scouts, or the Girl Guides, and there is one other which I forget. These were annual repetitive grants, and my impression is that those grants were detailed in the estimates. I am quite certain, gentlemen, that that kind of a grant in the Department of Citizenship and Immigration estimates was in fact detailed in the estimates; the name of the organization was shown, the amount of money was shown, and that was regarded as a grant which is given by way of a donation to these particular organizations year after year in much the same amount.

The grants which the Auditor General is criticizing here appear for example as vote 15 on page 60 of the revised estimates for 1962-63. They are grants of the following kind: During the period when these grants were being paid our citizenship branch was concerned with the encouragement of the establishment of Indian friendship centres in many cities across Canada. The position that was taken by the Department of Citizenship and Immigration, which is responsible for both citizenship and Indians, was that there were many Indians who came in to work in the larger cities such as Winnipeg and Toronto, who were living down in the less desirable parts of the city, who had

problems of association with decent, respectable people of the community. It was felt by the department that the assistance that was needed to help these Indians find a place for themselves in the community in which they were living was not something that we could possibly do from headquarters or from official sources. What was required more than anything else was acceptance by the community of these Indian men and women as a part of the community, and for this purpose groups of citizens in these different communities who were interested in helping Indians should be encouraged, with the plans that some of them had in mind, to create settlements, community centres, and friendship houses as they came to be called. These grants began to be made first of all beginning with the friendship centre in the city of Winnipeg in the amount of $5,000 for three years. This happened two or three years before the question which the Auditor General refers to here arose in 1962-63. Under the pattern created by the friendship centre in the city of Winnipeg, a number of other cities in western Ontario and the western part of Canada also began, with some encouragement and stimulation, to organize groups of citizens into friendship centres. The Department of Citizenship and Immigration felt that it should have some flexibility provided within the vote which would enable it to provide encouragement in small grants of $1,500, $2,000 and perhaps, in some cases, as little as $500 to these organizations. At one point in time it became clear that in Fort William a group of citizens had reached the point where, with a little financial encouragement, they could organize themselves and establish a friendship centre. At that point the department wanted to be in a position to make a small grant by way of encouragement, even though it had not been able to foresee this possibility at the time of estimates preparation eighteen months earlier. I merely want the members of the committee to know that it was this situation that produced this result.

If the citizenship and immigration department had in fact in those circumstances been restricted by the wording of the vote to the organizations that were detailed in the estimates in the amounts for those organizations that were detailed in the estimates—in other words, to the global amount that was represented by the sum total of the organizations and the amounts that we could foresee 18 months ahead of time—the submission from the departmental point of view is that they would find themselves in a position in which they could not act to make these timely and significant contributions to new friendship centres at a time when it is particularly important that they should make them if they are going to encourage this type of program to develop. This is regarded as an integral part of the responsibility of the branch to promote good citizenship so far as this type of program assists in the integration of Indians in our Canadian communities.

This is not to say that the practice of spelling out the names of the organizations and specific amounts in the detailed estimates should not be applied to organizations in which the amount of the grant has been stabilized, when it becomes repetitive year after year after year, and ceases to have the relatively dynamic purposes that were envisaged as being the purposes for which these particular grants could be used. That is the defence that would be made from the point of view of the department. The fact that the vote wording here does not contain a dollar limitation or a reference to the details in the estimates would be their defence inasmuch as the details in the estimates would limit the ability of the department to make grants to those organizations for which the names could be supplied at the time the estimates were being presented, some months before the beginning of the fiscal year.

Mr. MUIR (*Lisgar*): Is that what you would call an open-end year if you were supplying certain money for certain organizations and then like organizations wanted to come in afterwards? Would you therefore feel obliged to pay them the same?

Mr. DAVIDSON: If the wording of this vote is maintained in this way—and Mr. Henderson draws attention to this fact—it is possible to transfer between allotments a sum of say $10,000 from postage and telegraph to grants for citizenship promotion. It is perfectly correct that it then becomes possible to transfer from one primary in the vote to this primary of citizenship promotion and to make grants to a number of organizations which might not be foreseen at the time the estimates were presented to parliament.

The CHAIRMAN: Have you any comment, Mr. Henderson?

Mr. HENDERSON: I am hoping, Mr. Chairman, that the committee might see fit to re-endorse the important principle reiterated in paragraph 50. While Dr. Davidson was describing the situation surrounding these particular grants and contributions Mr. Long and I recalled the action of the British House of Commons and the British public accounts committee in a similar case. I am going to ask Mr. Long to give you an interesting quotation from the British public accounts committee on this very subject because it is extremely pertinent.

The CHAIRMAN: Mr. Long.

Mr. G. R. LONG (*Acting Assistant Auditor General*): This quotation of the British public accounts committee in 1923 referred to a grant in aid to the Lord Mayor's fund for the relief of Armenian refugees. The quotation is this:

> We are strongly of opinion that in all future cases where parliament is asked to vote money as a grant in aid the exact amount of the grant should be specified in the estimates so that parliament may be aware of the precise sum which it is proposed to exempt from the ordinary conditions which govern accounting for voted moneys.

The CHAIRMAN: Are there any further comments?

Mr. FRANCIS: Mr. Chairman, I am still trying to sort out the differences. The Auditor General has said that he feels there are circumstances in which perhaps the usual audit of government expenditures is not quite possible, but there should be a specific amount spelled out in the vote. Does Dr. Davidson feel this is not required as a general principle? What is Dr. Davidson's position on this?

Mr. DAVIDSON: I would certainly agree with this as a general principle in terms of grants which might be described as handouts for which there is no relationship between the purpose of the grant and the work in which the government is engaged. I am not so certain that I would endorse that proposition in circumstances in which one is using an organization to accomplish a purpose that is directly related to the general purpose of the vote itself.

May I just remind the committee that this is a primary within a vote, the vote is for the citizenship branch in the Department of Citizenship and Immigration, and the vote is entitled "Grant for citizenship promotion".

Mr. FRANCIS: Is the test the nature of the activity? Without the grant government might have been committed to funds for its own purposes. With the grant there might be a saving in other aspects of government administration.

Mr. DAVIDSON: I think the test is that there should be a clear relationship between the purpose for which the grant is being made, the program which is supported in part by the grant and the purpose of the vote of which this grant forms a part.

Mr. FRANCIS: Granted this is still not opening up quite a new field of public administration, if you abandon the principle of a specific amount being put in the yearly estimates of which parliament approves.

Mr. DAVIDSON: You may be right.

Mr. FRANCIS: I am just asking the question. I am trying to sort out your position.

Mr. DAVIDSON: I recognize the problem. I am certainly concerned about the problem, and I am concerned about ensuring that there is no means by which abuses can creep into the system; but I am concerned about the extent to which one is driven by this principle to the spelling out of a tremendous amount of detail in the estimates. If you look at a number of other votes, for example, you will see there are some new votes in the Department of National Health and Welfare, with which you are familiar, Mr. Francis. For example there is a new program of National Welfare Grants including grants to schools and to social work. Here again in this department one has two kinds of grant being made; one has the vote that lists grants to health and welfare and related organizations, where the same amount of money is being voted more or less automatically year after year—the Canadian mental health association and so on and so on. Then one has the new program which the government has recently initiated—a program which was initiated by the government three years ago or so, the national welfare grants program.

Is one led by the acceptance of the principle referred to by the Auditor General to the application of it to the extent where a program such as the national welfare grants program will have to spell out in the detail of the estimates the precise amount given to every one of the schools of social work across Canada and every one of the organizations that under that grants program will be receiving grants for that specified purpose?

Mr. FRANCIS: Under these specific grants, is there not a specific monetary amount placed before parliament?

Mr. DAVIDSON: Yes, for the program as a whole but not a specific amount for schools of social work as such within this grants program.

Mr. CAMERON (*High Park*): Who makes the decision with regard to who receives these gifts or contributions? Is that the minister, the deputy minister or a combination of both?

Mr. DAVIDSON: As I recall it, Mr. Cameron, in the case of the citizenship item with which we are dealing now grants below a certain amount—I think below $1,500—were made on the recommendation of the director of the citizenship branch and with the authority of the deputy minister.

Any grants above that had to go either to the treasury board or to the governor in council for approval. I would like to make it quite clear that I am merely trying to pose the problem as I see it. I am concerned about the consequences as I see them for the total estimates. If there is a too rigid insistence on what certainly on the face of it appears to be obviously the proper statement of the principle—that any money that is proposed to be given as a grant to a non-governmental organization should be specially listed by name and detailed in the estimates—I think if we searched the complete range of the estimates at the present time and applied this principle literally to every one of them, we would be carried pretty far in the inclusion of detail in the estimates which would not, in my judgment at least, facilitate the consideration by parliament of the real purposes for which the moneys are being asked of parliament.

I would like to find, frankly, some point at which we could draw a reasonable line so that in acceptance of the very valid principle which Mr. Henderson is bringing forward here we would not be carried by our own logic into accepting it to a length which I think would go far beyond what the committee might have in mind.

Mr. CAMERON (*High Park*): The treasury board has really settled that principle in the instance that you mentioned up to a certain amount, in that the director of citizenship or the director of immigration on the recommenda-

tion or with the approval of the deputy minister can make a grant. If it goes over that amount, then it has to go back to the treasury board. Your problem is to get the money somewhere out of your own organization, is it not?

Mr. DAVIDSON: If we go beyond the provisions made in the details of the estimates, we have to take the money from some other portion of that same vote. We certainly cannot go beyond the vote.

Mr. CAMERON (*High Park*): You could not take it from postage? Did you not mention postage?

Mr. DAVIDSON: Yes, or from travelling expenses. It is a device to transfer between allotments within the vote.

Mr. CAMERON (*High Park*): What do you do if you are short of travelling expenses?

Mr. DAVIDSON: You cannot go beyond the global sum of the vote.

Mr. CAMERON (*High Park*): You would have to get a supplementary estimate?

Mr. DAVIDSON: That is right.

The CHAIRMAN: Or a Governor General's warrant. Are there any further questions?

Mr. HENDERSON: I think we might move a little faster here. There are not very many items remaining. The next paragraph we shall deal with is paragraph 94 on page 62, "Overpayments of Salary."

The CHAIRMAN: We will now deal with paragraph 94:

94. *Overpayments of salary.* Rates of pay for the civil service are established under the authority of sections 11 and 12 of the Civil Service Act, which read:

"11. The governor in council, after the commission has had an opportunity of considering the matter and after considering any recommendations made by the commission, shall

(*a*) establish rates of pay for each grade; and

(*b*) establish the allowances that may be paid in addition to pay.

"12. The rates of pay for grades shall consist of minimum rates, maximum rates and one or more intermediate rates, or such other rates as may in any special cases be appropriate."

The treasury board, acting for the governor in council, by T.B. 598360 of July 26, 1962 established a rate of pay for an individual employee in excess of the authorized rates for the employee's grade, with effect from January 1, 1961. This conflicted with a ruling given by the Minister of Justice in 1929 to the effect that the governor in council had no power under the old Civil Service Act to approve of rates of compensation which would raise the salaries of a few persons in a class; in other words, the class was to be dealt with as a whole if at all. As the new Civil Service Act had come into force on April 1, 1962, the question was again referred to the Department of Justice and the deputy atterney general expressed the opinion on June 7, 1963 that sections 11 and 12 of the present act do not authorize a rate of pay to be established for a particular person or employee in a grade, or in respect of a particular position in a grade, in excess of the rates established for that grade.

A copy of this opinion was sent to the central pay office on June 17, 1963 (the Department of Finance and the Civil Service Commission were advised by the Department of Justice) but the employee was still receiving excess salary in October 1963.

Copies of the deputy attorney general's opinion were sent to the secretary of the treasury board and to the comptroller of the treasury on August 12, 1963, in connection with a treasury board minute of May

9, 1963 which established special rates of pay for three grades in the class "collector, customs and excise", and directed that payment at the special rates be made to certain employees in this grades. The employees concerned were still being paid at the special rates in October 1963.

Mr. HENDERSON: Rather than go into the details of this note, I might tell you that the situation outlined here has been regularized by the treasury board as recently as December 5, 1963. Pursuant to section 74 of the Civil Service Act it approved the exclusion of the employees referred to in this paragraph from the obligation of section 12 of the said act, and it approves the payment of higher rates of pay. Therefore, the point I made has been taken care of by the treasury board action. Consequently you may not want to take any time to discuss it. Shall I proceed?

The CHAIRMAN: I think so, since you say the matter has been regularized now, and is in a good situation.

Mr. HENDERSON: Now, we turn to paragraph 95.

The CHAIRMAN: Paragraph 95:

95. *Granting of sick leave to employees prior to retirement.* An opinion was given by the deputy minister of justice in 1930 to the effect that, since sick leave is granted for the purpose of enabling an employee to resume his duties in the public service, it could not properly be granted to an employee if his department had information that he would not be able, or did not intend, to return to duty at the termination of such leave.

In June 1963 the audit office informed both the chairman of the Civil Service Commission and the secretary of the treasury board of the opinion expressed by the deputy minister of justice and each was asked if the opinion conformed to his understanding of the policy intended to be applied. The former replied that it was the intention of the commission to examine the desirability of continuing the practice which had been followed for many years and that if it were concluded that this should be the case, consideration would be given to the most appropriate means of achieving it. The secretary of the treasury board informed us that the board had expected that the provisions of the civil service regulations which had remained unchanged when the present regulations became effective on April 1, 1962 (no change was involved in the discretionary aspect of sick leave) would continue to be interpreted and administered as they had before. He also stated that the board expected that the discretionary feature of sick leave would be applied in such a way "as to avoid conflict with the disability allowance provision of the Public Service Superannuation Act".

Mr. HENDERSON: The point in issue here is whether a civil servant should be permitted to exhaust all of his or her sick leave credits, when it is known that he or she does not intend to return to active duty. The former policy was that sick leave was intended for the purposes of enabling an employee to return to his or her duty, and it seemed to us to be a most reasonable one. The fact that the treasury board had not anticipated any change due to the coming into force of the new Civil Service Act would seem to indicate that the former policy should still prevail, and that the new act and regulations should be amended to make this clear. Perhaps Dr. Davidson might wish to say a word about it.

Mr. DAVIDSON: Yes, Mr. Chairman. I take it there is no question as to the legality of the practice which has developed under the new regulations, even though there is some question whether it was in the mind of the treasury board members that there should have been a change. I take it that the ruling of the

deputy minister of justice is that section 47 permits the deputy head who is satisfied that an employee is unable to perform the duties of his position because of sickness or injury, to grant him leave of absence with pay to the extent that such leave has been earned by that employee in accordance with the provisions of the regulations. I take it that this is in effect at the present time, and is the governing law on the subject. The question is whether inadvertently there was through the passage of the new regulations a change in the regulations governing sick leave provisions which was not intended. If I read correctly from the paragraph on page 64 of Mr. Henderson's report, it would appear from the reply, which I quote that:

> The secretary of the treasury board informed us that the board had expected that the provisions of the civil service regulations which had remained unchanged when the present regulations became effective on April 1, 1962...would continue to be interpreted and administered as they had been before.

Now, I have not had the time myself to go into the question as to what the treasury board's intentions were with respect to these regulations. About all I can do under the circumstances is to say that I intend to take this matter up both with the chairman of the Civil Service Commission as well as members of the treasury board, and to come to a decision then as to whether or not these regulations should be changed to bring them into line with the situation as it was before. The decision will of course depend on the treasury board's view of the desirability of making that change.

The CHAIRMAN: Would you agree, Dr. Davidson? The point as I read the paragraph is that in a case where it became quite definitely known through the deputy minister that the employee did not intend to return to work, that this situation would not be proper, and that the sick leave would be in a different category; and that when it was known, or it was felt that he hoped to return, there is a distinction in your mind between the two cases?

Mr. DAVIDSON: I have no doubt that this conforms to the deputy minister of justice's view. In a situation where it is clear that the employee in question, even if restored to health, has no intention to return to work, there is no entitlement to sick leave, in my opinion, under these circumstances; and any deputy minister who insisted on continuing to provide sick leave under such circumstances would be using his discretion, in my judgment, improperly.

It is not quite so clear, however, when you encounter a situation where there may be medical indications that the employee may not ever be able to return to work, but the employee has not accepted this in his own mind, and so far as he is concerned he is carrying on in the hope and expectation of returning to work as soon as his health permits him to do so. I think this is an area where there is much more of a case for the exercise of discretion on the part of the deputy head up to the point where there is accumulated leave entitlement.

I come back to the point, however, that it does not seem to be clear whether there was a conscious change in the regulations or an unintended change in the regulations. I would like to establish that point by taking this problem back to the treasury board, explaining to them what the issues are, and getting the treasury board's view on what they really intend these regulations to provide. I have to admit that I am also in some doubt on another point. Perhaps Mr. Henderson or someone might help me here; but I am in some doubt as to who it is who can initiate changes in the civil service regulations, assuming that the treasury board should feel that this was a regulation which should be changed. Is it the prerogative of the treasury board to change these regulations or to recommend to the governor in council that they be changed, or do the changes have to originate with the Civil Service Commission?

Mr. FRANCIS: This is one of the things we could clear up when we set up a system of collective bargaining through staff associations.

Mr. MUIR (*Lisgar*): I am wondering how a determination can be made in respect of whether or not an employee intends to return.

Mr. DAVIDSON: It is difficult.

Mr. WINCH: He may take all his sick leave before he lets you know whether or not he is coming back. Human nature being what it is, having sick leave coming to them, they think they are entitled to it.

Mr. MUIR (*Lisgar*): I do not think a deputy minister should discriminate in respect of what is fair for one or another.

Mr. WHELAN: I am in a little doubt with regard to sick leave. How many days sick leave may a person build up after so many years of employment how long does he have to be employed before he builds up any sick leave?

Mr. LONG: Fifteen days a year starting from the day he starts work.

Mr. WHELAN: What about a person who never takes a day of sick leave?

Mr. LONG: It accumulates for 20 years.

Mr. WHELAN: How many days is he entitled to; is he allowed so many days for the 15 or 20 years?

Mr. LONG: Fifteen days per year for each year he works, if he has not had any sick leave.

Mr. WHELAN: What about a person who has taken 15 days a year, and then is sick? He would not be entitled to anything if he was off for two years?

Mr. DAVIDSON: That is right.

Mr. FRANCIS: Dr. Davidson brought up the point of who initiates a change in the regulations. There is nothing before us which indicates an answer to the question. I do not like a discretionary feature in this area. I feel it operates to discourage the kind of person who does not abuse sick leave. The exercise of discretion by the deputy head creates a potential incentive to use sick leave. I was not being facetious when I said I think this could be one of the areas which would be quite appropriate for collective bargaining in staff associations.

The CHAIRMAN: I am sure Mr. Henderson in his follow-up report next year will report back to us in respect of what has developed out of this.

Is there anything else, Mr. Henderson?

Mr. WINCH: I seem to remember we were most interested in hearing from Dr. Davidson concerning his views with regard to how far the Auditor General's department can go in drawing attention of department heads, or of this committee through his report, to cases where he thinks there may have been a waste of money or inefficiency.

Mr. HENDERSON: I think Mr. Winch is referring to paragraph 11, having to do with the findings of the royal commission on government organization.

Mr. WINCH: I believe this was held over so that we might have the views of Dr. Davidson.

The CHAIRMAN: That is right. We stood this paragraph.

Mr. WINCH: We do not want to feel that the auditing staff is stepping into the field of the treasury board where it has no business; but at the same time, if the Auditor General feels there is a degree of inefficiency he has the responsibility to bring this up.

Mr. HENDERSON: It is paragraph 11 on page 8 which we discussed last Tuesday.

The CHAIRMAN: Yes. Would you comment on that, Mr. Henderson, and then we will have Dr. Davidson's views.

Mr. HENDERSON: In this section of my report I set down my conception of my responsibility in connection with waste and extravagance, and my duty as Auditor General to study reports prepared by or for the management of departments and agencies directed towards the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations.

I said that to the extent such reports correctly indicate where and how savings can be made, I feel the Auditor General has a responsibility to parliament to follow through and ascertain what action has been or will be taken toward achieving such savings, or if no action is taken, to inquire why.

I went on further to point out that with regard to the particular recommendations made in any such report—and in this instance I referred to those made by the royal commission on government organization—the decision in respect of the extent to which such recommendations are to be implemented must be at all times and is the responsibility of management. I then concluded by saying that it is not my intention to express views at this time on any of the individual recommendations, but with regard to the commissioners' findings —that is to say, the disclosures in this case in the 24 reports in the five volumes —I believe it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with not only in the interest of improving efficiency, but because of the substantial savings of public funds which could result. I went on to say that I shall consider it to be my responsibility to follow through on the action taken on such findings of the royal commission on government organization, and to report thereon to the House of Commons.

Last Tuesday we had a discussion about this to which Mr. Winch and Mr. Muir were good enough to speak and the matter was left for the purpose of inviting any comment on the subject from Dr. Davidson today.

The CHAIRMAN: I think that is right. Dr. Davidson, what is your view on this?

Mr. DAVIDSON: Mr. Chairman, I think it would be presumptuous of me to even express an opinion with regard to what are the duties and responsibilities of the Auditor General. The Auditor General is a servant of parliament; his statutory duties are laid down in the Financial Administration Act. His statutory duties and responsibilities can be defined with relative ease by taking a look at the provisions of the Financial Administration Act, which sets out in sections 65 and following the duties and responsibilities which, by statute, are placed upon the office of the Auditor General.

Now, certainly that is the hard core of the Auditor General's duties and responsibilities. I suspect that beyond that hard core, the concept which any Auditor General has of his further duties and responsibilities in the non-statutory field would vary according to the personality, make-up and outlook of any given Auditor General from time to time, and also, I have no doubt, it will vary also from time to time with the same Auditor General, depending on the circumstances which he finds himself facing in his auditing of government accounts.

To illustrate what I mean,—and I would invite the attention of the members of this committee to this example,—I would refer to the circumstances of 1958 when special warrants were used and $15,000 was left untouched in the special operating account of the national gallery, and the Auditor General of that date had no observation to make in respect of it, and almost no observation to make about the procedures that were used by the treasury board and the government at that time in the use of special warrants generally.

In contrast to that, six years later under a different Auditor General and under circumstances which are remarkably similar, the date of the dissolution being only seven days different, the present Auditor General felt constrained to make observation about certain procedures used in respect of special warrants, including the use or non-use of the special operating account of the national gallery, which we have been discussing this evening.

I do not think there is any way of judging beyond the hard core, which consists of the statutory responsibilities of the Auditor General as set out in the law, what any given Auditor General at any given time should be expected to report on, should be required to report on or should be prevented from reporting on. This is an area of judgment which the Auditor General has to exercise on his own responsibility, in respect of which he will no doubt seek the guidance either from his master, parliament, or from a select committee representing his master in the form of this committee, as indeed he has been doing from time to time.

There are just two things I would add to that rather general observation. I think Mr. Henderson will not mind my saying that he had the courtesy, before writing these words contained in paragraph 11, to come to see me. I was at that time head of the bureau of government organization in the privy council office, and he discussed these paragraphs with me. I offered not the slightest criticism or difference in point of view regarding the validity of the opinions expressed in this paragraph. I made only one comment and I think Mr. Henderson will bear me out in this regard. I did say to him in respect of paragraph 11, which states: "By the same token it is the duty of the Auditor General to study reports, etc".—I thought it would be a more accurate representation of the situation if these words were to read, "By the same token it is my view the duty of the Auditor General to study reports etc."

I think this concept of the role of the Auditor General, as set out in this part of paragraph 11, is a concept which lies in the area of judgment and opinion; it is not clearly part of the statutory role of the Auditor General, authorized by law, as I read the law, to take upon himself, as his duty and responsibility, the duties and responsibilities which are set out here. This is in my judgment a perfectly legitimate and consistent concept of the role of the Auditor General but it is one which extends beyond the realm of the statutory authority and into the realm of opinion. It is for that reason I took the opportunity at the time I did of expressing my opinion to Mr. Henderson, that the statement in paragraph 11 of his report would be more accurately stated if it were made clear this was his view of his concept, instead of stating in quite such categorical terms, as being a statement of fact, that it is the duty of the Auditor General.

May I just go on to say one final thing, Mr. Chairman?

The CHAIRMAN: Surely.

Mr. DAVIDSON: There is a problem which presents itself. The Auditor General is a servant of parliament and it is his duty to report after the damage has been done in respect of things that have been done wrong. It seem to me there is a constant danger of an officer placed in this position, moving into the management area by advice to government, of which he is not a servant, because he is a servant of parliament, stating how it should manage its affairs, in ways which under certain circumstances could involve this officer in joint responsibility with the government for the decisions which the government takes upon his advice.

I believe that this is in effect what Mr. Henderson himself is referring to here when he says he takes no responsibility,—and I cannot find his exact words, but I am sure I have the gist of it here,—for decisions taken with respect to

such recommendations by the government. It seems to me this indicates Mr. Henderson is touching upon the same point I am endeavouring to touch upon. I am trying to make a distinction between the responsibilities of the Auditor General to parliament, in reporting upon actions of the government, which he must do as his statutory responsibility, and that situation which would develop if an officer in his position were to become too closely associated with, and to that extent responsible for, any part of the actions of the government on which he is obliged to report to parliament.

I do not know whether I am making this distinction clear or not, but I think there is a problem area here which has to be resolved in only one way, and that is by the judgment of the Auditor General himself, supported by the guidance which he can receive from this committee or from parliament, of which he is a servant, regarding how far he can usefully serve parliament by involving himself in areas relating to management decisions, which are not his statutory responsibility, but in respect of which, by his helpful advice to management he may avert circumstances on which he would be obliged later to report adversely to parliament.

Mr. HALES: Mr. Chairman, along this line of thought, I think a man in business hires a professional auditor, to audit his books, who is obliged to give a profit and loss statement only, but who goes beyond that point and shows the businessman where he has made mistakes, where he has been extravagant, or where he should curtail expenditures. I think a man in business will think more of such an auditor for that service rendered than one who does not render such a service. I think the same principle can be applied to an audit of the governments books. However, I do realize that when business becomes really big an auditor is hired to prepare a profit and loss statement, and if that statement indicates something other than a desirable situation, a consultant management firm is hired to find out where the weaknesses lie. I think that analogy applies in respect of the circumstances outlined by Mr. Davidson.

The CHAIRMAN: Perhaps I might ask Dr. Davidson one question. I should like to have some clarification in respect of one point which was touched upon during his discussion of this item.

Dr. Davidson, you referred to the statutory duties of the Auditor General. We find at page 1 of the Auditor General's report a list of his duties as outlined in section 70 (1) of the Financial Administration Act, and the very interesting statement at the end of those listed duties reading as follows:

> ...and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

I suppose this illustrates your point, that it is entirely a consideration of the Auditor General himself what he feels should be brought to the attention of the house.

In my own profession we have a saying that the measure of justice corresponds to the length of the lord chancellor's foot, which means that one could take the same set of facts before different courts and different judges would hand down different decisions. This would be the particular section you had in mind when indicating what cases in the meaning of this subsection should be brought to the attention of the House of Commons by the Auditor General himself in his particular examination. This is what you have in mind, I presume.

Mr. DAVIDSON: This and section 67.

In respect of section 70, although I am no lawyer, my attention is drawn to the fact that it is the word "case" that is used and not the word "matter". I have no difficulty in accepting the interpretation of section 70 (1), particularly these last two lines, which clearly authorizes and requires the Auditor General

to report to the House of Commons any case other than the cases that are detailed in A, B, C, D, E and F, which attracts his attention for any reason. This, however, is not the area that we are discussing now, particularly in respect of the kind of issues that arise in section 11, where we are discussing management advice to the government, and the principles that are involved in the decisions that government has to make, the extent to which it is going to implement the decisions of the royal commission—considering ways and means by which a better organization or administrative approach to a problem would save the government money through a more efficient practice, and so on. Here we are not dealing with any individual case; we are dealing with principles and issues, management practices, the kind of advice that oftentimes in the business world is obtained through the services of management consultants and oftentimes also through chartered accountants who do the auditing of the books. It is in this area that I think questions of judgment are raised which the Auditor General obviously has to resolve in his own way, depending on how far he feels it is right and proper for him to move into the area of counselling the government, which is one client, in respect of how it should handle its affairs, when his statutory duty is to report on the actions of government to another client, which is the parliament of Canada.

Mr. HENDERSON: Mr. Chairman, may I address my reply in this regard to Dr. Davidson and to the members of the committee. As you no doubt know, the 24 reports of this particular royal commission contained a great many cases illustrating waste. They refer to procedures which are outdated and which, if changed, could save public money; they refer to uneconomical and unbusiness-like operations; they suggest how public money could be saved, and they deal with outright wasteful practices. I am not referring to their recommendations; they are not my business. But, I am referring to the Royal Commission's disclosures or findings of these instances assuming these instances, are proven and do in fact exist. There are many cases as Dr. Davidson and I know, where the facts are not correctly stated by the Commission but, at the same time, there are many which are correctly stated. What I am saying to you is that I conceive it to be my responsibility to take note of these particular findings disclosing cases which are wasteful or extravagant and to the extent that I see fit ask the executive departments "what are you doing about these?" And, if they are not doing anything about these things, ask "do you plan to do something and if not, why not?" And to the extent that I believe that the resulting situation should be brought to your attention I consider it to be my responsibility to do so. You have asked me to set forth for you in my reports all cases of non-productive expenditures and waste which my officers and I encounter in our audit work. There are numerous comments in my reports indicating unbusiness-like practices, uneconomical operations, wasteful practices and, as the watchdog of parliament, charged with reporting on the accounts to you, I find it very difficult to ignore a set of 24 reports which contain a considerable array of these very things.

I do not intend and never have sought to tell the government what to do. I do not assume the role of a management consultant. But, if they see fit to ask my advice—and I might say that a great many of the departments come to us and ask us questions—we are happy in cases where we feel we can help them to answer their questions. But, we never intrude unless specifically requested to do so and such occasions are rare indeed. To me, this is very much, as Mr. Hales has said, the constructive and modern approach to auditing work. It is the way the large professional auditing firms operate. I feel I would be doing less than my duty if I did not raise these matters and set them down in this form in my reports to you. Therefore, any expressions that you can give me in respect of this particular concept are very helpful to me. I am grateful

for the way in which Dr. Davidson has outlined his point of view. I find it most helpful and very fair. Believe me, I am not seeking any more work than I have; I have quite enough. But I do conceive it is my responsibility to take a stand in respect of things that I believe I am expected to do for you.

The CHAIRMAN: Are there any questions on this? We have had a very good discussion. If not, are there any further matters, Mr. Henderson?

Mr. HENDERSON: We have not touched on the estimates.

The CHAIRMAN: Yes. You are referring to the form of the estimates. This is the other item.

Mr. HENDERSON: The remaining item has to do with paragraph 9, the form and content of the estimates.

The members of the committee will recall how the committee considered this matter when it was studying a somewhat similar comment in my 1962 report last December when, in the committee's third report, 1963, it made three immediate recommendations. The first recommendation had to do with the adoption of the revised vote pattern which had been proposed by the treasury board for introduction into the main estimates 1964-65, subject to certain improvements I had suggested to officials of the treasury board during the meetings of Mr. Wahn's subcommittee.

The second recommendation was the inclusion of supporting financial information of crown corporations and other public instrumentalities in the details of services for the purpose of providing better information to the members and to the public in respect of the nature of the fiscal requirements of the crown corporations and other agencies requiring financing by parliamentary appropriations.

Now, the nature of what we had in mind here is described under paragraph 9 and would consist of both operating and capital budgets of crown corporations.

The third recommendation was the presentation of additional information in the estimates concerning the staff of all government departments and the crown corporations and other public instrumentalities that I have referred to.

In making these recommendations, the committee in its third report in 1963, recommended the adoption of as many of these three improvements as would be practicable in the main estimates of 1964-65.

When I presented my follow-up report to the committee, which we discussed on May 26 last, I was able to tell you that the first of these major improvements, namely the revised vote pattern, had been adopted by the treasury board in the presentation of its main estimates for 1964-65. However, the supplementary financial information regarding crown corporations and other public instrumentalities and the presentation of additional staff information in the estimates were not given in the main estimates for 1964-65. When this matter was discussed in the subcommittee the secretary of the treasury board pointed out that it might not be practicable to include this particular information in these estimates because of the time schedule with which he was faced. He said that he would wish to discuss the disclosure of this information with the crown corporations and other public instrumentalities and at a later meeting of the subcommittee reported on the extent to which he had been able to do this. He had not seen them all, but he had seen a number. He stated that generally speaking the proposal appeared practicable enough and my officers and I were left with the impression that this information would be given when the next set of estimates was prepared, namely 1965-66.

I have had a brief talk with Dr. Davidson concerning this situation, so perhaps he can add something further now on this point, which was the one we left over from our last meeting.

Mr. DAVIDSON: Could I first of all deal with the second of the two points that Mr. Henderson referred to as being the recommendations of the committee in its report of Thursday, December 19, 1963 which had not been implemented in the 1964-65 estimates? I think I am correct in saying that so far as the additional presentation in the estimates concerning the staff of crown corporations and other public instrumentalities is concerned, it is the intention to provide for that in the estimates for 1965-66. With that we will have taken care of two of the three recommendations of the committee.

I confess quite frankly that I am in some difficulty and confusion about the other recommendation, partly because I am not at all clear on what the commitment of the previous secretary of the treasury board was. Consequently all that I was able to say to Mr. Henderson in my conversation with him on the telephone when he called me about this, was that whatever was the commitment that Mr. Steele had made, I give the committee my word that that commitment will be carried out. However, I have to find out what that commitment was, and all the witnesses present at that meeting are not entirely unanimous on what the extent of the commitment was. But above and beyond that I think I need to know more clearly than I know at the present time from the committee what it really means when it says that it wants the inclusion of supporting financial information of crown corporations and other public instrumentalities in details of services.

I need to know in respect of what crown corporations this reference is made, and I need to know something of what supporting detail is required in respect of the operating and capital budgets of these crown corporations, that it is the wish of the committee to have included in the blue book of estimates. For example, to take the most extreme example, there is an item voted each year in the supplementary estimates at the end of the year to meet the deficit on the Canadian National Railways. How do I interpret this recommendation with respect to the operating and the capital budgets of the C.N.R.? Is this intended to apply to the C.N.R. at all? If it is, then does it apply equally to all of the other crown corporations? If it does not apply to the C.N.R., what guidance can the committee give me on which of the crown corporations it had reference to when it made its recommendation? I think I need to know also and to have some guidance from the committee on just what it wants in the way of supporting financial information; does it want the breakdown in terms of the details of services such as is provided for other ordinary votes that are being made to departments where a prescribed amount of detail of the service is given?

I have here a list, for example, of the crown corporations provision for which is included in the main estimates 1964-65. For some or all of these I take it the committee would wish to have more supporting financial information than is given in the 1964-65 estimates—Atomic Energy of Canada Limited, Canadian Broadcasting Corporation, Defence Construction Limited, Central Mortgage and Housing Corporation, the Canadian Corporation for the 1967 World Exhibition, and so on. There are a number of others such as the national harbours board, the St. Lawrence seaway authority, where advances are given for certain purposes, or certain expenses are provided for specific things such as specified canals in the case of the St. Lawrence seaway. In some situations, Air Canada is an example of this, and Central Mortgage and Housing Corporation is another example,—there may be one year when an appropriation is required but is not required the next year. This would make it difficult to provide the kind of year to year continuity that I think the members of parliament have come to expect in respect of the supporting financial information that is usually given in the details of the estimates.

I outline this, Mr. Chairman, to indicate the reasons why I feel that I do need to have some additional guidance from the committee on what specifically it had in mind so that I can try to shape my recommendations to the treasury board in respect of the changes to meet this so that they will have a chance of meeting the requirements of the committee.

The CHAIRMAN: Is there any discussion? Are there any comments?

Mr. HALES: I think the committee's thinking on this was that a corporation should not be looked upon any differently from any department of government. They come to parliament for money, and therefore, as members of parliament, we should be entitled to know what they want it for. They should submit their estimates the same as any other department of government. I think it was along this line of thinking that the committee suggested that they be incorporated in the estimates.

Dr. Davidson, you did bring up some things that we did not think about. You were saying that some of these corporations some years request money and other years do not, but in order to have continuity I think they would have to bring the estimates every year whether they were asking for money or not.

Mr. WINCH: Or a one dollar vote.

The CHAIRMAN: Would it be possible in this connection for you and Mr. Henderson to be in communication on this? It does appear that, following your discussion, there may be some points where you feel that clarification is required. Perhaps we could have a memorandum from you and perhaps to that extent the committee could attempt to provide the guidance and clarification on those issues where you did feel that there was not that degree of precision which you thought would be desirable.

Mr. DAVIDSON: I would be glad to follow that suggestion. Perhaps I should add one thing, that I have not personally approached any of the crown corporations yet, first of all, because I am not entirely clear on which ones it is desired that I should approach, and second, because I am not quite sure what kind of information I will be discussing with them when I do approach them. If Mr. Henderson and I could clear up some of the points I outlined here, such as what crown corporations we are talking about, to what extent and what kind of additional information is involved—those are the two principal ones—and what happens about the corporation that is in and out again from year to year, that would be very helpful.

Mr. HENDERSON: The broad general approach is contained on page seven where I say that I have been recommending since 1960:

> (c) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations);

For example, there is one page in the estimates book showing the money required by C.B.C. and the global figure of $80 million is shown, and nothing else. I think that the budget that the C.B.C. prepares supporting that $80 million figure would have a useful place in the estimate detail. It is a modest statement showing about an eight or nine figure breakdown and it would have a logical place in the estimate detail. So that when you are asked to pass $80 million you would have some idea on what it is composed of. That budget has to be made public anyway pursuant to the Broadcasting Act of 1958. All they would have to do there is to make it public at the time they put in the estimates to the House of Commons, and show it in the detail of the estimates, because it seems to me unrealistic that the members be asked to approve a figure of that size without knowing what makes it up. Dr. Davidson touched on something which would

be rather difficult to show. He cited the case of the Canadian National Railways deficit. I would hope in the supplementary estimates that there might be some detail indicating what gave rise to that deficit as compared perhaps with the previous year or something like that. It should be quite possible to prepare it. Certainly there would be no problem in preparing that in the case of a large corporation. Certainly a chartered bank, for example, would not make a loan without asking for such detail.

The CHAIRMAN: Mr. Hales, did you have a question on this?

Mr. HALES: No, but I have a comment. By the same token Polymer, for example, makes $12 million profit. That is the other side of the ledger as compared with Canadian National Railways. We should know how they make it. Perhaps they should make $24 million, or maybe they are making too much.

Mr. HENDERSON: These are wholly owned creatures of the crown and, like any other stockholders, I think you are entitled to know how your creations are doing. Of course, all the companies file annual reports. There is no question about that, but they come later on. Polymer does not come for any money, but at the same time there should be some arrangement whereby you can discuss the operations of that corporation at regular intervals.

Mr. WINCH: Even if they do not come for money there should be a vote so the operations can be discussed. So far as the province of British Columbia is concerned, there is always a vote for $1 in order to give the members an opportunity to discuss the operations of the company. There is always a $1 vote for anything for which the legislature is responsible. It would be a proper practice here for all crown corporations to have at least a vote of $1 in order for the operations to come before parliament.

Mr. FRANCIS: Dr. Davidson has asked one or two questions. The answer to the first question with regard to which crown corporation is simple; the answer is all of them.

It is not simple to select just which approach should be taken. I agree with Mr. Winch that there should be an item governing all government owned operations, all the different shades and varieties of crown corporations. There should be some item in the estimates presented before parliament so there can be debate upon the items and opportunity for comment and review. I personally feel this is an area that has to be looked into. I am very much concerned with basic policy problems, even in an operation doing so well as Polymer. I understand from what I read that Polymer is going into a number of foreign countries, and this is investment of Canadian public funds in economies of many countries of the world. This is a basic principle in which at some point guidelines must be set. I hope Dr. Davidson will not feel there is any restrictions imposed in looking at this area.

The CHAIRMAN: I made the suggestion that these conversations will continue between Mr. Henderson and Dr. Davidson so that before we make our report in due course to the House of Commons we will know if they have reached an understanding, and if they have not we can always consider any further request for additional information.

Mr. WINCH: I suggest we name them as a subcommittee.

The CHAIRMAN: I think this has been helpful, Dr. Davidson. I think possibly you and Mr. Henderson can resume discussions. If you feel you require something further from us, I am sure we will be glad to give you any additional assistance and guidance.

Is there anything further, Mr. Henderson?

Mr. HENDERSON: That completes the items we wanted to consider this evening.

Mr. WINCH: I think we have done pretty well today.

The CHAIRMAN: May I express to Dr. Davidson and to Mr. Henderson and his staff, on behalf of the committee, our appreciation for their attendance beyond the call of duty. This is not an educational matter for which they receive allowances in lieu of salary, and we are most grateful to them. May I also thank members of the committee for coming here and enabling us to give Dr. Davidson and Mr. Henderson our views on the matters presented for our attention.

May I remind you that the Canadian Broadcasting Corporation officials will be with us on Thursday and on the following Tuesday. We are hoping we will have multiple meetings. We have suggested meetings at 9.30 a.m., 3.30 p.m. and 8.00 p.m. on those two days. This is just a suggestion for the committee to consider.

The meeting is adjourned.

APPENDIX 1

(The following information supplied by the Auditor General in response to inquiries at previous sittings).

1963 Report of the Auditor General
Para. 40—Return on Investments

Other loans and investments $12,565,000

Interest earned	
Canadian Overseas Telecommunication Corporation	$1,971,301
National Capital Commission	1,776,142
Northern Canada Power Commission	1,695,542
Loan to India	1,055,332
Province of New Brunswick, Beechwood Power Project	754,608
Sinking Fund and other investments held for retirement of unmatured debt	712,403
Contracts of Insurance under the Export Credits Insurance Act, 1944	578,457
Interest on balances receivable under agreements of sale of crown assets	508,610
British Columbia treasury bills	268,215
Dominion Coal Company Limited	230,907
Manitoba treasury bills	228,421
Interest on mortgages arranged by Central Mortgage and Housing Corporation (Department of National Defence)	222,938
Interest on loans to Atomic Energy of Canada Limited	216,809
Town of Oromocto, New Brunswick	212,892
Alberta treasury bills	125,062
Yukon Territory	106,308
Interest on securities received from the Province of Saskatchewan in respect of its share of the South Saskatchewan river project	94,988
Saskatchewan treasury bills	88,749
Loan to Ceylon	71,990
Town of Oromocto Development Corporation	62,606
Interest on debentures—City of Montreal, with respect to the Atwater Avenue Tunnel	62,500

Northwest Territories	60,474	
Province of Quebec—debt account	58,944	
Hamilton Harbour Commissioners	50,219	
Railway Subsidy Act agreements	51,815	
Interest for the calendar year 1962 from the Province of Manitoba on capital expenditures re. Lac Seul and Lake of the Woods Storage Projects	45,124	
Great West Coal Company Limited	43,536	
Interest on United Nations bonds	36,191	
Interest on debentures—City of Montreal with respect to St. Remi Tunnel	35,671	
Ottawa civil service recreational association	29,246	
Municipal Improvements Assistance Act	28,462	
Avon Coal Company Limited	25,390	
Interest on sale of irrigated land	24,904	
Interest on Crop Insurance Loan—Province of Manitoba	23,958	
D. W. and R. A. Mills Limited	22,982	
Interest on loans to Indians	22,813	
Land and timber purchased for Indians (Interest)	11,688	
Crows Nest Pass Coal Company Limited	11,455	
Intrest on loans to Eskimos	10,766	
Interest on loans to City of Vancouver with respect to Domestic Terminal Building at Vancouver airport	8,565	
Interest on loans to employees	8,447	
Interest on debentures—The Corporation of the Township of Toronto	7,954	
Interest on loans to Yukon Coal Company Limited	7,379	
Interest on loans to Canadian National Railways with respect to Yarmouth, Nova Scotia and Bar Harbor, Maine ferry services	7,000	
Bras D'Or Coal Company	5,007	
Sundry	5,882	
Total interest earned		$11,688,652
Profits/Dividends		
Net profit from sale of sealskins transferred from Fisheries revolving fund	488,855	
Profit transferred from Industrial and Stores account —Penitentiaries (manufactured products)	165,742	
Part of the accumulated surplus of Crown Assets Disposal Corporation	135,223	
Profit resulting from the operating of Revolving Fund—Manufacture of Remembrance Day poppies	24,338	
Net profit on the operation of the Agriculture revolving fund for the fiscal year 1962-63	21,694	
Net profit transferred from Royal Canadian Mounted Police revolving fund	9,653	
Sundry	30,843	
Total profits/dividends		876,348
Total of item "Other loans and investments"		$12,565,000

OIL AND GAS EXPLORATORY PERMITS

Permits are issued under authority of the Canada Oil and Gas Land Regulations (full description: Regulations respecting the administration and disposition of oil and gas belonging to Her Majesty in right of Canada under all lands forming part of Canada but not within any province), which were authorized by Order in Council P.C. 1961-797 of June 6, 1961, as amended.

The Regulations were issued pursuant to the Territorial Lands Act and the Public Lands Grants Act. The latter statute, R.S. 224, as amended in 1959, c. 52, is the one of interest in connection with the point raised by Mr. Winch.

Section 4 of the Public Lands Grants Act provides, in part, that the Governor in Council may

(*a*) authorize the sale, lease or other disposition of any public lands that are not required for public purposes and the sale, lease or other disposition of which there is no other provision in the law; and

(*b*) make regulations authorizing the Minister having the control, management and administration of any such public lands to sell, lease or otherwise dispose of them, subject to such limitations and conditions as the Governor in Council may prescribe.

Section 2 (c) of the Act defines "public lands" as lands belonging to Her Majesty in right of Canada and includes lands of which the Government of Canada has power to dispose.

The term "Canada lands" is used in the Regulations, and the term is interpreted therein as meaning

"(i) territorial lands as defined in the Territorial Lands Act, and

(ii) *public lands as defined in the Public Lands Grants Act* for the sale, lease or other disposition of which there is no provision in the law, *and includes land under water.*"

The conditions under which permits may be issued, the periods of validity and financial and other requirements are set out in sections 30 to 54 inclusive, and associated schedules, of the Regulations, together with Oil and Gas Land Order No. 1-1962, issued by the Minister of Northern Affairs and National Resources in September 1962.

To May 20, 1964, the Department of Northern Affairs and National Resources had issued 942 "water" exploratory permits. At that time 876 were still in good standing. Of these 617 related to East Coast areas, 214 to West Coast areas, and the balance of 45 to northern waters. The fee for an exploratory permit being $250, in accordance with the Regulations, total revenues for the 942 water exploratory permits issued to date have been $235,500. Only one of the 33 permits issued during the 1962-63 fiscal year, which was a particularly inactive year in this respect, concerned a West Coast area, therefore the revenue was only $250 received from a private individual.

Because of representations made by the Province of British Columbia, the sovereignty of Canada, rather than the provinces concerned, in respect of the exploration and exploitation of the gas and oil resources of the submarine areas adjacent to such provinces is currently under consideration.

Appendix 2

(The following information supplied by the Auditor General in response to inquiry at previous sitting).

1963 Report of the Auditor General

Para. 43—Other non-tax revenues—Miscellaneous, $16,982,000

Operation of the Royal Canadian Mint	$ 9,404,342
Customs and excise seizures	865,260
Central Mortgage and Housing Corporation—net profits under the Housing Act	773,695
Refund of allowances paid on behalf of the United Nations Emergency Force	587,787
Export Credits Insurance Corporation, excess of premiums over amount required to meet expenses and overhead arising out of insurance contracts entered into under section 21 of the Export Credits Insurance Act	560,796
Fines and forfeitures (all departments)	457,303
Amount of Government annuities account in excess of actuarial value of outstanding contracts	417,300
Vehicle accident and other claims for damages	327,542
Contributions by the Province of Nova Scotia under agreement between the Province and the Federal Government towards the cost of subventions on coal moved from Nova Scotia to Ontario	296,467
Premium on foreign exchange transactions (D.N.D.)	267,795
Pensions contributions, Defence Services Pension Continuation Act	235,633
Royalties on sales (DRB)	225,000
Bankruptcy Act, levies	212,407
Canada's share of operating revenue of the Peace Bridge, Fort Erie, Ontario	200,000
Insurance re. fire loss (DRB)	175,000
Refund of excess profits, the de Havilland Aircraft Co. of Canada	120,000
Transfers from OUTSTANDING IMPREST ACCOUNT CHEQUES account and from UNCLAIMED CHEQUES account of amounts unclaimed or outstanding for 10 years or more	97,858
Forfeiture of Candidates election deposits	92,600
Officers pension contributions (R.C.M.P.)	84,518
Road subsidies (Indian Affairs)	80,839
Customs drawback re. NATO countries	78,788
Combines prosecutions	75,715
Fish nets (Indian Affairs)	68,564
Repayment for damages to barrack, camp and hospital equipment	67,484
Purchase of release	66,017
Forfeiture of guarantee deposits in respect of oil and gas rights	60,733
Commissions on sales of publications issued by International Organizations of which Canada is a member nation	44,510
Dormant liabilities transferred from Government Annuities account	43,264

Receipts of compensation monies received under the provisions of section 22 of the Pension Act. (D.V.A.)	22,358
Commission on provincial motor and drivers' licenses ..	18,114
R. L. and R. Blackburn for steam supplied to the Roxborough Apartments, Ottawa	17,851
Fur trapping (Indian Affairs)	15,026
Atomic Energy of Canada Ltd. for steam and electricity supplied to buildings at Tunney's Pasture, Ottawa	14,677
Perini Ltd. for cost of electric power and temporary heat supplied to the contractor during the construction of the N.R.C. Communication Building, Riverside Drive	14,548
Handicraft (Indian Affairs)	13,818
Refund of gasoline tax	10,586
Canadian International Paper Company for guaranteed basic dockage at Dalhousie N.B.	10,000
Placement (Indian Affairs)	9,163
Unclaimed balances which have been received from the Bank of Canada in respect of chartered banks	7,629
Corporation of the City of Ottawa contribution towards overhead costs for site development at Confederation Heights	7,617
Commissions on telephones	7,221
Hospital clothing (Indian Affairs)	7,108
Interest on student veterans' loans	7,082
Reimbursement of the Canadian Government's loan to the administrative part of Intergovernmental Committee for European Migration	6,702
Law costs	5,417
Farm debts including seeds	5,337
Payment by the Prime Minister, as required by section 5 of the Prime Minister's Residence Act Chap. 216 R.S.	5,000
Sundry	789,529
	$16,982,000

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General relating to the Canadian Broadcasting Corporation

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THURSDAY, JULY 2, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and *From the Canadian Broadcasting Corporation:* Messrs. J. A. Ouimet, President, and V. F. Davies, Comptroller.

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

21106—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Grégoire,	Ricard,
Berger,	Gray,	Rinfret,
Cameron (*High Park*),	Hales,	Rock,
Cardiff,	Harkness,	Rondeau,
[1]Choquette,	Lessard (*Saint-Henri*),	Ryan,
Côté (*Chicoutimi*),	Loiselle,	Scott,
Crouse,	Mandziuk,	Smith,
Drouin,	McLean (*Charlotte*),	Southam,
Dubé,	McMillan,	Stefanson,
Fane,	McNulty,	[2]Stewart,
Fisher,	Muir (*Lisgar*),	Tucker,
Forbes,	Nowlan,	Valade,
Francis,	O'Keefe,	Wahn,
Frenette,	Pigeon,	Whelan,
Gendron,	Pilon,	Winch—50.
Grafftey,	Regan,	

M. Slack,
Clerk of the Committee.

[1] Replaced Mr. Rochon after evening sitting of June 30.
[2] Replaced Mr. Richard before evening sitting of July 2.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

Tuesday, June 30, 1964.

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

THURSDAY, July 2, 1964.

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

Attest.

LEON-J. RAYMOND,
Clerk of the House.

21106—1½

MINUTES OF PROCEEDINGS

THURSDAY, July 2, 1964.
(13)

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

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Fane, Fisher, Forbes, Francis, Gendron, Grafftey, Gray, Hales, Harkness, Mandziuk, O'Keefe, Pilon, Regan, Ryan, Southam, Stefanson, Tardif, Tucker, Winch (22).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; *From the Canadian Broadcasting Corporation*: Messrs. J. A. Ouimet, President; V. F. Davies, Comptroller; R. C. Fraser, Vice-President, Corporate Affairs and A. Watkiss, Assistant Director Accounting; and Messrs. Stokes and Laroche of the Auditor General's office.

The Chairman welcomed three new members to the Committee.

The Clerk of the Committee read the resolution adopted by the Committee on June 18 calling for the appearance of the officials of the Canadian Broadcasting Corporation.

The Chairman introduced Mr. Ouimet, who in turn introduced his officials, Messrs. Davies, Fraser and Watkiss. Mr. Ouimet then made a brief statement.

Mr. Henderson reviewed his 1962 long form report to the Board of Directors of the Canadian Broadcasting Corporation and dealt with sections under headings of "Results of Operations" and "Balance Sheet".

Mr. Henderson then reviewed the first three pages of his 1963 long form report to the Canadian Broadcasting Corporation and was questioned thereon.

Messrs. Ouimet and Davies were also questioned and supplied additional information.

The Committee agreed that the 1962 and 1963 long form reports of the Auditor General be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

The questioning of Messrs. Ouimet and Henderson stil continuing, at 10.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(14)

The Committee resumed at 3.35 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Dubé, Fane, Fisher, Forbes, Francis, Gendron, Harkness, McLean (*Charlotte*), Richard, Ryan, Southam, Stefanson, Tardif, Wahn, Whelan, Winch (19).

In attendance: Same as at morning sitting.

Mr. Ouimet tabled two returns to inquiries by Mr. Francis at morning sitting, listing "Programs not available for advertising" and "Unacceptable Accounts". The Committee agreed that these be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

Mr. Ouimet clarified an answer he gave at the morning sitting relating to an incentive system.

Mr. Henderson then continued his review of his 1963 long report to the Canadian Broadcasting Corporation dealing with income and expenses.

Messrs. Henderson, Ouimet and Davies were questioned on various matters including budget and Glassco Commission recommendations, and supplied additional information thereon.

The examination of Messrs. Ouimet, Henderson and Davies still continuing, at 5.15 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(15)

The Committee resumed at 8.05 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Fisher, Forbes, Francis, Gendron, Grafftey, Grégoire, Harkness, Lessard (*Saint-Henri*), Loiselle, O'Keefe, Pilon, Rinfret, Rock, Ryan, Southam, Stefanson, Stewart, Tardif, Wahn, Whelan, Winch (26).

In attendance: (same as at previous sittings this day).

The Committee resumed the examination of Messrs. Henderson, Ouimet and Davies on the long form reports of the Auditor General.

The questioning of the witnesses still continuing, at 10.00 p.m., the Committee adjourned until 9.30 a.m., Tuesday, July 7, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 2, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I thank you for your prompt attendance after the holiday.

I was going to welcome three new members but I do not see them here yet. They have been added to our roster, namely, Messrs. Grégoire, Choquette and Fisher. I am sure that before our proceedings are finished we will have the benefit of their wisdom in their discussions with us.

Today, according to the schedule which was established and agreed to by the committee earlier, we have to discuss the financial statements of the operations of the Canadian Broadcasting Corporation, and possibly I will ask the clerk to read the orders of reference with respect to this, as set out in the motion which the committee accepted on June 18.

The CLERK OF THE COMMITTEE: This is an extract from the minutes of proceedings of Thursday, June 18, 1964, on a motion of Mr. Harkness, seconded by Mr. Hales:

> That the public accounts committee call officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented.

The CHAIRMAN: Thank you. We should add to that the fact that we are engaged in dealing with the Auditor General's report on the public accounts for the fiscal years ended March 31, 1962 and March 31, 1963. This gives us a framework for our inquiry which is, in this particular instance, not a broadcasting inquiry but an inquiry into the financial and organizational aspects of the C.B.C. within the framework of these terms of reference.

As is our usual practice, we have been fortunate in having Mr. Ouimet—whom I will introduce to you in a few moments—with some of his officials here. We will carry on our usual practice of having statements and comments both by Mr. Henderson and his staff and by the officials of the C.B.C. together so that members will have this very fine opportunity of hearing all aspects and all phases of the discussions into which we are going to enter.

As usual, while all members of the committee have the right to make statements and comments, I would hope that in the limited time within which this discussion will take place we will try, as far as possible, to limit ourselves to the asking of questions and eliciting information which we require when we come in due course to make up our report. I say this because of our schedule as laid out and because of the commitments of Mr. Ouimet and his officials we are limited to today and Tuesday at this particular time. It may be that if we are not completed we may have to consider something later on in the fall. At the moment I would hope that within the framework of these two days and on the basis of these three meetings on each day, if the committee so agrees, we might complete all the inquiries we need in order to frame a suitable report. I would therefore hope that we would concentrate on eliciting information by means of questioning as far as is possible.

Before I call on Mr. Henderson to open up the discussion, I would like to introduce Mr. Alphonse Ouimet who, I think, is known to all of you, the President of the Canadian Broadcasting Corporation who is no stranger, as he assures me, to parliamentary committees. Most of us have had an opportunity of appearing in committees before which he has presented himself, and I would like to introduce him to the committee and to ask him to make a brief statement and introduce the officials he has brought with him who will be available for questioning from time to time by the members of the committee. Having done this, I will then call on Mr. Henderson to initiate the discussion.

Mr. J. ALPHONSE OUIMET (*President, Canadian Broadcasting Corporation*): Mr. Chairman, may I first introduce the officials of the corporation who have come with me to this committee meeting? First, our Comptroller who is the principal financial officer of the corporation, Mr. Victor Davies; the vice president of Corporate Affairs, Mr. Ron Fraser, and Mr. Albert Watkiss who will be assisting the comptroller in dealing with financial matters.

Mr. Chairman, I have no prepared statement but I would like to say that I am pleased to meet the members of this committee. It is an unexpected pleasure because it is the first time the corporation has appeared before the public accounts committee. It is a most important committee and we will do of course our very best to answer your questions to your satisfaction.

As I understand the terms of reference of the committee as you have outlined them, I think the committee will focus its attention on the long form reports of the Auditor General, and also will deal with the recommendations of the Auditor General and the Glassco commission with certain respects of organization. As these terms of reference all seem to fall within the particular field of responsibility of our comptroller, with your permission I would like to refer as many questions as I can to him, and it is only in instances where matters of policy or matters which seem to be outside of his field of experience and responsibility come up, that I will deal with them myself. However, of course, I am in your hands in this respect.

In relation to the long form reports, I would like to say that they have proved very useful to the corporation and that we have been pleased to note that for 1961-62 and 1962-63 at least the Auditor General seems to have been generally satisfied with what he has found in the corporation. As our 1964 figures are before him now, I trust he will find the same situation when he examines those, but that is something for the future.

(*Interpretation*)

Mr. Chairman, I just simply wanted to acknowledge the presence of the French speaking members of the committee, and to do it in French, and to tell them that this is the first time I have had the opportunity to meet them. I shall be ready to answer their questions.

The CHAIRMAN: Thank you very much indeed, Mr. Ouimet. Having in mind that questions may be asked in French—as I have said here we are still in the process of more adequate equipment being provided so that it will be necessary for the reporter to adjust the mechanical device for hearing before the French can be translated—I would hope some indication will be given by the French members. Gentlemen, I think this suggestion I make is a reasonable one and I would hope, for the purposes of continuity, to separate the discussion into its logical components so that we can meet together in areas of discussion. I would suggest that we start with the discussion of the 1962 long form report which, in actual fact, is an extension of the reports which appear in the public accounts, volume III, and in the Auditor General's report. I think this will make for a better organized discussion.

I would suggest that Mr. Henderson might start, as is customary, and we would deal with the 1962 report section by section. Then at the end of each section we will stop and have a discussion and questions relating to that particular section, the questions being directed either to Mr. Ouimet and his officials, or to Mr. Henderson and his officials, or we might have a discussion similar to that which occurred on Tuesday when the secretary of the treasury board and Mr. Henderson were asking each other questions which was very enlightening to the committee.

Mr. FISHER: May I ask a question for information? I have a record of a similar meeting in 1961 when Mr. Henderson appeared before the broadcasting committee, and Mr. Ouimet also was here. Has there been any meeting in the interval?

Mr. A. M. HENDERSON (*Auditor General*): I think not; that was the broadcasting committee as distinct from the public accounts committee.

Mr. FISHER: I was interested in finding out whether there had been any previous meeting in between.

Mr. HENDERSON: I think there has not been. Perhaps Mr. Ouimet might confirm that.

Mr. OUIMET: There has been no parliamentary committee such as this since that time.

The CHAIRMAN: I hope everyone here has before him a copy of the 1962 and 1963 long form report given by the Auditor General to the corporation. These were distributed. I thought they would be useful to have as a background paper to this discussion.

I would ask Mr. Henderson to commence in the usual way by making a brief statement and then turn his attention to the first section of the 1962 long form report.

Mr. HENDERSON: Thank you, Mr. Chairman. Before turning to the report itself, there are a few general observations which I feel might be helpful to the members of the committee.

As you may know, section 34 of the Canadian Broadcasting Act, 1958, designates the Auditor General of Canada as the auditor of the Canadian Broadcasting Corporation. The accounts and financial statements of the corporation for the fiscal year ending each March 31 are reported on by the Auditor General within 90 days, or by June 30, to the minister designated as the appropriate minister under the Financial Administration Act. This was the Minister of National Revenue for the accounts of March 31, 1962, and the Secretary of State in respect of the accounts for March 31, 1963.

The accounts so reported on then are included by the corporation in its annual report to the minister which the minister so designated tables in the House of Commons early in July of each year. Copies of the corporation's printed annual reports for 1962 and 1963 are readily available here, as the Chairman has pointed out, and can be obtained from the secretary. There are copies available in both languages.

In accordance with the practice followed each year, in my own report to the House of Commons with respect to each crown corporation or agency of which I am the auditor, I have reported annually therein on the accounts of the Canadian Broadcasting Corporation as follows: For the year ended March 31, 1962, paragraph 158 on page 87; for the year ended March 31, 1963, paragraph 137 on page 89. As you will have observed from my report, these paragraphs provide a brief summary of the highlights of the accounts for each of the years under study today and contain my comments on those matters which I feel should be brought to the attention of the House of Commons.

As members of the committee already know from their study of my report, it is also the practice of the audit office to address detailed long form reports to the executive boards of crown corporations and other agencies covering the results of each year's examination, a copy of which is sent in each case to the minister responsible.

These reports outline the scope of the audit, and give a broad summary of the results of operations for the year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in financial control and other matters noted during the course of the audit.

Where matters dealt with in this report are considered to be of interest to the House of Commons they are of course mentioned in the report paragraphs in my main report to the house to which I referred a moment ago.

We believe that these detailed long form reports will be of assistance to the members of the committee in their study of the corporation's accounts for these two years. Mr. Ouimet asked that they be made available to the committee. Accordingly copies were distributed in advance to the members last Tuesday. Your study of these should answer many of your questions on the accounts of the corporation. Now, with the committee's permission we might turn, as you suggest—

The CHAIRMAN: Would you be good enough to do so, please, Mr. Henderson.

Mr. HENDERSON: We might turn to the report made to the board of directors on December 6, 1962, in respect of the year ended March 31, 1962. I might perhaps—on the assumption that copies of this are in your hands—refer briefly to the points contained in the report, and you might interrupt me with any questions.

The first page, as you will see, is a recital of the basis upon which the report is prepared. It mentions the scope or the extent of our examination. You will see on page 2 of the report that we usually attach the financial statements which will have been certified earlier. We do that to provide an immediate and ready reference to the reader, indicating that a copy of the report was sent to the minister designated under the Financial Administration Act.

We then give a brief summary of the results of operations in the year under review, and you will find that it is summarized at the top of page 3. Here it shows the total expenses of the corporation which, in 1961, were $100,000,000, and in 1962 $107,000,000. Then we get to their advertising income and their net expenditures. We have to make adjustments for depreciation because in the way the corporation makes up its account, this is not considered a part of its requirements as far as the parliamentary appropriation is concerned. Then we finally arrive at the net operating requirements which is the amount that appears in the estimates and which you will have voted in supply.

On page 4 we show a comparison of these expenses against the operating budget. I might say thatthis comparison, on page 4, shows the type of budget which the corporation prepares for the treasury board in support of the total amount of its requirements asked for in the estimates. It is precisely this which Dr. Davidson and I were discussing the other evening, and we thought that it might usefully appear in the estimate details in future in connection with providing more information to members of the house when they are considering the figures. At the present time the only information which appears in the blue book of estimates in this case would be the $70,000,000 figure at the bottom.

Mr. WINCH: May I ask a question here on page 4, Mr. Chairman?

The CHAIRMAN: I thought under the circumstances I would like Mr. Henderson to complete his remarks under this particular section, "Results of oper-

ations" but it is a fairly lengthy one. It covers pages 2 to 7. I hope Mr. Henderson will complete it and then we might come back and have questions.

Mr. HENDERSON: Perhaps I might read through the 1962 report in this manner, and say that the 1963 report follows the same pattern. It is the last one which has been released. Then if I should stop at that point it would be a very propitious time to ask questions.

The CHAIRMAN: You will stop there.

Mr. HENDERSON: I wish to refer to something you might have noticed in the 1962 report. It is that the pattern of these reports is the same, yet the figures and circumstances are naturally different.

The CHAIRMAN: Would you stop please before the balance sheet in case something is required by the committee at that time. You may go as far as the balance sheet which appears on page 7.

Mr. WINCH: My question has to do with 1963-1964.

The CHAIRMAN: The members will be guided by your advice.

Mr. HENDERSON: At the bottom of page 4 you are given a broad explanation of why operating expenses have been increased in this case, 1962, as compared to 1961. You will observe that they are up $10,000,000.

Beginning at the bottom of page 4 we give reasons. Increasing expenses and declining revenues have both contributed to the enlarged operating requirements. Increased expenses contributed to the extent of $6,195,414 to the increased operating requirements for the year ended March 31, 1962 over the requirements for the previous year, while decreased revenues accounted for $4,768,383.

We then move on to page 5, which shows a comparison of the actual increases in various expenditure classifications. You will see there that a large proportion of the increase had to do with the salaries and wages. In this case it was approximately $4,400,000. We then go on to comment about this. It accounted for 66 per cent of the total increase of expenses as you will see. We refer to the new television station in Edmonton and other factors which have contributed to an additional number of employees engaged during the year.

We carry on with this on page 6. There is a point in the second paragraph on which I have a comment to make in regard to the fact that the salaries of the president and vice president had not been fixed by the governor in council as required by section 25 of the act.

We were informed that such action as may be required to remedy the situation will be taken, and when you go through my 1963 report you will see that this comment remains.

Then there follows a further reference in regard to representation or monthly expense allowance paid to the senior officers. This involves the fact that the claims for reimbursement were not supported by receipted vouchers and details, and I gave my view that the payments could therefore be regarded as income to the officers concerned, under the Income Tax Act.

The CHAIRMAN: At this point, Mr. Henderson, so that we will establish a pattern, may I say that if there are any comments to be made by the officials of the C.B.C. or questions to be put by members of this committee, this is an appropriate time to do it, bearing in mind that we will be coming back to all those items in the 1963 report which follows the same pattern. I am quite sure there is no reason why, in dealing with the 1963 report, we should not turn back to the 1962 report. I thought members should have an opportunity, as well as officials of the C.B.C., to make any comment they wish to make before we go on to the next particular section.

Mr. HENDERSON: You could mark your copies in the margin if you have any questions to put on this particular section.

We then turn to the balance sheet of the corporation. We show the composition of the items on the balance sheet. In this case the cash on hand is the first large item; the next is accounts receivable, which is also a large figure. We then refer to the small parcel of bonds which they have. We then turn to their engineering and production supplies which you will see at $1,569,345. There is then a comment regarding the engineering, production and stationery supplies because they made a change in their method of accounting. There might conceivably be something there on which you will want to ask a question, although it is not unusual to find this in corporate accounting of this type.

On page 10 we point out the corporation wrote off from their inventory accounts an amount of $85,894.

Mr. FRANCIS: I am sorry, I have a little trouble following.

Mr. HENDERSON: Am I going too quickly?

Mr. FRANCIS: I am afraid so, sir. Are questions regarding comparisons in the income of 1962 and 1963 in order?

The CHAIRMAN: Yes. At any time a section has been completed it is perfectly in order for a question to be asked on the material contained within that section. My view is that such would then lead to a more organized discussion. When Mr. Henderson comes to the end of a section anyone wishing to ask a question can do so.

Mr. FRANCIS: I was particularly concerned at the decline of income of 1963 over 1962. I presume this was as a result of the impact of private television networks on the C.B.C. I do not know to what extent it is fair to ask this kind of question of the Auditor General.

Mr. HENDERSON: Mr. Francis, if you look at the top of page five I have a sentence there which says:

> The significant decrease in revenue from this source was attributed by the corporation mainly to the establishment of second television stations in eight major areas previously served only by the corporation.

The revenue dropped $4 million.

Mr. FRANCIS: This is the point on which I intended to ask more questions.

Mr. HENDERSON: We will have a similar situation when we reach the 1963 report.

Mr. REGAN: Mr. Chairman, I would like to clarify a point right now. It would appear to me that Mr. Francis' question would not be in order. Surely the extent of our concern, as the public accounts committee, would not go into the question on why revenue has fallen off from sales of the corporation. I think in this particular hearing we are dealing with a crown corporation whose independence and operation must be kept in mind, and this being very important we should be very careful. I would suggest, Mr. Chairman, that you should be very cautious in admitting questions that go into the actual operational details, such as this question would appear to, in my view.

Mr. WINCH: If that is not the type of information we are to get, what are we sitting here for?

Mr. FISHER: Mr. Chairman, on a point of order, I have seen a number of statements by senior officials of the C.B.C. in the last year dealing with this whole question of commercial revenue and perhaps slight alterations and changes in policy. I cannot see much point in just noting that the Auditor

General has pointed out that the revenues have dropped if we do not get a bit more information from the corporation on what policy shifts may be related to this. It seems to me it is natural and therefore I would disagree very strongly with Mr. Regan.

Mr. REGAN: Mr. Chairman, it is basically a question of what is the responsibility of the public accounts committee and what is the responsibility of Mr. Henderson as the Auditor General in relation to the C.B.C. Perhaps Mr. Henderson would care to comment on how far he feels our responsibilities go on this particular point. I think Mr. Henderson would agree that it is not his concern to urge more active sale policies. This is surely a question of the policy of the C.B.C. operation that we are dealing with, whether the auditing procedures have been proper, and whether they have complied with the statutory requirements. Do you agree with that?

Mr. HENDERSON: Yes. You are quite correct on that count, but in terms of the resolution that you have before you and the fact that you have the benefit of the presence of the president of the corporation, it does not seem to me unreasonable that you would perhaps care to ask him to comment on the reasons behind some of these figures.

Mr. TARDIF: I do not disagree with Mr. Regan. I think our terms of reference do not cover this questioning of either the sales, profits or amount of business. I think they cover only the auditing of the figures that are submitted by the corporation.

Mr. SOUTHAM: I would like to put one simple question: Why are we occupying the time of these busy gentlemen of the C.B.C. this morning if we have not a right to discuss some matters pertaining to the corporation?

Mr. MANDZIUK: Mr. Chairman, as far as auditing goes, that is Mr. Henderson's department. I do not think we are going to re-audit anything, but we are interested and we have a right to be interested in policy. I go along a hundred per cent with Mr. Fisher. We are interested in why revenues go up or down. We like to know what shifting policies there were. The Canadian people are entitled to know that. That is the broad aspect of this inquiry.

Mr. FORBES: I think probably Mr. Regan was not present when we read the resolution that was adopted by this committee with the further reference. If you would read that again we would have a fuller understanding of what our terms of reference are.

Mr. CAMERON (*High Park*): I suggest that both the gentlemen are right. Mr. Francis prefaced his request by asking Mr. Henderson if it was an appropriate time to ask it. His question should be reserved until we are asking questions of the president of the corporation. We should discuss policy if we want to do so, but if it is a question of accounting figures, then let us make notes of this and let us wait until we start examining the members of the corporation.

Mr. FISHER: I have two examples which I may be able to give to Mr. Regan. Several years ago the question came up about the film stocks of the C.B.C. I believe it was raised by the Auditor General. One of the things that I want to follow through, when the president of the corporation is involved, is what has happened to both their policy and practice as a result of those rare presentations.

There is another question which was brought up several times, the whole matter of whether there was going to be a management consultant group examining the C.B.C. and its operations perhaps in a one-shot effort, perhaps in a continuing way. I would suggest, Mr. Regan, that those questions go right into the policy and they are legitimate questions to ask. They do follow out of the various reports of the Auditor General and they do inquire into policy.

The CHAIRMAN: Is there any further discussion?

Mr. RYAN: I would just like to observe, Mr. Chairman, that as the public accounts committee we are quite entitled to go into policy.

The CHAIRMAN: My view is—and probably I may not have to give a final ruling—that members of the committee will have an opportunity to frame their questions later on when we get to the 1963 report. As Mr. Regan pointed out, our terms of reference indicate that we are entitled to look at the report of the Auditor General for 1962-63, and we are also entitled to look at the Glassco commission recommendations in so far as they are relative, within the broad terms of reference of the House of Commons in the first place. My own view would be that unless Mr. Francis presses his question now—I do not think I need to make a ruling until we get to it—we are entitled to go into questions of policy as they affect the financial aspect and operations only.

With regard to other questions of policy, we are not a broadcasting committee and we are not entitled to go into questions of policy and programming. We must examine each question on where its emphasis lies. If it is a question of organization and financial policy being reflected in the ultimate financial position of the C.B.C., then it would be my view we are not only entitled to but we should examine it. Beyond that I do not think we should go. This is the ruling I would be inclined to make if the matter proceeds.

Mr. FRANCIS: I quite agree. I think this is entirely proper. I asked when was the appropriate time to raise this kind of question, and I think I will defer it for now.

Mr. HENDERSON: I was referring to page 10 which shows the amounts written off the inventories of engineering and production supplies total $85,000. They are listed on that page.

We then come to page 11. There is an item carried on the balance sheet of the corporation entitled, "Programs completed and in process of production". As you know the corporation video tapes a lot of its productions, and of necessity must have an inventory of these on hand at any given time. This shows that their balance sheet position at the end of 1962 had increased from $2,100,000 to $3,300,000. Some explanation of the increase is given after the table. As is also the case when you are making products of this type, it is necessary to write off some of the material which you cannot use for various reasons, and in this particular year they wrote off $206,000 worth. That is listed at the bottom of page 11.

We then go on to page 12, to inventory of film and script rights. This was something Mr. Fisher referred to a moment ago which in this particular comparison dropped by $325,000, and there follows an explanation of what caused that drop. It would also give you some idea of what makes up these figures. The corporation was faced with write offs, and these total $165,000, as compared to $241,000 the previous year. They are listed at the top of page 13. You will see that the largest figure of film rights written off was owing to the expiry of contracts, unsuitability of films for broadcast because of program content or technical quality, and changes in programming. I refer to these write offs in rather more brief form of course in my report to the house because they fall under the category of non-productive expenditures which I am asked by this committee to list.

We then come to the capital assets of the corporation which are slightly in excess of $32 million. You will see my reference to these on pages 13 and 14 indicating how the corporation capital budget is prepared, how it was cleared, and how the actual expenditures compared to the amount which you had voted in the estimates. You will notice here that the corporation did not spend the total amount that you voted to them. You voted $9,640,000, and it only spent $6,200,000, consequently $3,400,000 lapsed

On page 15 I make reference to the importance of having more adequate records of the capital assets of the corporation, something which my officers and Mr. Davies, the comptroller of the corporation, have been working on for some time with a view to improving the records that have to be kept with respect to assets of this type.

On page 15 we show a list of the accounts payable and accrued liabilities. From the list you will see that the majority consists of trade accounts, which is what you would normally expect to find in a corporation of this type.

On page 16 you will see the proprietor's equity account. It amounts to $41 million. That represents the equity of the crown as the sole stockholder of this corporation. That, of course, changes from year to year depending on the figures.

On page 17 reference is made to the trustee pension plan. The corporation introduced a revised type of pension plan, a trustee plan, and as the auditor of the corporation I am also the auditor of this trustee pension plan. I take this occasion to refer to the results in this report.

On page 19 I bring forward a matter which I have dealt with before and which you will recognize as something I brought out in my 1960 report, and to which Mr. Fisher referred a moment ago. My report to the corporation at that time was tabled in the broadcasting committee, and as I say here I am referring again to the recommendations made two years ago to the board of directors that in our opinion a useful purpose would be served by having the organizational structure of the corporation in terms of its present size, complexity and cost, made the subject of a study by independent management consultants working in conjunction with our office. We understand that a study of this nature was completed by the royal commission on government organization during the fiscal year ended March 31, 1962, but at the time of the preparation of this report the contents of this portion of the commission's report were not available.

This, Mr. Chairman, completes a rather brief description of the contents of my 1962 report. Of course the attachments are identical to those which appear in the corporation's own annual report, namely its balance sheet, its statement of operation, and my certificate. You might have some questions that you would want to address to the witnesses in regard to the figures and the presentation of the figures on the statement of operations, and as the auditor of the corporation I would be interested to hear any observations you would have to make. We have employed the same format for the statement of the corporation for several years, and I think it generally meets with the approval of the management, of the directors, and so far as I know it meets with your approval, at least I have not been in receipt of any comments or criticisms on the manner in which the facts are disclosed.

Mr. Chairman, would you like me now to turn to the 1963 report? I could go a little slower and perhaps pick up the questions then.

The CHAIRMAN: I take it that the committee has pretty well fallen in with the suggestion that as we come to the 1963 report we will quite naturally be free to revert to matters in the 1962 report which will be reflected in the 1963 figures, and that your failure to ask questions does not necessarily mean that you cannot go back there. The same thing applies to the officials of the C.B.C. who might wish to make some comments at this time on any aspect of the 1962 report. Is there any particular point, Mr. Ouimet, in the 1962 report to which your officials wish to make reference?

Mr. OUIMET: I do not think so. I think everything is in order and accepted.

The CHAIRMAN: Do all members of the committee have the long form report for 1963?

Mr. HENDERSON: I would remind members that when the audit office issues these reports to the corporation, they are addressed to the board of directors, and the president is furnished with as many copies as he requires. So, these documents have been the subject of discussion and study in depth by the directors of the corporation.

The CHAIRMAN: May I apologize to the members who are interested in receiving the French version. These are long form reports made privately to the C.B.C. by the Auditor General in his capacity as their auditor. When it was decided to proceed in this way, we asked Mr. Henderson whether he would be good enough to try to arrange for the French versions. We hope these will be available shortly. However, it is not the type of document which normally is in French. These will be available shortly, and I will see they are distributed.

Mr. GRAFFTEY: It is most regrettable they are not in French at this time, but we are becoming accustomed to this type of explanation.

Mr. HENDERSON: They are furnished in French if the corporation, the agency or the department so requests.

Mr. GRAFFTEY: I have no special complaint about this committee, but this is the type of explanation which has been given to parliament and to committees over the last two years in respect of this sort of thing.

Mr. FRANCIS: Is it not better now than in the past two years?

Mr. GRAFFTEY: No; this practice has been evident over too many years. I am simply registering my complaint again.

The CHAIRMAN: Your complaint is noted and will be directed to the authorities concerned.

Mr. HENDERSON: The report to the directors for the year ended March 31, 1963, as you will see, is dated November 22, 1963. Again, in the opening paragraphs on pages 1 and 2, we follow the format we mentioned in the 1962 report.

Under results of operations you will remember the figure the previous year I think was some $70 million. The sum of $73,244,000 was provided this year by the government as a grant in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service. In this particular year $61,661,000 was supplied to the corporation under authority of parliamentary appropriations and $11,583,000 under authority of Governor General's special warrants.

On page 3 you will see again a comparison to 1962. In fact you will see the 1961, 1962 and 1963 figures. You will see the total expense figure across the board. I am sorry; this begins with the accounts of 1960.

Mr. WINCH: May I ask two questions in respect of page 3? Is there any breakdown of selling and general administration; is it possible to have a figure showing how much of that is selling and, secondly, at the same time, may I ask whether depreciation includes depreciation on the buildings?

Mr. HENDERSON: May I answer that, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. HENDERSON: To take your last question first, the depreciation is taken at standard rates on the buildings. It is taken into cost because it is a part of cost, but it has been eliminated when you reconcile the total requirements with the parliamentary appropriation because parliament does not vote money for depreciation as such.

Mr. WINCH: That is the point I am trying to get at.

Mr. HENDERSON: The total cost of the corporation as shown in the tabulation on page 3—the total expense figure—includes depreciation to the amount of the figure shown; but it has been deducted at the bottom because it is not in the parliamentary appropriation. This is a corporation which keeps its books on the accrual basis.

Mr. WINCH: How about depreciation of equipment?

Mr. HENDERSON: That is included.

Mr. WINCH: On the same principle?

Mr. HENDERSON: Yes. The figure you see for depreciation represents depreciation at standard rates on all equipment and buildings owned by the corporation.

Mr. WINCH: Is there a breakdown of selling?

Mr. HENDERSON: You will find that in the statement of operations which is exhibit 2 in the annual report where the selling and general administration figure is broken down three ways. In the year 1963, you will see the figure $7,268,751. Midway down is the indented selling expense of $1,646,990, engineering and development $1,080,411, and management and central services $4,541,350.

Mr. WINCH: It may be because of my ignorance, but I would like to ask Mr. Ouimet whether we might have a brief explanation of the $1,646,990 selling expenses?

Mr. OUIMET: Well, we have to sell programs. We have a sales force and a commercial department that is concerned with sales policy and selling sales quotas. We have to administer and manage this sale of $30,800,000 in this particular year. This is our cost of selling.

Mr. WINCH: Do you mean the selling of programs in order to get the advertising?

Mr. OUIMET: Yes, selling.

Mr. WINCH: It is not selling, for instance, to the B.B.C. in Great Britain, or something like that?

Mr. OUIMET: No; this is the cost of actually obtaining commercial revenue for advertising; it is the sale of programs as well as the sale of commercial advertising in between programs—what we call spots or spot advertising.

Mr. WINCH: Thank you.

The CHAIRMAN: Could the Chairman ask a question at this point? My education was totally devoid of accounting experience, and perhaps this is why I ended up as Chairman of this committee. On page 3 I see that the advertising income for 1963 is $31,402,592. In the actual budget in the second last item I see the following:

> Less: Commercial revenue (net of agency and U.S. network commissions and payments to private stations) $22,698,000

Is there a reconciliation of the relationship between the $22 million, which is the actual budget for commercial revenue, and the advertising income, and so on, of $31 million in 1963? Am I wrong in my thinking there should be some relationship there?

Mr. HENDERSON: Yes; there is a relationship. I think Mr. Davies has it calculated.

The CHAIRMAN: It puzzled me.

Mr. W. F. DAVIES (*Comptroller, Canadian Broadcasting Corporation*): Mr. Chairman, this is the difference between the gross revenue and the net revenue. The gross revenue stated at $31 million also includes interest on the

investment figure in the miscellaneous income item. The $30,846,000 is reduced to $22 million by $4,800,000 which we pay to private stations as their share of the revenue, plus the amount we pay out as commissions to agencies, and the share which goes to the U.S. network.

Mr. GRAFFTEY: I realize that because of the establishment of private television stations, the advertising dollar income went down, but in spite of that these figures indicate that television as a communication medium in general is getting an increased share of the advertising dollar.

Mr. OUIMET: We believe this actually is the fact, but it is a very slow increase over the years. The television medium has not been reduced in its share of the total advertising revenue, but has been increasing only very gradually and not sufficiently fast to take care of the very sudden demand placed on the advertising revenue by the establishment of the second television stations which represented not only several millions, but something in the order, I believe, of $20 million. The $20 million was supplied in a small part by new dollars from advertising, but only in very small part, and in too great a part from revenues which the Corporation used to get, and also in great part from revenues that other private broadcasters used to get in Canada.

Mr. HALES: My question, Mr. Chairman, has to do with advertising income. I may address my question to the comptroller, I presume. For every $100 worth of income from advertising, how much does it cost to sell that $100 worth of advertising; could you give us that for 1960, 1961, 1962 and 1963? Has it continued to go up or has it come down?

Mr. DAVIES: On a comparative basis, Mr. Chairman, I would beg leave to submit this at the next sitting. In 1963 we were running at a total selling expense of about 5.3 per cent in radio and television of sales.

Mr. HALES: For every $100 worth of sales of advertising you spent $5.30?

Mr. DAVIES: Yes.

Mr. OUIMET: I believe, Mr. Chairman, this answers the question.

Mr. DAVIES: This is for 1963.

The CHAIRMAN: Do you wish to pursue your request for the comparative figures which would mean they could be produced at a later meeting?

Mr. HALES: Yes, I would like to have the information for the three other years.

Mr. HARKNESS: What is the breakdown between television and radio of your advertising income?

Mr. OUIMET: It will take a minute to look it up.

Mr. HARKNESS: While that is being looked up, although this may depend on that information to a certain extent, I wonder where the decline in the revenue came in, and whether it was from television or from radio; that is, the decline from $38 million odd in 1960-61 to $31 million in 1963. I wonder whether the decline chiefly was in the television income or in radio income?

Mr. DAVIES: The decline in revenue was solely in television. There was some very, very small percentage of increase in the radio, but it was not at all significant. The total decline was in television. In 1963, of the $30,900,000 gross revenue, $2.7 million was radio, and the balance of $28,200,000 was television.

Mr. HARKNESS: Then what are the reasons for this decline?

Mr. OUIMET: Mr. Harkness, I believe this is what I tried to explain earlier; that is, that the sudden coming into being of eight second television stations in the major areas where we were operating created a sudden demand for advertising revenue which could not be supplied by the advertisers. In other words, no new dollars were created, or only a small amount was created, so

that it had to come from other media as well as from television. The impact in C.B.C. was fairly heavy as a result of this, and many private stations also saw a reduction in their revenues.

Mr. HARKNESS: So far as your sales organization is concerned, what efforts have been made to keep up the advertising revenues? I note that one of the criticisms made in the Glassco report was that your sales activities were not adequate.

Mr. OUIMET: Every effort was made to keep the revenue up. We actually took special measures to intensify our sales effort; but when the total amount of money available remains the same and somebody comes into the market with a demand for $15, $18, or $20 million, of course, then, you have to suffer a reduction. This had been predicted, by the way.

Mr. HARKNESS: One of the criticisms in the Glassco commission report was that in their opinion your record was not as good as it should be because there was very little incentive for your salesmen to go out and get business. As I recall it, one of their recommendations was that there should be more incentive so far as your sales force is concerned. They noted especially that these people on your sales staff were on a straight salary basis; there was no commission if they got more business. The recommendation more or less was to the effect that incentives of that kind should be provided so far as your sales force is concerned. Has anything been done along this line?

Mr. OUIMET: Yes; we have looked into the possibility of doing this. Some steps were taken, but there is a limit to what we can do in practice. Furthermore, we are not convinced that in our type of business—because we are in a business when we are in commercial broadcasting—such measures as suggested by the Glassco commission would necessarily be the best way to handle it. I do not want to make this as a final statement because at the moment there is a study group working on the question, and they may come up with recommendations which would change my answer.

Mr. HARKNESS: Do you pay your sales force on a commission basis?

Mr. OUIMET: Generally speaking I would say no to your question.

Mr. HARKNESS: Do you not think it might be desirable to put part of them on a commission basis in one or two offices to see what effect or result there might be?

Mr. OUIMET: I would not like to say at the moment. We are studying it now, and we may move in that direction, or, on the other hand, we may not.

Mr. HARKNESS: Is it not a fact that, as the commission pointed out, practically all organizations find their sales to be much better if they have incentives for the people engaged in doing the selling.

Mr. OUIMET: It all depends on what you are selling. If you are selling standard products, it is easy to tell your salesman to go ahead and to sell these known products according to the quota you give them and according to the incentives which you offer them. But in our case we are selling programs which are designed in the first place as a public service. An incentive basis may not be the best way to handle that type of sale. We do not have a standard product to sell. In the selling of programs in the corporation, for example, it may be plays, a series of plays. This is not something which can be sold according to known specifications where you can guarantee a sponsor that he will get such and such a product, because it is subject, first of all, to the objectives of the corporation which are primarily public service, and not primarily to make programs that will sell the most easily or that will give the greatest return to the sponsor.

The CHAIRMAN: I would prefer if we did not ask supplementaries. They are usually related, but I think we had better wait and deal with them when each member has a chance to develop his complete line of examination. I think that would be the better way.

Mr. HARKNESS: On what basis do the big American networks, the Columbia and the National, work as far as sales are concerned? Are they on a commission basis, or do they follow the same basis that you follow, that of a straight salary?

Mr. OUIMET: Before answering your exact question might I say that the American networks do not make many other programs than those which will get the maximum audience, and those which will sell the most easily. Although I am not sure of their exact practice, I would imagine that most of their salesmen must be on some incentive system. But I must repeat that we are dealing with two different kinds of products; in one case the American networks are a business. That is all they are. They are a business. They are in a commercial business. But in the case of the C.B.C. you are dealing with a public service which happens to be engaged in commercial operations in order to reduce the total requirements for public funds. It is not at all the same emphasis.

Mr. FRANCIS: I would like to follow Mr. Harkness' line of questions. Is the C.B.C. engaged in selling only network advertising?

Mr. OUIMET: No, we sell network and we sell local advertising.

Mr. FRANCIS: I am concerned about the sale of local advertising with which field I am personally a little familiar in connection with paid time for advertising in an election campaign. Is there prohibition by the C.B.C. upon accepting sponsored political ads?

Mr. OUIMET: Yes, it has been traditional policy of the corporation not to sell time for political purposes, and also for religion, for education, and for many other fields.

Mr. FRANCIS: You say traditional; is there a policy? Is there a statement of what is the traditional policy available? I am curious to know the things you do not accept.

Mr. OUIMET: We could provide you with an exact statement of those types of programs which we do not offer for sale. I am thinking of our news, for example.

Mr. FRANCIS: I appreciate it. The effect of it is that in an election campaign, the commercial field has a monopoly of this kind of advertising revenue. Are there any other areas from which the C.B.C. really withdraws, leaving them entirely to commercial operations?

Mr. OUIMET: Yes, we do not sell our news; we do not sell, as you mentioned, political broadcasting; we do not sell religion, and we do not sell, generally, public affairs programs. We do not sell educational programs either.

Mr. FISHER: What about cigarettes?

Mr. OUIMET: We do not sell in general information programs. But apart from this we do not accept certain types of accounts which will be accepted by private stations. There is quite a long list of accounts that we do not accept.

Mr. FRANCIS: I wonder if Mr. Ouimet would consider preparing a statement in this general area, because I at least, as one member of the committee, would like to have that information.

Mr. OUIMET: We shall be pleased to do so.

The CHAIRMAN: It will be in line with financial and organizational matters, yes.

Mr. FRANCIS: I am concerned about the trend here. Your advertising income for 1960 was $38,500,000; for 1961, $38,000,000; for 1962 it was $33,300,000; in 1963 it was $33,400,000. A little geometrical projection here develops a series of questions in my mind. Would Mr. Ouimet care to comment on this trend? Does he see any stabilization or reversal of this trend?

Mr. OUIMET: Yes.

Mr. FRANCIS: This is in a different field to that of Canadian publishers some of whom are saying very vigorously that what has happened in Canada is that private television has grabbed the great bulk of advertising revenue, and that this puts printed magazines out of business in Canada, because of the obvious impact on the public stations. I am raising the basic question: Has the C.B.C. withdrawn from too great a sector; is the C.B.C. following the incentives which Mr. Harkness pointed out, to maximize its revenue? What assurance can Mr. Ouimet give the committee? On what does he base his anticipation of a reversal of this trend in the future?

Mr. OUIMET: To answer the first part of the question, I think the figures before you indicate a very marked downward trend. Actually in the last year, 1963-1964, that trend was stabilized. We are not going down any further. In other words, we have had the full impact of the advent of second stations as far as we know, unless they change their policies or their methods of selling, or the total amount of commercial time they may be allowed to carry.

As far as our efforts to get our revenues at the highest possible level, we do so of course consistent with our primary objectives. We must not allow at any time our commercial considerations to affect our programming service which must be determined on a public service basis. And this consideration has had no effect on the broad downward trend that we have been talking about. It has been due almost entirely to the advent of new demands on advertising funds.

You were talking about incentives. We are very conscious that whatever may be the basis of our selling activities, such incentives would be very useful to have. It is simply that it is very difficult to determine a set of incentives when you are dealing with the sale of programs for which there is no known specification ahead of time. It is not the same thing when you have a standard product. You know you are going to be able to sell this product in the whole year, and it is specified and it is known. In our case one program in a series for example may be of one type, while another one may be perhaps built to a different requirement and have a different audience; so it is difficult to establish a system of incentives for this type of selling.

The CHAIRMAN: Might I interrupt here. I do not know if you have finished, Mr. Francis, but the time has approached when we must move out to make room for the defence committee. Before we do so, I have been advised that Mr. Davies can now give an answer to the question which Mr. Hales asked. It will be put on the record. Perhaps I might ask him to do so now.

Mr. DAVIES: Your question had to do about the percentage of selling expenses up to the years 1962 and 1963. In 1960, it was 3.2 per cent; in 1961 it was 3.7 per cent; in 1962 it was 4.7 per cent; and in 1963 it was 5.3 per cent. This reflects a dropping off of sales revenues.

The CHAIRMAN: I think we must postpone further questions at this time. Mr. Francis will be continuing, and Mr. Fisher will follow him. Before we leave do you agree that we print as an appendix the 1962-1963 long form reports?

Agreed.

(See Appendix 1.)

Are you prepared to come back here, as I hope you will, at 3.30 p.m.? We have no formal order, but in order to accommodate the parties concerned, and in view of the limited time available, are you agreeable to coming back at 3.30 p.m. and 8.00 p.m.?

Agreed.

It will be 3.30 or after the orders of the day. We hope that with the opposition being reasonable as usual, we will be finished with the orders of the day by 3.30. The meeting is now adjourned until 3.30 p.m. or thereabouts.

AFTERNOON SITTING

THURSDAY, July 2, 1964.

The CHAIRMAN: Gentlemen, I am told we have a quorum. The meeting will come to order.

Before we carry on, Mr. Ouimet has some information which he is going to give to me in response to questions. He has a clarification to make in respect of a statement he made this morning.

Mr. OUIMET: Mr. Chairman, I have here two lists which I would like to file with you in answer to an inquiry of Mr. Francis. The first one is programs not available for advertising, and the second is a list of unacceptable accounts.

The CHAIRMAN: Thank you, Mr. Ouimet. Is it agreed, gentlemen, that these two lists be printed as in appendix to today's Minutes of Proceedings and Evidence?

Agreed.

(See Appendix 2.)

Mr. OUIMET: Then, Mr. Chairman, this morning when we were discussing commissions and incentives, I am not sure that I gave the complete picture. I think I was asked specifically whether we had people on commission and I said no. Then we more or less dropped the question of incentives. What I would like to bring to the attention of the committee is that in Montreal and in Toronto we are experimenting with an incentive system, where we have a number of our salesmen who are on a sales compensation plan which means that while they are not on commission, they do receive supplementary remuneration on the basis of their performance.

Mr. HARKNESS: I take it this is a bonus system?

Mr. OUIMET: You might call it a bonus system. The results achieved are subject to assessment by a committee. This assessment takes into account the difficulties of sales in particular areas; all areas are not the same.

Mr. HARKNESS: This is for selling advertising on national networks, and is not just for the local stations in Toronto and Montreal?

Mr. OUIMET: I believe this includes national selective business also; but this is Toronto and Montreal only. It has not been tried in other locations. We are waiting for the results of this experiment before we decide whether or not we will do it at other locations.

The CHAIRMAN: Gentlemen, we had reached the top of page 3 in our consideration. Mr. Harkness had asked a question, and a number of questions followed. I think it would be logical if we asked Mr. Henderson to carry on from there to the top of page 9 without interruption. In the course of this he will cover the details of expenses and income. Some of the details have been elicited following the questioning in respect of the table at the top of page 3. After Mr. Henderson has done this, we could then resume our questioning. Mr. Fisher is the first on my list.

If I have your approval, I think our proceedings would be more orderly, and we would save a good deal of overlapping by proceeding in this manner. Mr. Henderson, would you be good enough to carry on from page 3 to page 9, dealing with the question of income and expenses?

Mr. HENDERSON: On page 3 you will recall that you saw the summary of the net operating amount required for the year which we are now studying, 1963, compared to the three previous years. On page 4 there is shown a comparison of the actual net operating amount required against the budget figures which would have been filed with the treasury board in support of the estimates that ultimately appeared in the blue book, and which you approved in the course of approving supply.

I would repeat, the corporation seeks to budget or to estimate the broad general area of its requirements ahead of time under the categories shown in this table on page 4. The figures appear in the budget column. They are required, under the treasury board procedure, to estimate to possibly 18 months and sometimes even further ahead of the period for which the money is going to be needed.

In this case you will observe, speaking on the net basis—how the total expenditures less recovery brought out the actual figures to $1,339,000 less than the budget.

On page 5 we deal with the expense increases and decreases before turning to income. Here you have a table showing the categories of expenses for the year you are considering—1963—compared to 1962. On the comparison you will observe that in 1963, whereas salaries and wages again increased $2,362,000, certain savings in other areas reduced the over-all increase to $755,000. We then go on to point out that the increase in salaries and wages is mainly attributed to the provisions of the collective bargaining agreements, together with an increase in the number of employees during the first four months of the fiscal year. However, staff reductions during the balance of the year more than offset this early increase, and by March 31, 1963, the corporation had 179 fewer employees than at the end of the previous year.

The next paragraph refers to the same item that I had commented on in my 1962 report, having to do with the executive officers' remuneration, including as it does the salaries of the president and the vice-president, and again recording the fact that there had been no action in respect of authorizing the salary rates being paid for these two officers. This was the condition I had referred to in the previous year's report and which was still the case at March 31, 1963.

That condition has been rectified, I believe, during the year that has just recently been completed, that is, to March 31, 1964. The reduction in the amount paid to private stations is also referred to here. Owing to the disaffiliation from the C.B.C. network of two stations, this resulted in a drop in revenue.

We then deal with commissions paid to agencies, and we explain why they were reduced. That is on page 6.

Mr. CARDIFF: May I ask one question?

The CHAIRMAN: Please let us go through to the end, Mr. Cardiff. I have Mr. Fisher on my list next. I think we would get along much better that way.

Mr. HENDERSON: On page 7, one of the items in the expense category which you will have noted is employment expenses, other than wages and salaries. The principal reason for the change here is that the corporation adopted a new pension plan, as you will recall from my 1962 report. They moved into the trusteed type of pension plan, and their contribution accordingly was higher; that is, 7½ per cent of salaries and wages for male employees, and

6 per cent for female employees. Under the old plan it was 6 per cent for both, and married women were not eligible under the former plan. In this year you are studying now they took the full impact of that particular change.

We now turn to the bottom of page 7 to income where again you see comparison between the three factors which make up the income of the corporation, which of course principally is advertising, which we discussed earlier, and interest on investments. That would be largely arisic from their holdings of some bonds which you see in the balance sheet, and to other miscellaneous items.

At the top of page 8 there is a comment which possibly will be of interest to Mr. Harkness in the light of his questions. It says that a decrease in television advertising revenue was offset to a small degree by increased radio advertising revenue to the extent of $134,000; and we point out the reasons again which the president gave in his earlier testimony about the impact of private television activities on the corporation's revenue.

The next paragraph deals with an interesting angle on the statement of operations. You will find in the corporation's annual report a statement of operations, the one which follows the balance sheet, namely exhibit II. Therein are segregated costs of production and distribution under two types of headings: first of all, programs without advertising, $63,586,267 and programs with advertising, $28,801,732.

Within the former classification, that is to say, programs without advertising, there are two types of programs: those which are available for advertising which have not attracted advertising revenue; and programs of a public service nature, which, because of corporation policy, are not available to prospective advertisers.

There then follows a segregation of the total cost of the programs without advertising. You will see that of the $63,586,267 at the bottom of page 8, in point of fact $26,561,801 were for programs available for advertising, and the others were for news, and public service programs.

The most important point is contained in the last paragraph which says that the total cost of production and distribution of programs with advertising potential, therefore, is really $55,318,533 comprised of the $26,516,801, above and $28,801,732 shown as cost of production and distribution of programs with advertising. As gross advertising revenue amounted to only $30,846,627 the difference of $24,471,906 was required to be met from the parliamentary grant during the year.

The CHAIRMAN: Thank you, Mr. Henderson. We are now open for a discussion and questions up to this point. The order of questioners I have is Mr. Fisher, Mr. Ryan, and then Mr. Cardiff. Now, Mr. Fisher.

Mr. FISHER: I would take it from the way the figures are shown that all administration and what you might call headquarter expenses are costed into the figures for programming.

Mr. HENDERSON: No, they are not. If you have exhibit II before you, the statement of operations, you will see that whereas they have put in as many of the direct costs as could properly be allocated under the heading of cost of distribution, there remain other expenses, the division of which would entail considerable work and time, and which cover all the other cost aspects. They have not sought to break down the expenses under operational supervision and services, and those of selling and general administration; they are left in as total figures without being applied upstairs.

Mr. FISHER: It is possible to approach the C.B.C. or any other crown corporation from the point of view of looking for too large an overhead, too many administrative bodies and not enough of those who are actually engaged in

production or revenue. We approach the C.N.R. and T.C.A. in this way. I would like to know if in your opinion, in your analysis as such, you can get a good view of the administration and general overhead cost of administration as against production, or you might say the productivity of the organization?

Mr. HENDERSON: That is what we have sought to do in this particular statement. Perhaps I might ask Mr. Davies to correct me if I am wrong in this; but I believe the cost of production and distribution includes what might be called the direct allocable expenses to the programming, to the network distribution, and so forth. Managerial expenses, selling expenses, operational supervision, overhead and the things which you describe are to be found in the two figures which follow, the $8,426,592 and the figure of $7,268,751. Would that not be correct, Mr. Davies?

Mr. DAVIES: That is right. The cost of production and distribution, Mr. Fisher, is somewhat equivalent to a cost of sales figure, and these other two items, operational supervision and services, and selling and general administration are the same as would normally be found as additional items to it, such as general office expenses.

Mr. FISHER: In your corporation you have had an increase in the budget over the last number of years. When are we going to get results in terms of increased productivity so that the cost of the products would tend to become stabilized or to come down in relation to both the capital as well as the other spending you are talking about in your administration?

Mr. OUIMET: I wish we could answer this question, but we really do not know. Our overhead figures expressed as a percentage and comprising selling and general administration as well as operational supervision and services have remained pretty well fixed over the years. Even when our total output was smaller than it is now; generally speaking the overhead was about the same as we have at the present time. I think the reason for this is that we are dealing with a custom made product. In other words, there is no advantage in terms of simplification of supervisory processes by making more programs, because each one of them still requires the same attention. I really do not think that our supervisory charges will appreciably change over the years. We of course have no advantages of mass production, and because of that the fact that you produce twice, or three times as much does not change your ratio of overhead.

Mr. FISHER: I am paraphrasing very generally an interpretation of the speeches which you have made within the last six months which indicate that the C.B.C. does not intend to go out more militantly than it has in the past for more advertising revenue.

Mr. OUIMET: That is correct, if it is left to the C.B.C., but this is a matter on which parliament can decide otherwise.

Mr. FISHER: The reason I wanted to raise this question is that on at least three occasions I have seen in your various reports an indication that you did go out after more advertising revenue about four years ago as a result of a recommendation of a parliamentary committee.

Mr. OUIMET: Yes, we did, and at the same time I think there was also a general boom in advertising economy.

The CHAIRMAN: Mr. Henderson has presented us with figures which indicate that you still have a potential advertising revenue of a considerable size in terms of programs that are available for advertisers but have not been taken up as yet.

Mr. OUIMET: I think I should explain what categories of programs are included under this general description.

Any program which can be sold within our framework of policy is available for advertising but that does not really mean it is a saleable program. For example, a program of chamber music, and we have programs of chamber music, can be sold in the sense there is no policy that prohibits its sale, but in fact it cannot be sold because no sponsor will purchase it in view of the fact it has an audience too limited to interest a sponsor. We have many programs which are addressed to minorities. As you know, it is a job of the C.B.C. to serve minorities, and although these programs can be sold according to policy, they cannot be sold in fact because there are no sponsors who wish to purchase them.

Mr. FISHER: What would be a more realistic figure or percentage in respect of those programs which are available for advertising but are impossible or unlikely to be actually saleable?

Mr. OUIMET: I personally believe that we are selling the absolute top percentage of programs available for advertising which can actually be sold.

Mr. FISHER: You are selling that top percentage at the present time without any change in policy?

Mr. OUIMET: We are selling the top percentage we can sell without a change in policy being effected. In order to sell more we would have to change our policies and open up other categories of programs which are relatively popular but which we cannot sell as a matter of policy.

Mr. FISHER: Mr. Chairman, I intend to leave this subject now in the hope that other members will follow it up. Before I leave I should like to ask one or two questions in respect of the money that has been turned back to the crown over the last few years.

Mr. Ouimet, you have indicated that there is no way you can make adjustments within your budget in respect of this money. The reason I raise this question is familiar since the question has been raised for approximately the last ten years. And it is related to the possibility of using some of these funds for the extension of service. What are the difficulties you have encountered, first of all, in getting a proportion of your budget allocated for the extension of services and, second, in respect of any statutory or regulatory form of applying anything that you have left over, and which you are not able to spend in other categories, to this field?

Mr. OUIMET: In order to completely answer your question I think I must say that each year for the past six years we have submitted our requirements in terms of operation and capital to the treasury board. Perhaps we could limit our discussion to capital requirements. These requirements have been considered and, generally speaking, the treasury board has recommended to parliament, and included in the estimates, an amount which is usually less than the amount for which we have asked, and this has necessarily limited the number of projects that we can handle.

In this regard we have different kinds of projects. Sometimes we must replace obsolete equipment and at other times we have to consolidate facilities. We also have the very important requirement of extending our coverage in areas not receiving service. I believe that will answer the first part of your question.

In respect of the second part of your question relating to difficulties encountered in using up funds, which might not be used during the course of a year, for coverage instead of something else, this is something we cannot do because, according to the rules of the treasury board, we have to indicate the general area in which the funds have to be expended. We cannot move from coverage to replacement of obsolete equipment, or vice versa. Since we are on

a voting basis, any money that is not used simply lapses and we must ask for it again the next year, if we need it. If we were on a long term financing basis, of course, we could put some money aside, if we had saved it, and use it for some of the purposes you have mentioned.

Mr. FISHER: Have you any views, Mr. Henderson, from the point of view of the office you hold, in respect of giving the C.B.C. greater latitude in spending within its budget, and I refer particularly to alternative spending under circumstances where one sector of the budget does not receive all of the allocated spending within a year?

Mr. HENDERSON: These budgets which are passed by the treasury board, and which are listed in my report, carry the provision that the corporation can exceed any one of the individual categories up to ten per cent providing there is sufficient money available in the other categories to permit it. In other words, the C.B.C. can make their own transfers, but if they exceed this ten per cent tolerance, as the treasury board staff describes it, then the corporation is required to file a revised budget at which time the treasury board staff looks over the request, and I think, in our experience, all things being equal, generally approves it. There may be some reason, of course, why the Board would not give approval, but generally speaking that has been the policy of treasury board. That policy applies not only to the C.B.C. but to most of the other crown corporation budgets which, as we know from earlier discussions, are filed in like manner with the treasury board.

Mr. FISHER: In looking at page 4 of the 1962 and 1963 long range reports, I assume that any extension of service would come under the item "Network Transmission"; is that right?

Mr. OUIMET: This table refers to the operating costs, and we have been generally referring to capital costs.

There are two elements to be considered in this regard, the first being, of course, capital costs. I believe capital costs is the factor being determined here.

Mr. FISHER: You would include engineering under network transmission?

Mr. OUIMET: This item covers microwave transmission and sound transmission over the ordinary telephone lines and cables in respect of our TV and sound programs.

Mr. FISHER: Where do you stand at the present time in terms of the recommendation that you have a longer term budget?

Mr. OUIMET: This, as you know, was announced as an item of government policy in a statement by the hon. Mr. Pickersgill when the troika committee was set up. It is also an item which, I believe, is under consideration by the advisory committee that has been set up by Mr. Lamontagne.

Mr. FISHER: You want this, do you?

Mr. OUIMET: As far as we are concerned, yes; for years we have asked for it, and the Fowler commission in 1956 recommended that the corporation be financed on that basis. Our position has always been the same. We think it would give us a great deal more facility to plan ahead than the present arrangements.

Mr. FISHER: Have you any views on this or are you in a position to express any views on this policy change, Mr. Henderson?

Mr. HENDERSON: I think, Mr. Fisher, this is a matter on which I would prefer not to comment. The issues are fairly widely understood, I think. As Mr. Ouimet points out, this is a policy matter which he has under discussion with the government.

Mr. FISHER: The last matter I want to raise is with regard to the question you have posed a number of times, Mr. Henderson, in connection with the need

for a survey which, I take it, would be almost a continuous management survey. I gather from the items that have been filed that the corporation has made certain responses to this and also to the recommendations of the Glassco commission. I wonder what the responses are.

The CHAIRMAN: While I suppose this could come under this heading I wonder if it is not more a matter for the last item, "Special Survey", which deals with Mr. Henderson's views in this regard in considerable detail. I think this would be preferable because we could then have a general discussion at that time. I am not trying to prohibit you, but I do think it would be more advisable if we were to wait until then.

Mr. FISHER: I would like to ask Mr. Henderson if he is satisfied now with the way in which film purchases and rentals are handled and whether he feels the point which he made several years ago is now cleared up.

Mr. HENDERSON: We have not raised any further objections to this situation over the past couple of years, Mr. Fisher. We have continued to keep this under the closest review with Mr. Davies in the course of our audit work. There have been some points where we have felt there could be a tightening up, and he has co-operated in trying to achieve this.

We have not yet reached the section of the report in which I deal with these matters, and that begins on page 13.

In the Quebec region we have a situation which was the cause of some concern and to which I make reference on page 14.

Mr. FISHER: I will let that go until later, Mr. Chairman.

The CHAIRMAN: Mr. Ryan.

Mr. RYAN: The very area with which I was most concerned is the one just mentioned by Mr. Fisher; that is, the second item at the top of page 4 in the Auditor General's report for 1963, and the second item at the top of page 4 for 1962, dealing with film purchases and rentals.

Mr. HENDERSON: That is the expense item, the amount they have budgeted and the actual expense. However, further on in the report, on page 13, I do deal with it in rather more detail.

Mr. RYAN: I would like to ask a few more questions if I may.

The CHAIRMAN: Yes, but keep them general, Mr. Ryan.

Mr. RYAN: I am not familiar with what happened two or three years back. However, I note that the corporation has exceeded its budget to the extent of $489,000 in the fiscal year ended 1963; you have gone up to $8,880,000 of actual expense, almost $0.5 million. For the fiscal year 1962 you have overstepped the budget by $944,000, which is almost $1 million, and which is certainly in excess of 10 per cent of the budget, which was $7,676,000. Was this the picture for, say, the three years prior to 1962?

Mr. OUIMET: I will ask Mr. Davies to answer this. I do not believe this was the case.

Mr. DAVIES: We are dealing with the year 1962.

Mr. RYAN: What was the picture for the three years immediately preceding 1962?

Mr. DAVIES: I would have to check this. I could not specifically answer the question for the two years previous to 1962 because I just do not have the figures available.

The CHAIRMAN: We can obtain that information and have it available, Mr. Ryan, before we complete the C.B.C. inquiry.

Mr. RYAN: Can you specifically answer whether or not treasury board approval was obtained for the excess of $944,000 for the fiscal year ending 1962?

Mr. HENDERSON: If it was not, Mr. Ryan, I would have mentioned it in my comment here in this report.

Mr. RYAN: Does the treasury board, when it reviews an application for permission to exceed the budget position, obtain a breakdown of the film purchases and the rentals and obtain full details?

Mr. HENDERSON: Yes, they require the corporation to file a revised budget, substantiated by the reasons behind it, before they will approve a transfer in excess of 10 per cent of any individual amount, always provided the savings can be achieved from other categories. They cannot, of course, alter the total.

Mr. RYAN: Does this show from what countries the films are purchased or rented?

Mr. HENDERSON: Perhaps Mr. Davies can say a word about the detail he gives to the treasury board in support of such request.

Mr. DAVIES: The detail we give to treasury board, Mr. Ryan, is on the basis of the total amount of this category of expenditure, and it is based on what we estimate our expenditure would be for the year. For instance, in October, 1962, we would be going to treasury board about the 1963-64 expenditures, and we would not have finished our year until six months later. Therefore, we estimate as closely as we can, having the experience of the first half of the year, what we expect will be the expenditure in the various categories. We go through all the complete detail on the individual items—the salaries, for instance, and film purchases and rentals. This would be one lump sum unless there were certain changes in the program schedules which would indicate some sharp divergence. This is what the figure would show.

Mr. RYAN: Does the corporation at any time make a public statement in regard to where they make their purchase or rental of films? Is this listed anywhere so the public can see it?

Mr. DAVIES: No, this is a matter on which we deal with known distributors. Anyone in the film distributor business would approach us and they would be well known. For instance, there would be no restrictions on from whom we would purchase.

Mr. RYAN: Is it against your policy to reveal from whom you purchase or rent films?

Mr. OUIMET: The question really has not come up but, generally speaking, we do not reveal this kind of information.

We are in a competitive field. I should point out at this time that these film purchases and rentals in great part are feature films; what you call old movies. We use a great deal of them and, of course, we buy from whatever source will supply us with the best possible movies at the best possible prices.

Mr. RYAN: The thing that disturbs me is that it seems to be so far out in respect of the estimate on the basis of the last few years.

Mr. OUIMET: On the basis of these two years, I think, in the first case—and Mr. Davies might explain this more fully—there was an error in the estimating, to start with, because we were basing our estimate for the following year on the first six months of a year that was not finished. We guessed wrong on that one and our estimate was out. Also, we had some additional costs.

Mr. Davies may have more information in this respect.

Mr. DAVIES: I could give you the total analysis we supplied to the finance committee and the board in respect of this $944,000. It is made up in two large pieces.

Mr. RYAN: Perhaps it could be tabled in order to save time.

The CHAIRMAN: Is it lengthy?

Mr. DAVIES: No.

The CHAIRMAN: Then, we could have it read into the record.

Mr. DAVIES: There was an error of $424,000 in the estimate cost. The base that was used for the budget was under the actual; in other words, we had the actual in 1960-61 coming out at $8 million and our estimated achievement, which we had used, was some $400,000 below this.

There was another item which resulted from the increase in the French network service to equate the English and French services in Montreal to 85 hours a week, which cost some $520,000 to give a total of $944,000.

The CHAIRMAN: Would you proceed now, Mr. Cardiff.

Mr. CARDIFF: Mr. Chairman, I have a couple of questions.

Has the C.B.C. any control over private station revenue?

Mr. OUIMET: Speaking generally, no. In respect of private stations that are affiliated with C.B.C. networks our decisions have an effect on their revenue in the sense that if we sell more of our network time they get a greater share of it. I should say that they do not get a greater share but a greater return. If we sell less, then they get lesser return. I do not know whether or not this is what you mean by control.

Mr. CARDIFF: Do all private stations use the C.B.C. network?

Mr. OUIMET: No. I would say that only about one half of the private stations use the C.B.C., including radio.

Mr. CARDIFF: Well, I have one in my riding and this is why I put the question. We have a good radio station there.

Mr. OUIMET: They are part of our network which give us their facilities, which is an advantage to us. They carry our programs and they have the advantage, of course, of being supplied with a large quantity of programming, and when these programs are sold they get commercial revenue, so that is where our decision may affect them. If we sell more network time they get more money and if we sell less network time they get less.

Mr. CARDIFF: I would like to state at this time that we have a manager there who deserves a great deal of credit. He started with nothing and now he has 90 employees. He installed television facilities just about three or four years ago. As I say, he had a hard row to hoe, but he paid his way. He is a very fine fellow. He did more for that community than any other one man.

Mr. FORBES: I have a supplementary question, Mr. Chairman.

The CHAIRMAN: Mr. Forbes, we will put you down on the list. Subject to the committee overruling me, may I say that members can develop a line of questioning anywhere within this particular framework.

Mr. FORBES: My question refers to affiliates.

The CHAIRMAN: You will follow Mr. Wahn.

Would you proceed, Mr. Harkness.

Mr. HARKNESS: In connection with this matter of revenue from sale of advertising, you told Mr. Fisher that some programs are not saleable. I always have insisted that everything is saleable at a price and I wonder whether a lot of these programs are not saleable because of your pricing policy?

Mr. OUIMET: Well, it is probably true that if we sold them very cheaply—it would be in terms of cost per thousand per commercial minute, which is the way the advertisers assess the value of these possible buys—they could be sold. But, on the other hand, we get into other difficulties because there are certain recognized rights for certain types of programming, half hour and one hour, and we soon would be charged by the private stations with unfair competition if we go too far in this respect.

I might say that in respect of the example I used, namely chamber music, I have not heard of any sponsor who would be inclined to purchase it at any price, even though it has a very intelligent audience.

Mr. HARKNESS: But that would constitute a very small proportion of your programming, particularly in television.

Mr. OUIMET: Yes. I must admit I picked a good example.

Mr. HARKNESS: Yes; that was on C.B.C. radio. But, one of the reasons I am particularly interested in this is that the Glassco commission report is pretty critical of your corporation so far as its sales effort especially is concerned. They state particularly that their commissioners believe, if the corporation is to continue its commercial activities and rely on them for a substantial part of its total revenue, the factor that overrides all other considerations is the necessity of building up a strong sales organization from coast to coast. It goes on to state that nobody at headquarters in Ottawa has any real authority over the sales organization in the field, and instructions are too frequently flouted with impunity. Has there been any action taken to change this sales organization and to divorce sales from regional and network management from the point of view of general management?

Mr. OUIMET: No, not yet. But, at the moment we are making a very extensive study of that possibility. I am not in a position to say yet whether we will or will not do it. I must say that the statement that you have just quoted, that nobody has any authority at headquarters over the sales efforts, is not a correct one. There is the sales manager in the field who reports to the general manager of the sales division to which he is attached. What was meant, I think, is that there is no corporate sales manager or general sales manager in Ottawa to whom the various sales managers report. But, that is not the same thing as to say that nobody at head office has any authority over the sales manager in the field.

Mr. HARKNESS: The complaint which the commission made on what they found was that there seemed to be almost two separate lines here and no good co-ordination between them. For instance, they say that:

> The attitudes of operating officials in the field show wide variation. Some disapprove in principle the carrying on of commercial activities—others may be overzealous in seeking revenue.

This is exactly what they are talking about. This appears under the paragraph on sales organization where they say that:

> A characteristic of the corporation's sales effort is the previously noted lack of a positive policy with regard to commercial exploitation.

Mr. OUIMET: We did not understand what they meant by this statement. We have some very clear policies with respect to our commercial sales. I have given you, just a few minutes ago, a list of the things that we will sell, and the things that we do not sell. We have targets every year. Except for the year when we were really hit by the advent of the second stations, we have always achieved our commercial targets. Our commercial policies have been discussed by many parliamentary committees, they are still under discussion at the moment. I think we know exactly where we are going. The trouble is that there are many different ideas about what our policy should be. Recently, in submitting the report as one of the members of what is called the troika committee, I have made a recommendation with respect to our commercial activities. Dr. Stewart has made another recommendation. He believes that we should be out of the commercial business. It has been like this over the years as far back as I can remember. The Massey commission had us withdraw to a great extent

from commercial activities. The Fowler commission had us become more aggressive. This goes on all the time, and that is where you get this impression of uncertainty. However, as far as we are concerned, we know exactly what our policy is at any time, and we try to follow the wishes of parliament.

Mr. HARKNESS: But what they are speaking of here is not so much a matter of policy as a matter of how the sales organization is set up and carried out. Of course this particular committee is particularly concerned with the revenues and expenditures of the taxpayer, and when we see here $26 million worth of programs available for advertising from which there is no revenue, it naturally gives rise, in my mind at least, and I would think in most other minds of members of the committee, to concern on why there is no revenue coming from this. As I said before, it would seem to me that it must go back to pricing and general sales policy and organization.

Mr. OUIMET: There are also other factors. Generally in Canada—not only for us but also for the private stations—it is very difficult to sell programs in the afternoon. Now, with time the sales possibilities will be developed, but at the moment it is very difficult to sell those programs, and the private stations have the same problem as we have. Their revenue is made by having a great number of spot advertisements. In our case, where we are making a great number of programs because we are a network operation, these programs cannot be sold. The only thing we could do is to multiply the spots between the programs, but there again we have a general policy in the corporation to try to avoid cluttering up the space between programs with too many spots. Having made surveys of public opinion in this respect, we know that the public does not like to see too many spots.

I do not know whether I have answered your question to your satisfaction.

Mr. HARKNESS: I still wonder very much about this $26\frac{1}{2}$ million program on which there was no return.

Mr. OUIMET: May I add one more factor. In prime time in the evening we are sold out, but we make all kinds of programs as a public service that will not sell, although we have no objection to selling them. I think this is the whole key to the discussion here today, and that is our decision to make programs or not to make certain kinds of programs is based entirely on our program objectives, the mandate of the corporation. Our commercial activities are a means to get more money, to reduce the total demand on public funds, but we are not making our programs in order to sell them—that is not our primary purpose. We are making our programs to serve the various tastes of Canadians. If they will sell, so much the better and we make a maximum sales effort. In other words, we are not a commercial operation, we are a public service.

Mr. HARKNESS: Actually, you are a combination.

Mr. OUIMET: We are a combination with the accent and the priority on the public service side. Our commercial activities are secondary, and it is a secondary objective of the corporation. It is a means to an end, and the end is to reduce the total demand on public funds. If we go too far in getting commercial revenues and in doing so we no longer attain our primary objectives of public service, then we are not doing our job.

Mr. HARKNESS: But you have here this $37 million worth of public service programs which you refuse to seel to advertising which looks after that end of the thing to a large extent. From these other programs in which you have no objection to advertising it would seem to me that with a better sales organization and a better pricing policy and better methods you could get a considerable amount of revenue.

Mr. OUIMET: Frankly, I do not think there is much that can be done in that area along the lines you suggest.

Mr. HARKNESS: I would suggest that if the general attitude of the corporation is that there is not much that can be done, then nothing will be done. It is like everything else in life; if there is no wish to do the thing, it just will not get done.

Mr. OUIMET: I have not said there is no will, but I am speaking from experience of trying to sell such programs for many years. In order to sell a program it must be competitive with other media in terms of the cost per thousand per commercial minute of advertising, otherwise you do not sell it. There is a limit to how much we can lower the cost on this because then we get into the other pitfall where we get accused of subsidizing sponsorship, as we were in the parliamentary committees of 1959 and 1961, and we find ourselves pressured on both sides.

Mr. HARKNESS: I realize there must be a balance in that regard, but it seems to me that when you have this large potential available source of income, it should be exploitded to a greater extent than it has been.

Mr. OUIMET: You are assuming that it is not exploited. All I can say is that we are doing our very best. We have no objection whatsoever, as you can imagine, in not selling programs that can be sold if it does not interfere with our primary objectives. The more money we get, the less we have to get from parliament, and the easier our job becomes because it is not easy to get money from parliament. The more money we get from commercials, the more programs we can make and the more service we can get. All our interests are in selling more as long as it does not interfere with our primary objective. But we are at a stage where we have to be very careful that our sales effort and commercial enterprise do not interfere with our major goal, which is public service.

Mr. HARKNESS: The basic point there is that we as a committee are investigating these very matters of saving the taxpayers' money, and so forth. The Glassco commission reports very definitely that your sales organization efforts are not anything like as good as they should be, and this is something to which I think we are entitled to get an answer. I do not think it is satisfactory just to say that you do not agree with what the Glassco commission reports.

Mr. OUIMET: I find myself in some difficulty here because I have to say there are certain conclusions in the Glassco report which I believe do not apply to the kind of organization we are. If it were a commercial operation, there would be no difficulty at all; but in our kind of operation we find it difficult to carry out the intent of their conclusions and observations, and at the same time carry out what we have been asked to do by parliament.

Mr. HARKNESS: But, you have a sales organization, and the report on your sales organization is to the effect that it is badly organized, if not inefficient. These are the things in respect of which we should have answers. We should know what changes have been made, or if no changes have been made, what you propose to do in an effort to make it more efficient.

This morning we were on the matter of incentives and at that time you said you were hoping to put in more incentives. You said you actually had provided some type of bonus incentive in Montreal and Toronto, which I am very glad to hear. I say that this is the kind of answer I think we should have.

Mr. OUIMET: I also said we were studying in a very thorough fashion our internal organization. This is one of the aspects of the organization under study. I have said that we could not give you an answer on this until some time later

this year. I just am not in a position to say yes or no to any particular organizational proposition because we are not yet at that stage.

Also, there is an advisory committee, of which you heard, which is studying the studies that we are making of our organization; that is the committee under Mr. Fowler.

Mr. HARKNESS: Still, this report was put out a year and a half ago, and I would think at this time, after 18 months you would have some pretty definite answers with regard to the various criticisms which are made.

Mr. OUIMET: I thought I had given you as complete an answer as possible. I do not know what else I can say to you. You want me to agree with your observation, and I am not in a position to agree.

Mr. HARKNESS: I would expect you to have some definite proof that any of these particular observations are wrong, or otherwise tell us what you have done along the lines recommended, as you have in connection with providing some bonuses for incentive to salesmen.

Mr. OUIMET: I think, to deal with your question effectively, would really mean an analysis of all the programs which are in this category of saleable but not sold. That could not be done very easily; there are thousands of programs there. I think we can say that many of those programs are not designed for commercial purposes, and that is why they do not sell; they are not commercial programs; they are made to serve minority tastes. That is part of our job. We have no objection to selling them, but nevertheless they are not commercial programs.

Mr. HARKNESS: My next question is somewhat along this same line, but comes back to one of the statements you made a while ago. One of the observations of the Glassco commission is:

> Your commissioners believe that the potential sale of cultural programs to prestige advertisers is not being fully explored, and that the corporation should reconsider its policy in regard to minimum program cost recovery.

Has there been any review of your policy in this regard?

Mr. OUIMET: It always has been our policy to sell those programs. We sold one or two programs to the Canada loan drive seven or eight years ago. More recently it has been a little less difficult to sell those programs. We have sold some of them to the Bell Telephone Company and the Aluminum Company of Canada. I must say we have sold them at a considerable discount.

Mr. TARDIF: There may be a conflict of policy. It may be the policy of the advertisers not to buy these because they do not think there are sufficient listeners.

Mr. OUIMET: That is what I was saying. The advertiser will not buy unless he receives a sufficient return on his investment to justify buying the program rather than use a poster or advertise on a popular program such as "Country Hoedown", or "Don Messer". Here we are speaking of fairly expensive prestige efforts. I could not agree more with the thought that if the advertiser would see the great benefits—

Mr. HARKNESS: This, again, comes down to a price policy. How often do you review the pricing policy with regard to these?

Mr. OUIMET: Our pricing policy with regard to these major efforts is quite a flexible one. We try to get the maximum that the market will bear in these areas. Mind you, however, you are pursuing an idea for which we were very severely criticized in 1959 and 1961. We were told then we should not sell anything at a cost which is below the cost of production. Now the suggestion is that we go completely the other way.

Some of these programs cost $50,000 or $600,000 and, of course, we cannot possibly get that return. In certain cases we have got back $20,000. We would have to do it anyway, and we are glad to get the $20,000 back.

Mr. HARKNESS: Certainly half a loaf is better than no bread.

Mr. OUIMET: I am certainly glad to hear you say that. If you had been on the 1959 broadcasting committee, you would have saved us a lot of trouble.

Mr. HARKNESS: I have another question in connection with broadcasting. One of the statements of the Glassco commission is:

> —the final budgets are based on what it cost last year plus an estimate of additional requirements, with no searching analysis of last year's costs. They possess, therefore, little real value for purposes of planning as effective instruments of control.

Have you made any changes in your budgeting procedures as a result of that observation?

Mr. DAVIES: Yes. I think this comment dealt primarily with the over-all budgeting of the corporation with regard to the way we had to go to the treasury board at that time. As I mentioned, we were going around October, which was six months before the year started, and at that time we were in a situation, because of the changes which had been taking place, where we were relating an over-all value, much as has been suggested in the Glassco commission report. We have since developed that into the situation where we are moving planning much further ahead, in other words, in order to determine the objectives of the programming, and to develop more fully the program plans that are ahead. As you will appreciate, this is a relatively difficult task and has to do with the use of averages that you develop on an historical basis.

One of the reasons we could not get at this before was that we did not have sufficient information. The new system of accounts had only been developing over about three years at that time. Now, after this is established, there is a whole system of budgeting within the corporation on a decentralized basis through its accounting offices in relation to its managers, and to each department. There are some 600 to 700 individual departments throughout the corporation and in each one of these the department head sets up the budget of his own departmental expenses using information supplied to him through the accounting office. Then he checks it out and looks at it just the same as in every other industrial company. These are finally brought together and tied up in a management budget, which, being established at a date later than the one which had gone to the treasury board, really forms the basis of the management budget of the corporation which is used to measure the results, and the actual figures as they come forward each month.

Mr. HARKNESS: Have you any observations you would like to make, Mr. Henderson?

Mr. HENDERSON: You are speaking about the budgeting question?

Mr. HARKNESS: Yes.

Mr. HENDERSON: I can confirm from my own knowledge what gave rise to Glassco saying this, because the paragraph you are quoting from points out—and this was in effect at the time the Glassco people examined it—that the financial planning and the budgeting functions were split. Mr. Davies described how the entire budgeting function has been transferred to him as comptroller, and that is where in my opinion it always should have been.

Mr. HARKNESS: I am glad to hear you say that, because it would have been the basis of my next question, whether a split in the budgeting authority had been wrong.

Mr. HENDERSON: The description which Mr. Davies gave you of the budget process is the way in which he and the officers of his comptroller's department handle it. It is under a unified head. I found his explanation to be quite adequate in that respect. I think it is correct, is it not, Mr. Ouimet, that the responsibility for the total budgeting, and the preparation and co-ordination of it now rests with your principal financial officer?

Mr. OUIMET: Yes. If I remember correctly this was done while the royal commission was making its study. It is all in Mr. Davies' hands now.

Mr. HARKNESS: There was mention made to the effect that there was organizational overlapping in the two procedures. One represented the vice president of administration and the other represented the comptroller, and they were performing the same or similar functions. I understand that this has been corrected as well.

Mr. OUIMET: This has already been modified, and the whole of these functions is now in the hands of the comptroller, and the management of it also.

Mr. HENDERSON: I might add that in my 1960 report on the operations of the corporation which was tabled before the broadcasting committee on June 1, 1961, I had a number of recommendations to make, and this was one of them, and, as Mr. Ouimet just stated, this has since been adopted.

The CHAIRMAN: Now, Mr. Wahn.

Mr. WAHN: Mr. Chairman, Mr. Ouimet emphasized that the primary obligation of the C.B.C. is to perform a public service and not a commercial service. I personally am completely in accord with it. It seems to me that the only justification for the $73 million grant from public funds is to pay for public service programming, and that there is no justification for the expenditure of any part of the public grant merely for the purpose of competing more effectively with privately owned stations. I hope my question to Mr. Ouimet will not be regarded as an attack on the C.B.C. on another flank, because it is not. I wish to support the C.B.C.

Mr. HARKNESS: At this point I would just like to make it clear that anything I have been saying, I hope, will not be interpreted as being an attack on the C.B.C. I have been asking for explanations of various findings which were made by the Glassco royal commission, and of the figures which were produced. I hope that the inference from my remarks is not to be that this is an attack on the C.B.C. This certainly would be the inference that I would take from what was said a moment ago.

Mr. WAHN: Let me assure you that that was not my intention. I merely wanted to be sure that my questions would not be considered as an attack on the C.B.C. I am concerned about the functions which the C.B.C. perform and which Mr. Ouimet emphasized, and that their functions should be the provision of public service programs, and that the C.B.C. should not attempt to be a commercial service or to compete in a commercial way in this area where private stations already are well established.

My first question of Mr. Ouimet is: Does the fact that the C.B.C. actually own a large number of outlets both radio stations as well as television stations put undue commercial pressure upon it to fill up the time? Perhaps I might explain my question a bit. It must be rather difficult to fill up a complete schedule of owned radio or television stations with programs which would be regarded as of public service nature. Perhaps I might put it another way: Why is it necessary for the C.B.C. actually to own physically radio stations and television stations in urban areas where there are already adequate physical facilities owned by private stations? We all know that a radio licence and a television licence are considered very valuable franchises.

If time is required by the C.B.C. for public service programs, why cannot such time be made available either as a condition of the granting of the licence, or by rental from the privately owned station? Is it really necessary for the C.B.C. in an urban area to own the outlets that it now owns, or does it put commercial pressure upon them to project what Mr. Ouimet emphasized as the primary obligation of the C.B.C., namely, to provide public service programs.

Mr. OUIMET: I think we are dealing here with really fundamental questions of policy of how to run a national broadcasting service. To answer your question directly I would say yes, absolutely, it is necessary to have C.B.C. outlets. I think one of the best ways to diminish the effectiveness of the national service would be to deprive it of its outlets.

I am not at the moment proving this point, but I am making the statement. There is one thought that I think was present in most of the questions you asked, and that was the thought that there are some things which the C.B.C. do which are a public service, and there are other things which we do which are not a public service. I must say to you that we do not make that distinction. When we provide programming, it is balanced programming. We have to serve all tastes. Now, tastes vary a great deal. So we may have something which is very serious, very solid, very thought provoking, and we may also have as necessary ingredients programs which will be diverting, which will be very light, which will perhaps have very little for the mind, but nevertheless they are a public service.

In many areas the C.B.C. is the only service available. In all areas which are not commercially profitable the C.B.C. provides a service, and must provide a full service. In many areas no one else would provide that service because it is not commercially advantageous.

Mr. WAHN: My question was directed solely to those areas where there are existing commercial facilities. I refer to areas such as Toronto.

Mr. OUIMET: Your question was based on the idea that it might possibly save quite a bit of money to provide programs only for feeding networks of private stations. We are already in a position of being obligated to provide services to many stations which have no other source of programming, so we have a full program available at the beginning and, it does not cost any more to provide it to others. Furthermore, operating a station is not the costly part of programming. If you look at the annual report you will see that the production of programming is costly, the distribution of programming is costly, particularly in a country the size of Canada, whereas the transmission of programming is a rather small percentage of the total cost. We would not gain anything of importance by using this system and would lose a great deal by reducing the effectiveness of our distribution. We distribute a great deal more programming through our facilities than we ever could through private stations.

Furthermore the private stations, while they have been most co-operative in accepting many programs which you might not put in the category of commercial programs, in the sense that they are not planned for the maximum audience, can not accept many of the programs that we carry on our own stations. Take the French network as an example, I imagine we have something like 70 or 80 hours of programming out of which perhaps the affiliates carry 45 or 44 hours. In respect of the English network, we sent out about 57 or 60 hours of programming of which that network will carry about 44 hours. The programs not carried by those networks are usually those programs which would be in the category of public service.

Mr. HARKNESS: All these remarks you have made are made in respect of television?

Mr. OUIMET: I am referring to television. In the case of radio effectiveness our distribution is much less. The affiliates will carry only 25 to 26 hours per week of our total output of programming.

Mr. HARKNESS: That is the impression I had; hence my question.

Mr. OUIMET: I think we have a tendency to think too much of television at times.

Mr. WAHN: Why must you rely on private stations to voluntarily carry your programming? If you did not physically own the stations in urban areas would it not be cheaper to rent time? I understand why the C.B.C. must own its facilities in areas where there would otherwise be no radio or television stations, and I am not referring to those areas. My remarks are directed solely in respect of areas where other facilities would be in existence even if C.B.C. did not provide a service. Would it not be cheaper for the C.B.C. to rent time and provide specific public service programs, and I refer to programs of a type which would not otherwise be put out by privately owned stations. I appreciate the fact we need this type of programming, but is it necessary for C.B.C. to put out a program of the nature of "Hit Parade", for example, which is of a type we all know private stations will provide in ample quantity?

Mr. OUIMET: I think the C.B.C. has to put out a program of the nature of "Hit Parade", although we do very little of it compared to private stations, because we have to feed our networks, which cover the whole of Canada including many areas where there are no other stations, but where the people have the same tastes as people living in larger centres.

Mr. WAHN: I agree it is necessary for the C.B.C. to provide that type of program to areas in the Northwest Territories, but is it necessary to feed that type of program to Toronto where there exist five or ten stations?

Mr. OUIMET: What would be the advantage of not feeding out these programs since the programming is already paid for?

Mr. WAHN: If you did not own facilities in Toronto you obviously would not rent time in Toronto for the purpose of putting out such a program because Torontonians already receive these programs through other stations. My remarks are directed to the very simple question, why does the C.B.C. have to own radio and TV stations in urban areas? I ask that question in good faith in an endeavour to acquire further information. Why can you not rent time?

Mr. OUIMET: First of all, as a completely national service, we feel we must have something for all tastes, and to follow your suggestion we feel would not be effective and would cost a great deal of money.

Mr. WAHN: Has a specific study of that situation been made by the C.B.C.?

Mr. OUIMET: Yes, such a study has been made over the years but not in terms of attempting to calculate the relative costs of schemes A, B, C and D. This has been a matter of discussion for the last 15 years. It was discussed before the Fowler commission in 1955 and before other committees. It was discussed by the troika committee. By the way, there is no other national service in the world which works on the basis you suggest. That information might not be important but it is revealing. We do not think that the national service would be viable on such a basis, and the answer to your question is that simple. Our feeling is very basic and fundamental. We think quite frankly that the best way of diminishing the effectiveness of the C.B.C. is to turn it into a program production agency à la national film board, for example. Of course there have not been very many suggestions of this type made except by some of the more extreme right wing private broadcasting stations, and we think to follow such a suggestion would be disastrous.

Mr. WAHN: Can you give us any reason for your feeling in this regard?

Mr. OUIMET: I thought I had given you the reasons. You were referring to programs which are popular. Let us now deal with television which is the most expensive aspect of our service. C.T.V., for example, which is a private network, provides a variety of programs, but does not provide a complete service of programming. They provide sports; they provide hockey and they provide football; they provide quiz shows; they provide syndicated films. I do not know whether they provide movies or whether they are provided locally. They do not provide any major variety shows; they do not provide any major drama shows and, in other words, they are very limited in what can be done simply because no sponsor will pay more than say, $7,000 an hour for the programming that they put on. The same situation exists with us. We have the advantage of public funds to support us, and we are able to produce the rest. A "Parade" program is a light entertainment program and I think, in your definition, should not be produced by the C.B.C. If that is the case, then it would not be produced in Canada and there would be no Canadian variety of high quality. The same applies to drama. I am sure you would agree that the C.B.C. should produce all of these programs.

There is a great advantage in operating a station. If we are to be in Montreal with 2,400 employees or in Toronto with 2,300 employees to produce the programs we have to produce, it is a very simple matter to have another 90 or 75 employees—I do not know exactly what it is—to provide the local service of the local station. This keeps us in direct contact with our audience, and we need that contact in order to know exactly what is the feel or to know what is the reaction. It is very difficult to get that when you are distributing through others.

Furthermore, by having stations in Vancouver, in Winnipeg, in St. John's, Newfoundland, or Chicoutimi, we are able to develop talent at the local level that eventually may prove good enough to move the national level. All of this is tied together, and to try to do a public service job—which the C.B.C is trying to do—exclusively through commercial private stations is trying to merge together two things which are not entirely compatible or cannot be reconciled to that degree. I think we have achieved in Canada a wonderful system, a wonderful mixture of private and public enterprise. I think we have about the most that we could get out of that marriage, but we cannot go any further because then we would come in conflict with one another.

Mr. WAHN: In your annual report for 1961-62, under the heading of television, on page 18 it is stated:

> In television, the national service is also distributed through the co-operation of C.B.C. and privately-owned affiliates. The national service is distributed in full to between 55 to 60 per cent of the population through C.B.C.-owned stations.
>
> Co-operation between the C.B.C. and its television affiliates has always been high, with the result that about 80 per cent of the national service is carried by the affiliates.

I presume that means privately owned stations. Why is it then necessary for you to have a television station specifically, such as Toronto?

Mr. OUIMET: In order to give a better service to the people of Canada generally. Being in Toronto, it does not cost much more—this is the smallest part of our costs—and it gives us this contact with the public which is so necessary. We can test local talent on a local basis, and then we can put them on the network.

Frankly, I am intrigued by your thinking on this question because it is a matter of public knowledge now that when Dr. Stewart, the chairman of the board of broadcast governors, and Don Jamieson, the president of CAB—all the private stations—and I got together to try to think out what the ideal system would be, this is one point on which we were all in agreement. We agreed that the best way to serve the public in any area was by a combination of a C.B.C.-owned station and a privately owned station, and not by having two privately owned stations. That took in the thinking of the private stations themselves, the regulatory board—the board of broadcast governors—and the C.B.C. Therefore, you can see a lot of thought has gone into this. It is a complex matter to explain, but we are very strongly convinced that this is one of the basic fundamentals of broadcasting in Canada which should be preserved.

Mr. FORBES: Mr. Chairman, Mr. Harkness asked most of the questions pertaining to the Glassco commission report in which I was interested, but I have one more question.

We were discussing revenue a few minutes ago; and in the C.B.C. report you refer to the disaffiliation of a station in Hamilton and one in Edmonton. Is this due to the fact that your programming is too expensive? If not, why did you lose the affiliation with these two stations?

Mr. OUIMET: No. By the way, let me make it very clear that we do not charge anything to private stations for our programs, so it is not a question that our programs are too expensive. They get paid for the commercial programs they carry.

The disaffiliation of Edmonton was simply because the Canadian Broadcasting Corporation established its own station in Edmonton, and therefore the station that was there before became affiliated with the other network. Having our own station, we took our own programs. That is the reason for the diaffiliation of Edmonton.

Mr. FORBES: My question was based on the latter part of the paragraph where you say that the disaffiliation has resulted in cessation of revenues from these sources. That is the basis of my question.

Mr. OUIMET: This simply means that when we sell the network we sell C.B.C. stations as well as private affiliates, and we bill the sponsor for the total. We get that amount in and it shows in our books as a revenue; and we turn around and pay the private station, and it then shows as an expense. That is why there is this gross and net revenue here. The disaffiliation of Hamilton would thus affect our figures. If, for example, we have fewer affiliates, then obviously the payment to the private stations will be decreased, but so will our gross revenue be decreased—both the payment and revenue will be decreased.

Mr. FORBES: Why did these two stations disaffiliate?

Mr. OUIMET: In the case of Edmonton, because we established our own station and it was understood at the time that they would become part of the second network, the private commercial network. That is why they disaffiliated.

In the case of Hamilton, the reason was entirely different; and we opposed it. Hamilton claimed that they were not needed to provide the coverage in their area, that our station located in Toronto provided an adequate service. Obviously, they thought they could be better off financially by working as an independent station. We opposed this because we felt we were losing some coverage through the Hamilton station, but the board of broadcast governors when hearing the two cases decided in favour of Hamilton, and disaffiliated Hamilton.

Mr. FORBES: This ties right in with Mr. Wahn's question when he asked why you do not rent those services instead of putting up your own. I recall the Edmonton station. You put up the station there, and two services were provided in Edmonton when there were other areas in Canada which were not covered at all.

Mr. OUIMET: Yes. I thought I had answered the question of Mr. Wahn to the best of my ability.

The CHAIRMAN: Gentlemen, it is now 5.15 p.m. We have made very excellent progress. It does appear that we will be able to complete this examination by Tuesday. Is it your wish that we adjourn now until eight o'clock?

Agreed.

EVENING SITTING

THURSDAY, July 2, 1964.

The CHAIRMAN: Gentlemen, I see a quorum; thank you.

We will commence proceedings now. We had been dealing with the various items contained between pages 2 and 9. When we adjourned shortly after 5 o'clock I do not believe there was any indication there were any further questions.

Have you a question, Mr. Winch?

Mr. WINCH: Yes, Mr. Chairman. I would like to ask one question. It may be that I have it all wrong because I am not an accountant. However, I was interested in the questioning and discussion relative to the costs of production and distribution, as it was broken down or explained by Mr. Henderson and discussed at considerable length by other members of the committee, with regard to the amount of revenue from what is available for sale but for which there is no advertising. I have been trying to find this information in the statement of operations of the corporation by way of a similar breakdown because I think it would be of great interest to the house and to the committee at all times to have in the financial statement of operations of the C.B.C. this type of information in detail and broken down. Have I missed this somewhere along the line, or is it not covered?

Mr. HENDERSON: You are referring to the figures on page 8, are you?

Mr. WINCH: Yes.

Mr. HENDERSON: That is, where I show the total amount of programs without advertising at $63,586,267 of which $26,516,801 is designated as programs available for advertising, and in respect of which I go on to show that the total cost of production and distribution of programs with advertising potential, therefore, is really $55,318,533, comprised of this figure of $26,516,801 shown in the table and $28,801,732 shown as cost of production and distribution of programs with advertising. Consequently, gross advertising revenue amounted to only $30,846,627; the difference of $24,471,906 was thus required to be met from the parliamentary grant during the year.

Your point is perfectly correct, sir; the statement of operations which appears as exhibit 2 of the financial statements does not bring this point out. I have brought it out in my report to the directors this year.

I might say, Mr. Chairman, this raises quite an interesting question in respect of the manner in which the programs are listed. For some years now we have shown the cost of production and the distribution broken down between these two "advertising" categorizations. I think this would be for the past three or four years; that is to say, programs without advertising and programs with advertising.

What Mr. Winch is implying by his question, if I understood him correctly, is that he would like to have brought out on the financial statements this separate figure of programs which were available for advertising but which were not sold. In other words, if I understood him correctly he would like the statement to disclose the fact that there was a cost difference of $24,471,906 which was required to be met over and above the public service programs.

Mr. WINCH: My problem was that I could not locate that.

Mr. HENDERSON: No. It is in the figure of $63,586,267. It is only by reading my report that you learn that a portion of it represents programs which the corporation would have sold had there been customers.

Mr. WINCH: I think perhaps Mr. Henderson has worded it better than I did. However, basically, I would like to know whether it would be good accounting practice for this to be shown and, perhaps, with some degree of explanation so that members of the House of Commons and members of this committee could understand just exactly what is taking place in regard to this production and distribution.

Mr. HENDERSON: In other words, what you are saying is, could not this statement of operations be improved?

Mr. WINCH: Yes, so as to make it more understandable to persons like myself who are not chartered accountants.

The CHAIRMAN: Perhaps we could hear from Mr. Davies in this respect.

Mr. DAVIES: Mr. Winch, we make this split on the statement of operations in two large pieces, those programs that have advertising and those as a group which do not carry advertising. The ones that do not carry advertising are in the column entitled "programs without", and portions of these are those types of programs which are available but which are of a type that have not been sold despite our best efforts.

Mr. WINCH: That, I think, is my point here. To make it clear, of the $63 million I cannot see the amount shown which is available.

Mr. DAVIES: It is not shown; it is included.

Mr. WINCH: Should it not be shown?

Mr. DAVIES: This is a moot point, sir. In our reports every month to the finance committee of the board and through to the board itself this type of disclosure is made in complete detail.

Mr. WINCH: We do not get that information.

Mr. DAVIES: No. This is not published information, if you like.

Mr. WINCH: Well, that is my point.

Mr. DAVIES: When you get to the stage of providing this sort of detail and the discussions that we have had with the Auditor General heretofore about the form of the statement it seemed to us that these two divisions would afford a disclosure without going into a great columnar arrangement. I think this is primarily the reason why these things were lumped. We believe, in the first instance, this is probably a management split for its own control purposes.

Mr. WINCH: But, would it not take only one or two lines just to show that of this amount of $63 million—

Mr. DAVIES: It could be shown.

Mr. WINCH: —$26 million represents productions which are not of the public service type as such in the broad principle of it, but are productions which are available for sale which have not been sold, although they might have been used.

Mr. DAVIES: Yes, but if I might suggest, sir, I think, judging by the discussion that has gone on in this committee concerning this amount and the

difficulty with it, it would seem to me that perhaps the better place to provide this information is through this committee where there would be an opportunity to discuss it because this figure can fluctuate and, therefore, showing this on the statement in published form would give rise to questions which could not be answered readily in the amount of detail that has been discussed here today.

Mr. HENDERSON: May I add something to that. I think Mr. Winch has raised an interesting point. Would you look at exhibit 2.

The CHAIRMAN: Excuse me, Mr. Henderson. For the benefit of the new members who were not here before might I indicate that we are now going through the 1963 long form report made by the Auditor General to the C.B.C. We are dealing with the paragraphs up to page nine, and we have attached the various exhibits which we have distributed. This is what Mr. Henderson is now referring to.

I am sorry, Mr. Henderson, I interrupted you but I thought it might be advisable to inform the new members of the committee what we are now discussing.

Mr. GRÉGOIRE: May I ask a question as I am one of these new members? Do we go through this document paragraph by paragraph?

The CHAIRMAN: We started by doing that, Mr. Grégoire, but we got as far as the third page and we then discovered that by reason of certain information on the third page we had to branch out. We therefore proceeded as far as page nine in the English text.

Mr. GRÉGOIRE: Is there no French copy of that?

The CHAIRMAN: The French copies are in the process of being prepared. They are not available at present.

Mr. GRÉGOIRE: When will they be available?

The CHAIRMAN: I should probably explain that these are private documents prepared by the Auditor General for the benefit of the C.B.C. In a comparatively short time it was decided we should proceed with this examination today and it was agreed that these documents would be made available. Only then did we discover that, as private documents, they were prepared only in English. Mr. Henderson's office is now engaged in having them prepared in French, and I think they will be ready very shortly, we certainly hope before the next meeting.

Mr. GRÉGOIRE: May I ask whether you usually require a French translation of your documents?

Mr. OUIMET: For our own sake we accept the documents in the language in which they are prepared. When we provide documents for public use, they are generally provided in both languages.

Mr. GRÉGOIRE: Do the directors of the C.B.C. never require a French copy? Do they speak English well enough?

Mr. OUIMET: We do not insist on getting a French copy for our work.

Mr. GRÉGOIRE: They all speak English well enough to understand the documents quite well?

Mr. OUIMET: I think we do.

Mr. GRÉGOIRE: Can I then presume that all your discussions are held in English?

The CHAIRMAN: I think possibly, Mr. Grégoire, we are getting off the subject.

Mr. GRÉGOIRE: I was just finishing. I would just like my last question answered.

The CHAIRMAN: We will have ample opportunity to deal with this later. Probably, Mr. Ouimet, you might answer the last question, and having had this little diversion we can then come back to our subject matter.

Mr. HENDERSON: May I just say to Mr. Grégoire that as soon as Mr. Ouimet indicated that he would like the reports tabled in the committee, I at once arranged—that was early last week—to have them translated. However, they were unable to deliver them to me today, but they are promised for the next meeting.

Mr. GRÉGOIRE: Has the C.B.C. never asked you for a French text before?

Mr. HENDERSON: No.

Mr. GRÉGOIRE: How many French Canadians are there on the board who study these documents?

Mr. OUIMET: There are three French-speaking members on the board.

Mr. GRÉGOIRE: Is only the board studying these documents?

Mr. FRANCIS: Mr. Chairman, I have a question of order. What is the scope of the questioning?

The CHAIRMAN: I think the point is well taken. Mr. Grégoire, there will be an opportunity later on when we deal with the board itself to bring this matter up again.

Mr. GRÉGOIRE: I have finished with my questions. I think this is a question of order. I did not want to raise this point of order but as I am asked to sit on this committee and I received this paper this morning only in English I feel that I have a right to ask this question. If I might say so, the point is completely in order and relevant to the situation. I can read figures in English as well as in French.

Mr. FANE: What are you talking about, then?

Mr. GRÉGOIRE: It is a question of principle.

The CHAIRMAN: You are quite right. When the documents were made public for use in the committee we attempted to have them made available in both languages, but as this was a private document made available by the Auditor General to the C.B.C., as Mr. Henderson said, we decided to proceed with the English text at this time and to prepare the French document as soon as possible. Unfortunately it is not ready at this time.

Mr. HARKNESS: The point was raised this afternoon, you will recall, and the explanation was given. I do not think we should continue repeating this same discussion.

The CHAIRMAN: We have had a reasonable discussion. Mr. Grégoire was not here so I attempted to explain it to him.

Mr. FISHER: Why?

Mr. GRÉGOIRE: I will tell you why, because I received notice of this meeting at the end of the afternoon.

The CHAIRMAN: Order, order, gentlemen. Mr. Henderson, would you mind continuing with your explanation please?

Mr. HENDERSON: Mr. Chairman, Mr. Winch had raised the question whether or not the statement of operations—that is to say exhibit 2 for the year ended March 13, 1963—might not afford a better disclosure of the results of these operations were the costs of the programs available for advertising but which were not sold shown separately. I indicated a moment or so ago that I felt he had a good point, and by way of illustrating it further, and subject to what Mr. Ouimet and Mr. Davies might have to say, may I explain that if you look at exhibit 2 you will see that the cost of the programs with advertising is shown in the statement at $28,801,732, whereas under income,

the gross advertising revenue was $30,846,627, indicating a gross profit before other expenses of approximately $2 million. On page nine in my report I point out that if the programs available for advertising were in fact included, that difference would be considerably larger. The question therefore arises whether or not consideration should be given to making some appropriate changes in the statement in future which would bring out this situation. I am at all times concerned with the adequacy—as I must be—and with the standards of disclosure of any statements which I certify, and therefore I am always extremely interested in any comments like this, particularly when they come from the stockholders.

Mr. FISHER: I have a supplementary question. How would you clarify it?

Mr. HENDERSON: That is something which in the ordinary course we would work out with the management of the corporation. There are various ways of presenting this, such as presenting it across instead of in a columnar fashion.

Mr. FISHER: In view of what Mr. Ouimet told us this afternoon I do not see that. I mean no offence to Mr. Ouimet but it was rather a loose explanation. I mean that the explanation you have to give for this kind of program is generally rather vague.

Mr. OUIMET: I wish there was a way to divide clearly into two categories, or into three categories, that kind of program so that we could show the cost of those sold. This is easy. This is under the column, "Programs with advertising". However, when you come to the category of programs which are not sold and where you have two categories, one where there is a definite policy that prevents their sale, and then all the others, most of which could not be sold by anyone even if they tried to, it would be misleading to put those in a category which would show them as programs which could be expected to be sold. They cannot be expected to be sold, and that is our difficulty. We would require more than three categories. If you were to divide these programs in the way suggested, I think it would be more misleading than it is at present. That is why we have resorted to two categories which are quite clear, and we have not tried to divide it into three categories which would not be clear at all. There might be a way of doing it by dividing it into four or five categories but that would complicate the statement.

Mr. WINCH: Be honest. If you had even four or five, then you would have a true picture of what is going on.

Mr. FISHER: Not only honest; it certainly would relate directly to your program policy. It is one of the best interpretations you can get about where you are putting your money in terms of your programming.

Mr. OUIMET: By the way, the arrangement of the statement is not a question of trying to divulge more or less; this is not the problem. It is simply to provide something which will be accurate. This afternoon we had an example of the discussion which took place the minute we started to talk about the categories of programs available for advertising, but which were not sold. Immediately the conclusion was that these programs should be sold. Well, these programs are not made to sell. There is no objection to selling them, but they are not made to sell, and it is most improbable that they can be sold. Therefore, I do not see what the figure reveals. I think this is a misleading figure. We can try to use our imagination to find some way to get around this difficulty, but I do not think that way is the way which has been suggested.

Mr. WINCH: In view of what Mr. Ouimet has just said—and I think I have his words correct—they are there to be sold, but they just cannot be sold; therefore, on the basis that they cannot be sold, you have produced them and

therefore they must have a value strictly of public service, and could be included in your straight public service production and distribution.

Mr. OUIMET: This is where we start having difficulty. There is no policy against selling them, but we are not making them for sale. They cannot be sold. You are suggesting, therefore, they should go on the other side with the public service type of programs as you call them. We call all of the programs public service whether commercial or otherwise, but for this discussion we will use your term. You can see that then we are involved in a question of judgment on the part of management in respect of what can, in fact, be sold and what cannot be sold. If this is what you are suggesting, of course this readily can be done. It must be somebody's assessment.

Mr. WINCH: That is why you are paid as the boss, to use judgment.

Mr. OUIMET: We will be glad to do as you suggest. We can separate them in categories, which would indicate what, in the opinion of management, can be sold in order to assess the commercial sales achievement against that breakdown. That can be done.

Mr. WINCH: I think it is worthy of further consideration, at least along the lines we have been suggesting.

Mr. OUIMET: I think it is worthy of consideration.

Mr. FISHER: Mr. Ouimet, do you remember that, after some difficulty, a few years ago the broadcasting committee was given a breakdown of the number of commercial programs which indicated that a number of them were what you might call loss leaders. Is that kind of information available to the Auditor General and his accountants when they are examining your accounts; that is, an analysis of the program list indicating which of the commercial programs do not have the advertising revenue coming in to meet their costs?

Mr. OUIMET: So far as I know, all this information is available to the Auditor General.

Mr. FISHER: You never came to any conclusions, from your point of view, Mr. Henderson, about this phase of the commercial operations?

Mr. HENDERSON: It is because of the importance of this as well as my interest in it, plus the fact that I always hope that financial statements of this type will achieve reasonable maximum disclosure, that I expressed my interest in Mr. Winch's suggestion. Were these reflected along the lines Mr. Ouimet said, we might achieve what is desired in the statement. It is too early to speculate how it would be shown. It will not be possible to do it with regard to the statement of operations for the year ended March 31, 1964, because so far as I am concerned I have signed this statement and sent it to the Secretary of State. On the other hand, Mr. Stokes and I would like to sit down with management to see what we can do with regard to a similar statement for the year ending March 31, 1965, the now current fiscal year. All the information, as Mr. Ouimet stated, of course is available to me.

I am primarily, and must always be, concerned that financial statements such as these will be the truest possible reflection of the operations of the corporation, whether it is the C.B.C., the Export Credits Insurance Corporation, Eldorado Mining and Refining Limited, or whatever the nature of the business.

If we could achieve something like this, I think it would be a definite improvement on this particular format. Does that answer the question?

Mr. FISHER: Yes.

Mr. Ouimet, in 1960-61 the figures which I obtained at that time in terms of commercial revenue for the French network, radio and television, and the English network, radio and television, indicated that approximately 50 per cent of the programming costs was met in the English network by advertising revenue, and approximately 35 per cent of the costs in the French network

was met by advertising revenue. Do you have any indication whether there has been any change in this particular balance?

Mr. OUIMET: I do not believe I could answer your question immediately, but we certainly can look it up and provide the information.

Mr. FISHER: As you probably know, this ratio of advertising revenue has become of interest in a larger sense than just of this committee as a result of some claims made by one of the unions in connection with the spending of the C.B.C. on talent in the various networks. I know you have issued a statement denying the claims of A.C.R.T.A.; but this is something else again. I wonder whether you or Mr. Henderson could tell us whether it would be possible to give a clear exposition of this kind of information in the annual report, or in the material the Auditor General provides so that we would not have claims of this type and would not have this kind of dissension developing over something which really relates to your spending policy.

Mr. OUIMET: I think there is no limit to the extent we could go in providing information in our statements. We have been following a pattern which has been constant for many, many years. We can expand on this. I am just wondering whether this provision of information with regard to the breakdown between the French and English would not be followed by requests for information with regard to the breakdown between, say, how much we spend in the city of Prince Rupert compared to the city of Chicoutimi, and so on. I am just wondering where we are going.

Mr. FISHER: Let me put an argument to you. You have so much commercial revenue, and you have so big a grant for the department. You have your mandate, and there are certain things you have to do. I may have an obsession on the extension of service, but one of the things involved is the amount of money you have available. One of the sources of money you have available is commercial revenue. If one of the networks, the English network, for example, has more commercial revenue coming in, then it seems to me that it is on that line that you should consider spreading some of your money for the extension of service.

As I read the figures percentagewise, the French network does not bring you in as much revenue as does the English network; but in looking at the applications for the extension of service I find the C.B.C.—and I am not being critical of you from the objective point of view—has gone out of its way in carrying out its mandate in connection with operating a French language service for both television and radio in this country. Might I suggest to you that if English radio and television—particularly English television—bear a much larger proportion of its cost from commercial revenue, you should consider as policy that particular network and the extension of its services in those areas which are without them, and that they should be given some sort of priority?

Mr. OUIMET: You have made a number of statements. I do not know if I can deal with the questions in the statements. But one which struck me particularly was the thought that the C.B.C. had gone out of its way to provide extension of French language service. Let me tell you that that is not the case. We have tried to provide services for both languages as we are required, and I think we use exactly the same basic formula to deal with the two extensions. I do not think you can say that there has been more done on the French language than on the English language. I would say that it has been done in relation to the needs. Now, as far as the English language coverage and French language coverage are concerned, I would say that at this moment the English language coverage is higher than on the French side.

Mr. FISHER: The last time you were before the committee you said that there was approximately—

The CHAIRMAN: I think Mr. Ouimet is still on his statement.

Mr. FISHER: I have figures here.

Mr. OUIMET: I do not have figures such as this before me. I am working on the basis of my memory and subject to review. I do not think it is the other way around. Let us put it that way. You are suggesting now that we should distribute the service or decide on the allocation of money for extension of service on the basis of the ratio in the commercial revenue in the English as compared to the French network. That is not the policy of the corporation. I must say to you that our policy is an entirely different one. The policy of the corporation is to provide adequate service to all Canadians in both languages.

Mr. FISHER: There is nothing wrong about providing adequate service, but my whole point is that in extension of service, I want to contradict Mr. Ouimet in his point of view. I can dig out his speeches from my files. The C.B.C. in the last couple of years, and the president in particular, have been stressing the responsibility that the C.B.C. has accepted to extend provision of French television and radio throughout the country. You have this as an example when justifying the CJBC development in Toronto. I want to make it clear that I do not have any argument against this kind of extension; but you are in a set-up where there are priorities, and I would like to suggest that the commercial revenue which you have coming in from the English network should lead to a much stronger policy in extending service to English speaking people in this country who have not got it.

Mr. OUIMET: We are spending at the moment—I think this is what you want to know, and I do not think there is any problem in making this information public—about one third on our French language service, and two thirds on our English language service.

Mr. FISHER: For extension of the two services?

Mr. OUIMET: No, for everything.

Mr. FISHER: What about the extension of services?

Mr. OUIMET: You ask about the extension of services.

The CHAIRMAN: Excuse me. I understand a request or suggestion was made that these figures be made available at a subsequent meeting in addition to the information that Mr. Fisher asked for previously. However, please carry on.

Mr. FISHER: I understand you will try to get us the figures. Now let us turn to something else that Mr. Ouimet said. He said that this commercial aspect, this commercial policy, and the revenue coming from commercial sources are really not the key to C.B.C. policy and development. I want to know why it is not, because I would assume that the commercial revenue that you get is important to your total, and that it is important in terms of the ratio of what you have to come to ask parliament for. What is wrong with considering an increase in commercial revenue in terms of extension of service?

Mr. OUIMET: You mean to say that the more commercial a network could get, the more it should extend its services?

Mr. FISHER: Yes.

Mr. OUIMET: I do not think this is the basis on which we operate our public service.

Mr. FISHER: I know, but is it a bad point to look at?

Mr. OUIMET: It is not. But you are suggesting an entirely different basis for operation than the one we have been following over the years.

Mr. FISHER: How can you determine then whether you have a good, aggressive, commercial policy?

Mr. OUIMET: I think we can determine it in other ways than by using this rather unusual approach, I must say, to the servicing of a bilingual country.

Mr. FISHER: Let us forget the bilingual part of it. You went into Edmonton with a television station.

Mr. OUIMET: That is right.

Mr. FISHER: That is a major market area. Surely one of the reasons you went there with the scope of operations that you did was that you knew there would be some commercial revenue available to you there.

Mr. OUIMET: That is right; that is one of the factors, yes. But we go to many places, English or French, where there is no commercial revenue expectation, and we do it as a public service.

Mr. FISHER: There is a critique that exists of the C.B.C. in terms of the amount of money that it gets from parliament and that it requires, and also from its advertising and commercial policy. How can we ever pin down how good you are in the field of your commercial policy and the revenue you are getting if we have all this vagueness, the vagueness represented by all these policies of having programs available for advertising, but ones which are unlikely to be sold? How can you extend your service in connection with commercial revenue that may be available?

Mr. OUIMET: We do not extend our services in relation to commercial revenues available. This is one of the factors, but it is not the dominant or determining factor. As you know we extend our services generally on the basis of the cost per capita, considering all the factors. And to pin it down to commerce, I think, is not only a new approach, but I think it is a wrong approach.

Mr. TARDIF: Mr. Chairman, surely we are now discussing policy. I do not think this falls within the terms of reference to this committee at all.

The CHAIRMAN: Order, gentlemen. Does someone raise a point of order?

Mr. FISHER: If someone raises a point of order I would be glad to speak to it.

Mr. TARDIF: I can raise it on a point of order. We are here not to discuss the policy of the C.B.C. There is no use in discussing whether one person speaks ten words more in French or in English.

Mr. FISHER: I have not suggested anything like that. My reason for asking questions in this area is—and I would point out to Mr. Tardif that I am not trying to swell my head, or anything—that I have been following the C.B.C. closely for seven years, particularly in the broadcasting committee, and one of the chief difficulties I have always encountered is to try to understand the C.B.C. annual report. At times the officials of the C.B.C. tell each one of us that we are shareholders and give us a sort of per capita figure in respect of what we are receiving. However, I am most delighted that the Auditor General has now given us a report which enables us finally to see a little bit more of the pattern of the C.B.C. in terms of commercial policy, indicating where it spends its money and how it is budgeting.

I should like at this time, when this subject is before the committee, to try to relate the commercial policy to the information we have received. I think we have already made some progress as a result of the suggestions brought forward by Mr. Henderson, and I think the manner in which C.B.C. looks at commercial revenue from a policy point of view is relevant. If the C.B.C. receives one third of its income from advertising revenue that is a very important source. I think we need to know what the policy is, and we need to know that policy in depth. I would suggest as a result of the answers I have received from the president that we are still very much in doubt in this regard.

The CHAIRMAN: Do you wish to speak to the point of order, Mr. Grégoire?

Mr. GRÉGOIRE: Yes, Mr. Chairman, because although I perhaps do not agree with the point Mr. Fisher is attempting to make, we are analysing the budget of the C.B.C. and in doing so may find holes in its commercial policy. We would like to know the reason for the existence of these holes and I think we should be entitled to question the president of the C.B.C. in that regard. For those reasons I believe Mr. Fisher's question is in order. If we are here only to ask questions in respect of a mathematical problem, then we are not needed. Such a function should be carried out by an accountant. I think what is involved here is more than a mathematical question. This is the public accounts committee and our inquiries involve the reasons why there exists such a margin between revenues and expenses of the C.B.C. I think Mr. Fisher is entitled to ask the questions he has asked.

Mr. TARDIF: Mr. Chairman, in respect of the point of order, this subject was discussed this afternoon on several occasions and, as has been said by the president of the C.B.C., it involves a matter of policy inasmuch as we tell the C.B.C. to do something and it does what we have told it to do. On occasions the C.B.C. is asked to perform a service which is not commercially economical but involves a service to the people of Canada.

Mr. GRÉGOIRE: I think the angle touched upon by Mr. Fisher had relation to potential commercial advertising rather than programming quality or something else.

Mr. FISHER: I am willing to accept the suggestion made at this time by Mr. Grégoire. I am talking about periphery. In terms of revenue and income. I am sure the provision of service to Churchill or Wawa is not going to bring in any increment of revenue, but there is another area involved. If the questions I ask have already been asked I trust the Chairman will rule them out of order. There is one other area in connection with commercial policy in respect of which I would like to comment, and I refer to competitive stations that exist in the majority of markets for commercial revenue, which are available to the C.B.C. and the so-called second stations. According to the latest B.B.G. report these stations are taking in between $22 million and $24 million per year in revenue. I should like to know how much of that money Mr. Ouimet thinks the C.B.C. can capture or recapture as a result of a more aggressive policy.

Mr. OUIMET: I think the C.B.C. could capture the whole amount but we would then no longer be the C.B.C., or a national service. The C.B.C. would not then be needed. What would be needed then is another private network.

Mr. FISHER: How can we be sure in this area that you are meeting the kind of standards you should meet in financial terms because whenever the officials of the C.B.C. are questioned in this regard we receive statements, such as Mr. Fisher gave us not long ago, to the affect the C.B.C. is competitively advantageous to the commercial t.v. stations in that it does not go out of its way to force them out of different areas. I suggest we need to know exactly what the policy of the C.B.C. is in this regard, and what are the expectations.

Mr. OUIMET: I take it your question in this regard is, how do you find out exactly whether the C.B.C. is doing a proper job in relation to its mandate and in relation to its expenditures?

Mr. FISHER: Yes.

Mr. OUIMET: I would say that you have to consider very carefully the program balance and program mix. First of all you must consider very carefully the mandate of the C.B.C. and decide first whether we are carrying out that mandate and then, in carrying out that mandate, you must find out whether or not we can, without jeopardizing that mandate in any way, make

more commercial revenue. I do not think an answer can be given on the basis of the few figures as discussed here before this committee.

Mr. FISHER: I quite agree with you in that respect. I should like to put this question to you. Parliament is the agency to which the C.B.C. must report but whenever we ask questions in relation to whether the C.B.C. is doing a good job we are blanketed by the C.B.C. with answers in respect of programming quality. How can we know whether C.B.C. is doing a good job in the commercial area if we cannot receive more detailed information in order that we may understand exactly the policy followed by C.B.C. in this respect?

Mr. OUIMET: Are you asking me that question?

Mr. FISHER: Yes.

Mr. OUIMET: You are able to view our programs and you have that advantage. You can see everything we do. You view the programs and can judge whether or not more of these programs can be sold. They are available for sale. I think you can make that judgment without much difficulty. C.B.C. is on the air every day with programs in both languages.

Mr. HARKNESS: Perhaps I should point out that we must make a complete distinction between quality of programming on the one hand, about which very few people complain, and the business and sales organization on the other hand. Most of our questions have been directed toward the business and sales organization rather than to the quality of programming. One of the difficulties we have encountered in asking officials of the C.B.C. this type of question is created by the fact that a great deal of information about program quality is thrown in to obscure the issue.

Mr. OUIMET: I would not agree with that statement, Mr. Harkness.

Mr. FISHER: That statement expresses exactly my point of view. I do not wish to get into this question in respect of program quality.

The CHAIRMAN: We are not in a position to discuss program quality.

Mr. Grégoire, do you have a further supplementary question?

Mr. FISHER: I have not completed my questions, Mr. Chairman.

The CHAIRMAN: I thought you had finished your questions in respect of programming.

Mr. ROCK: Is there not a committee now carrying out some investigations in this regard?

The CHAIRMAN: Is your question a supplementary question, Mr. Rock?

Mr. ROCK: My question is supplementary in a sense. Is there a commission or committee investigating certain aspects of the C.B.C. organization at the present time?

The CHAIRMAN: The Fowler commission is carrying out some inquiries, that is correct.

Mr. ROCK: Is it not a fact that questions of the type asked by Mr. Fisher are being discussed before the Fowler commission and if so, will the report of that commission be submitted to this or another body of parliament for consideration? If the answer to these questions is yes, why should we continue asking questions along this line?

The CHAIRMAN: I shall answer your question to the best of my ability.

Mr. ROCK: I am not suggesting that Mr. Fisher's questions are out of order.

The CHAIRMAN: Mr. Rock, perhaps you will allow me to answer your question to the best of my ability. The Fowler commission has been set up by the government and not by the House of Commons. This committee has specific terms of reference which have been tabled in the House of Commons and, subsequent to its deliberations, it will file a report to the government. If the Fowler

committee had been set up by the House of Commons it would, I think, undoubtedly be correct that this public accounts committee might well be debarred from making an investigation into matters which the House of Commons had already referred to other people. But this is the government: it is not the House of Commons.

We have definite terms of reference which were read at the opening of the sessions of this committee this morning. We are trying to keep within the four corners of these terms of reference. From time to time we do depart from them because it is a little difficult not to do so, and probably if I might make my observation on the point of order which was raised it might be of some assistance to members in the future.

The Canadian Broadcasting Corporation has taken a certain interpretation of its mandate as expressed, I believe, in section 29 of the Broadcasting Act. I do not think it is competent for this committee to question in any way the Canadian Broadcasting Corporation's interpretation of what is its mandate. However, in its implementation of that mandate, as is reflected in the financial reports and balance sheets, it is not only our right, I think, but our duty when the Auditor General has referred these matters to us to make such an investigation so that, when we as a fact finding body make a report, we might well say that we have discovered, say, $26 million of programs available for advertising but which are not sold. These are matters from which inferences may be drawn.

I recognize that it is difficult to draw a clear line in discussing these matters, and at times both Mr. Fisher and Mr. Ouimet may have gone a little over the line in part of the general give and take. I hope, however, we will keep within what in the view of the Chair is the proper reference.

Have you finished, Mr. Fisher?

Mr. FISHER: There is one more area about which I want to ask Mr. Ouimet some questions, and that is in connection with commercial policy.

Mr. Ouimet, do you remember when C.F.T.O. first purchased the big four football games?

Mr. OUIMET: Yes, I do.

Mr. FISHER: Do you remember the statement you issued at that time which included the opinion that C.F.T.O. could not recoup its investment in that particular time?

Mr. OUIMET: No, I do not remember this particularly, but I do not know whether that is important.

Mr. FISHER: I just reread it this morning.

Mr. OUIMET: By the way, I do not think it was C.F.T.O., was it? I think it was Mr. Bassett who purchased it through some company—I forget the name now. I do not think it was C.F.T.O.

Mr. FISHER: At that time you expressed a criticism—or that is what I took it to be when reading it—of purchases in a commercial area that could not bring in a profitable return. Have you any information or any kind of formula that would indicate how you operate in this whole question of a commercial return that is related to the production cost as something you put in?

Mr. OUIMET: We are talking about sports here, and I would say generally that when we buy the rights for sports we try not to pay more than we expect to get from the sponsors; but in some cases in order to give a public service, even if it does cost more than that, we have to face that alternative.

Mr. FISHER: Is this policy completely inflexible or are there just some guidelines? Is there a policy to the effect that you do not get over a certain percentage of loss on a program?

Mr. OUIMET: No. We discussed this in the 1959 and the 1961 committees and we have discussed it here this afternoon: there are a number of programs

that we produce in any event, and we try to get as much as we can for them if we can get a sponsor. There may be a $50,000 program that will be sponsored by a company who will pay perhaps $20,000 for it, and if we can get $20,000 we feel that this is better than getting nothing at all because it is $20,000 less that the public has to pay directly. Furthermore, we have the program that we would have to make anyway. So there is some flexibility there.

Mr. GRAFFTEY: Does it very often turn out, Mr. Ouimet, that a program might have cost, let us say, $50,000 to produce and that a sponsor may offer $8,000, $9,000, $10,000 or $15,000 and he may be the only person offering anything? Would you consider it such a low offer that you would not take it?

Mr. OUIMET: No, we would not consider very low offers.

The CHAIRMAN: Mr. Grafftey, you are on the list to ask questions after Mr. Fisher.

Mr. FISHER: He is following the point. Is there any norm that you apply?

Mr. OUIMET: We are talking now about really expensive programs which are away above what the sponsor can pay, but there are definite norms for the average type of program. For example, for a $5,000 or $10,000 or $20,000 program there are norms, and we gave those norms to similar committees before.

Mr. FISHER: Are these norms related in any way to your program policy?

Mr. OUIMET: No, I do not think they are related to our program policy.

Mr. FISHER: You have slackened off somewhat on drama lately and you have slackened off somewhat on variety shows. Will you have a different relationship?

Mr. OUIMET: That has nothing to do with what we charge.

Mr. FISHER: Nothing at all?

Mr. OUIMET: No.

Mr. FISHER: Since there are a limited number of sponsors who will pick up a national program in drama or variety, do you find yourself left with some kind of formula of the mix in order to determine what you can get in advertising revenue?

Mr. OUIMET: Our formula of the mix is determined on the basis of what we consider to be a good balanced schedule. This is how we determine our schedule.

Mr. FISHER: It is the balance mix that really puts the limit upon it?

Mr. OUIMET: The balance mix limits the amount of commercial we can get. We feel if we let the commercial considerations prevail, then obviously we could change the mix around, we could sell everything but I do not think we would be distinguishable from a commercial organization.

(*Interpretation*)

Mr. GRÉGOIRE: To continue along the same line of questioning as Mr. Fisher was putting a few minutes ago, can you tell us in how many provinces the English network extends?

Mr. OUIMET: The ten provinces of Canada.

Mr. GRÉGOIRE: And the French network?

Mr. OUIMET: In so far as radio is concerned, in eight of the ten provinces and five for television. I shall ask Mr. Fraser to think over the answer to that, but I believe it is five. Yes, five is correct.

Mr. GRÉGOIRE: Consequently, the extension of the Canadian Broadcasting Corporation is done more on the English than on the French network?

Mr. OUIMET: From a geographical point of view, yes.

Mr. GRÉGOIRE: From the point of view of the number of stations?

Mr. OUIMET: From the point of view of the number of stations of course, radio and television.

Mr. GRÉGOIRE: As a last question in this regard may I ask whether in all regions where there is a majority of English speaking persons, where there might be advertising programs bringing in a considerable amount of money, they are all open at the present time?

Mr. OUIMET: I would say yes.

Mr. GRÉGOIRE: Therefore, in these circumstances the extension of the English network preferably would not bring in more commercial income, or at least not to an appreciable extent?

Mr. OUIMET: That is true.

Mr. GRÉGOIRE: Mr. Ouimet, in another field, I see on page 4, for artists, speakers, musicians, performing rights, $17 million. Does this include all artists on television or radio?

Mr. OUIMET: All artists, interpreters, speakers, commentators.

Mr. GRÉGOIRE: Free lance or salary?

Mr. OUIMET: No, not salaried. Salaries are to be found in the fifth item—salaries and wages.

Mr. GRÉGOIRE: But I mean the salaries of those who are on radio as, for instance, regular announcers.

Mr. OUIMET: No, this is not to be found among artists and speakers, musicians' fees and so on. This is only people who are—

Mr. GRÉGOIRE: Paid for broadcasts?

Mr. OUIMET: Paid broadcasters, yes.

Mr. GRÉGOIRE: Would the great majority of others come under salaries?

Mr. OUIMET: Yes.

Mr. GRÉGOIRE: In the first item, approximately how much would you estimate would be the wage bill for the personnel or the staff in total, without distinction, on both networks on television or on radio?

Mr. OUIMET: I would say that the expenditures for salaries and wages would be approximately a one third to two thirds ratio. Perhaps I am mistaken.

Mr. GRÉGOIRE: On $44 million?

Mr. OUIMET: Yes.

Mr. GRÉGOIRE: Which means there would be another $15 million for the artists.

Mr. OUIMET: No, no; I misunderstood you. I thought you meant both of the networks, English and French.

Mr. GRÉGOIRE: No. I am speaking of a comparison of charges in respect of regular employees who appear on television and radio.

Mr. OUIMET: Do you mean announcers in particular and others? A few of our commentators, but I could not tell you because I do not have that information here.

Mr. GRÉGOIRE: You have no approximate idea?

Mr. OUIMET: I believe it would be a relatively low percentage.

Mr. GRÉGOIRE: Could you give us an approximate figure at the next meeting?

Mr. OUIMET: Yes.

Mr. GRÉGOIRE: Would this mean there would be technicians in this list, cameramen for instance?

Mr. OUIMET: Yes.

Mr. GRÉGOIRE:: And, technical producers and so on?

Mr. OUIMET: You would like to have the details and the allocation of our expenditures for wages and salaries among the various groups.

Mr. GRÉGOIRE: Not necessarily in detail but, for instance, among the technicians and so on. I would like to have this information for the whole of the technician group and all those who deal with the technicians. This would include the cameramen, the technicians, the technical producers and those who form a part of the program itself when the program is being broadcast but who are not actually shown on television.

Mr. OUIMET: We can give you this information next Tuesday.

Mr. GRÉGOIRE: And, decor.

Mr. OUIMET: Now, are you speaking of wages and salaries of those who deal with scenery, or are you speaking of the cost?

Mr. GRÉGOIRE: No, I am speaking of the percentage of administrative costs, wages in general.

Mr. OUIMET: Yes, I believe we can give you this information.

Mr. GRÉGOIRE: Which means that this would be the balance of the $44,138,000. What would be the ratio between salaries in general of personnel strictly on a program or on screen and those who are on the administrative side of the C.B.C.?

Mr. OUIMET: Yes, we can give you this information. At least, I hope so.

Mr. GRÉGOIRE: In general. I do not necessarily want to go into all the details of each individual category such as cameramen, boom men or anything else; just in general.

Now, Mr. Ouimet, under the item of budget could we also know how much during the year you could spend, for instance, on sports. What would be the budget of the C.B.C. in respect of sports, theatre, glamour and so on? Do you have special budgets for each category of programming such as sports, drama, public affairs, classical and popular music, and so on?

Mr. OUIMET: We know exactly how much we spend for each program. We would have to add all these figures together to give you this information because we normally do not have these details prepared in advance. We shall have to do this especially and that is why I can only give this to you next Tuesday.

Mr. GRÉGOIRE: I do not want to put you to the trouble of going through all the programs of the year but, for instance, could we know for a week how much you spend for each large item such as music, sports, theatre, drama, public affairs and, if possible, classical and popular music.

Mr. OUIMET: Mr. Grégoire, we shall try to give you this information.

Mr. GRÉGOIRE: I think the committee would like to know how much is allotted by the C.B.C. for each one of these.

You will admit, as I do, that I am not so exacting that I will go down into the sharps and flats.

(*Text*)

The CHAIRMAN: Gentlemen, we will leave it at this. The officials have indicated they will do their best to have this information for Tuesday, at which time it will be printed as part of the evidence, if it is the wish of this committee. If this information is available for Tuesday, fine; if not, we will get it as soon as we can and it will form part of the proceedings.

(*Interpretation*)

Mr. GRÉGOIRE: For those who do not know the difference between classical and popular music, Mr. Chairman, I think they should acquire this knowledge because music is one of the greatest forms of culture that there is.

Mr. TARDIF: Perhaps Mr. Grégoire would find it difficult to tune his violin.

(*Text*)

The CHAIRMAN: Gentlemen, may we get off culture and into public accounts, please.

Mr. Grafftey, you will follow Mr. Grégoire.

(*Interpretation*)

Mr. GRÉGOIRE: A short time ago I heard a few questions put, to which answers were given, and I did not understand some of the meanings of the questions and the answers. I would like an explanation of this. You said you would evaluate the cost of a program at X dollars. Does the sponsor always pay the full cost of production of the program?

Mr. OUIMET: No.

Mr. GRÉGOIRE: Does he therefore pay the equivalent of the fees or the expenses beyond, for instance, the regular staff?

Mr. OUIMET: Approximately, yes.

Mr. GRÉGOIRE: You said "approximately"; that is, the sponsor.

Mr. OUIMET: Not in all cases. If it is a bargain program he might pay a good part of the fees but all the indirect costs. When it is a very costly program in a general way we might try at least to have the fees and direct costs involved paid.

Mr. GRÉGOIRE: Incidentally, in respect of the cost of programming may I say that in my opinion the C.B.C. exists not to make money. But, if it costs money and if they are good programs I agree; and if we need more money to have better programming I am more so in favour of it. I will divide the programming. Will the sponsor pay a lower cost in the popular field, to start with this, than in the field of culture—and I am referring here to the cost of a baseball game as opposed to drama.

Mr. OUIMET: In a general way our sports programs are completely paid for.

Mr. GRÉGOIRE: In a general way?

Mr. OUIMET: If we are speaking, for instance, of hockey, football and all those sports, we try to charge sufficiently so that all costs will be met.

Mr. GRÉGOIRE: This means the cost of production?

Mr. OUIMET: The complete cost of production.

Mr. GRÉGOIRE: Does this also happen in the case of sports where, for instance, there would be courses on judo, and softball and baseball games?

Mr. OUIMET: I would have to inquire in this connection because I am not certain.

Mr. GRÉGOIRE: So far as drama is concerned, does the same thing apply?

Mr. OUIMET: No. In the field of drama costs are higher and, in a general way, the sponsors cannot pay the complete cost. If we requested this we could not sell the programs.

Mr. GRÉGOIRE: What about soap operas?

Mr. OUIMET: No.

Mr. GRÉGOIRE: As the C.B.C. pays for part of the cost of soap operas on television do you not believe that because you are paying for it with the people's money you should see to it that the programs are on a higher level or plane?

Mr. OUIMET: No, we give the same attention to all our programs, whether they are sponsored or not. We do not differentiate in the choice of programs

regardless of whether or not they are sponsored. They are C.B.C. programs. The only difference is that after having decided to produce a program it might happen that it might not be sold or that it might be sold. There is no difference in quality.

Mr. FISHER: Or it might not be good enough to be shown.

Mr. OUIMET: In a general way however, in the field of drama, opera, symphonic concerts, and so on, we find ourselves in a field in which there are more programs which are not sponsored, or which are sponsored in such a way that only part of the cost is paid. It happens more often on these more considerable programs than on sport programs or the very simple programs such as interviews and so on.

Mr. GRÉGOIRE: To go to a more specific field now, in view of the expenses which can occur in this field, such as classical music, the concert hour or symphonies, is this not one of the fields in which programs are not sold?

Mr. OUIMET: It is very difficult to sell them but there is no objection to selling them.

Mr. GRÉGOIRE: Is it because of the cost of the program?

Mr. OUIMET: Yes.

Mr. GRÉGOIRE: This does not mean that the program is not popular?

Mr. OUIMET: No. Perhaps it does mean that it is not as popular as other types of programs, such as soap operas. I do not want to name the programs. I am also speaking of such programs as sports, for instance. I would like to say yes, but unfortunately our large programs, such as classical music and opera, are not as popular as hockey on a Saturday evening, but it is all the same surprising to see the number of listeners that these programs have. In one case, for instance, we might speak of two million, in another case of 800,000 or 900,000, which is still a considerable number.

Mr. GRÉGOIRE: Now, Mr. Ouimet, if these programs are very popular would it not depend somewhat on the quality of the artists, that is not on the quality of the decor, or the scenery, but perhaps on those who, being responsible for the production of the programs, do not have the required taste to present to music lovers, who are very numerous, the required quality? Is a lack of money a reason for this?

Mr. OUIMET: Frankly, I think that with all the money in the world we would not succeed in having the same audience for a great opera, even with the best artists and the best interpreters and the best orchestra available, as we would have, once again, for hockey on a Saturday evening or for something a little lighter. These are the facts of life.

Mr. GRÉGOIRE: Perhaps we could prove the contrary. Three or four years ago you had a program which had a very high rating. The next day you had praise from everywhere. On the other hand, if you ask the people to express enthusiasm when week after week you have the Spanish hour or Carlo Menotti, a very good artist, even if you had 40 expert jewellers at the back of the clock do you think you would be making your program popular?

Mr. OUIMET: You are right. There are certain programs which are much more difficult to produce than others. Let us take for instance the case of "Les Trois Valses". This was a very popular program. It was one of the most popular ones. However, unfortunately we cannot obtain the rights for a great many of these programs. Moreover, there are not so many of them as all that.

Mr. GRÉGOIRE: After the presentation of such programs as Madam Butterfly, Tosca, Faust, La Boheme which have been presented on both networks, did you not have an excessively favourable reaction?

Mr. OUIMET: For this type yes, but not the same as for Les Trois Valses. There were three such programs. I do not remember the name of the third.

Mr. GRÉGOIRE: You had one of Lionel Daunais which, according to what I saw was received with a great deal of enthusiasm. If you had had programs like those instead of the ones I mentioned a little while ago would it not be easier for you to make them profitable and at the same time to interest the public?

Mr. OUIMET: I do not believe that we could have sold the Lionel Daunais programs even if they were excellent. Once again we must not limit ourselves to one particular type of program. We have to have serious classical music for those who like serious music and lighter programs for those who like lighter programs such as Les Trois Valses or the Spanish hour. That is why we have varied programs.

Mr. GRÉGOIRE: I do not believe that your programming should be solely limited to this, but in your opinion do you think that the C.B.C. presents sufficient programs of good quality from the musical point of view?

(*Text*)

The CHAIRMAN: We are entering into forbidden territory. We are entitled to consider the various aspects of the C.B.C. as regard financing and administration. To a limited extent we might also discuss in some measure the question of the programs which we have already discussed this afternoon with relation to the programs which are produced and cannot be sold. However, as I pointed out this morning, our terms of reference do not enable us to be a committee on broadcasting. I let these questions be asked, but if you go a little further the whole subject matter will be completely thrown open and we will be departing outside of our terms of reference. I would hope that we would stay within those terms of reference.

(*Interpretation*)

Mr. GRÉGOIRE: Mr. Chairman, may I speak on a point of order? I could relate my question to the subject in this way. In the musical field the C.B.C. is now spending money which is alloted to it in its budget in a practically useless way. We do not often have the occasion of speaking with Mr. Ouimet as we are doing at the present time and we do not have much occasion to give him our opinion and our constructive criticism. I do not wish to destroy the C.B.C. and their programming. I think they are doing very well, but sometimes they have not done so well in this field. That is why at the present time I wish to take the opportunity of giving him my opinion in view of the fact that C.B.C. programs are paid out of public money.

Mr. Chairman, a field which interests me tremendously is the musical field. I think on television the C.B.C. does not give us the quality required.

(*Text*)

The CHAIRMAN: It is because of your obvious interest in this that I have permitted you to go on. If you open this up, it will become competent for other members of the committee to enter this field of questioning as there are others who equally are interested in the type of programs which the C.B.C. in its interpretation of its mandate sees fit to put on. If we were to continue with this line of questioning, I think we would be departing from what is our real object is being here. I appreciate your interest, and I am sure the C.B.C. does.

Mr. GRÉGOIRE: Will you allow me two questions?

The CHAIRMAN: We will try them out for size.

(*Interpretation*)

Mr. GRÉGOIRE: Mr. Ouimet, are you satisfied with the results obtained from a musical point of view?

Mr. OUIMET: I think I probably should say we never are satisfied with the results obtained. In a general way, I think the answer is yes. In respect of the serious programs such as the concert hours, you would be surprised at the number of listeners we have. I do not have the figures in my mind, but I believe there are a few hundred thousand listeners who listen to serious music. I think this is important.

Mr. GRÉGOIRE: Where there are no other television stations it is rather difficult for them to listen to anything else.

Mr. OUIMET: Even where there are other television stations. It is the same thing in the English programming. For example, with the "Festival" series it is surprising the number of listeners there are.

Mr. GRÉGOIRE: Unfortunately you seem to be satisfied. Personally, I am not. Would you accept a suggestion that you might have not an employee and not an official but an artist who knows good music and have him suggest the choice of pieces along with the two persons who presently are in charge of this department?

Mr. OUIMET: I thought we had people who have imagination in our musical service.

Mr. GRÉGOIRE: Once again I will tell you you are not fussy if you are satisfied with your classical music series, not because of the artists—they are very good—but because of your way of producing these programs and the choice of pieces.

Mr. OUIMET: Do you think the choice is too serious?

Mr. GRÉGOIRE: It is not balanced. You have classical music and you see people going up on ladders with modern clothing. It does not seem to go together.

(*Text*)

The CHAIRMAN: You have gone a little beyond your two questions.

Mr. GRAFFTEY: Very briefly, may I ask Mr. Ouimet for a statement with regard to how he feels the latest Canadian content rule would affect advertising revenues in general, and the commercial policy of the corporation?

Mr. OUIMET: You mean the latest content rule of the B.B.G.?

Mr. GRAFFTEY: Yes; the Canadian content rule. I know this is a difficult question to answer.

Mr. OUIMET: Frankly, I do not think it is very difficult, because the rule of the B.B.G. is 55 per cent Canadian content. In our network we have made it our own internal rule to give 65 per cent.

Mr. FISHER: In prime time?

Mr. OUIMET: No; unfortunately not in prime time. Nobody does this, as a matter of fact. In prime time it is more like 50 per cent. However, Mr. Fisher, I am glad you mentioned this. In order to increase the Canadian content in prime time to over 50 per cent, we would have to decrease our commercial revenue.

Mr. FISHER: Exactly.

The CHAIRMAN: Mr. Grafftey, Mr. Cameron and Mr. Rock have been very patient. Carry on, Mr. Grafftey.

Mr. GRAFFTEY: I think Mr. Fisher is suggesting, perhaps, that to a certain degree programming is affected by commercial considerations.

Mr. OUIMET: It is, and this is the danger.

Mr. FISHER: Danger?

Mr. GRAFFTEY: Is this not also part of the mandate, as you interpret it?

Mr. OUIMET: Part of the mandate that our programming be affected by commercial revenue?

Mr. GRAFFTEY: No.

Mr. OUIMET: Not as we interpret it.

Mr. FISHER: Is it possible to have excellent programming without having commercial programming?

Mr. OUIMET: You are correct; we could not have a schedule without any commercial programs whatsoever, because then we would deprive ourselves of certain well known sports classics that we cannot obtain in any other way, and the programming no longer would be balanced. Also, there are certain United States programs that the Canadian public wants to see which it would be difficult to obtain on a non-sponsored basis.

Mr. GRAFFTEY: Could you briefly tell the committee in what different manner the Canadian content rule affects Radio Canada and the C.B.C.; is there any difference?

Mr. OUIMET: You mean the French network and the English network of the C.B.C.?

Mr. GRAFFTEY: Yes.

Mr. OUIMET: No. Generally, the rules are the same. Although when we started on the French network we had a much higher Canadian content than on the English network, as our budgets became tighter and tighter we have had to reduce the Canadian content on the French network to a point where it is at about the same level now as on the English network. We are trying to import some programs from Europe, and in certain cases they are United States programs with the sound dubbed in. Within the budget of the French network we simply cannot produce the same number of hours we have on the English network for the reason that on the French network we really do not have any source of, for instance, programs from the United States as we do on the English network.

Mr. GRAFFTEY: Very briefly I would like to clarify a question I put earlier in the day. Speaking not of the C.B.C. in relation to private television, but rather about television in general in Canada in relation to other advertising media, such as newspapers, magazines, and other types, relatively speaking has television had its share of the advertising dollar in the last three or four years in relation to these other media, or is its share increasing?

Mr. OUIMET: Yes; it has certainly kept its share and I believe it has increased it slightly.

Mr. GRAFFTEY: In the last three or four years?

Mr. OUIMET: Yes, but not to a marked extent. What is to be noted is that it has a lower share of the total advertising dollar than, for example, television has in the United States.

Mr. GRAFFTEY: In terms of commercial and advertising policy—if you want to put it as tightly as that—is there a liaison between the C.B.C. and other, let us say, state owned broadcasting corporations; do you have much liaison with other state owned broadcasting corporations so that you can discuss advertising?

Mr. OUIMET: There are very few nationally owned broadcasting organizations engaged in commercial broadcasting. For example, the B.B.C. in England

carries no commercials. R.T.F. in France has no commercial content and R.A.I. in Italy has some commercial content, but only to a limited extent. Generally speaking the national organizations in the world do not have commercial activity, so therefore there is no point in having liaison with them in any such activity.

Mr. GRAFFTEY: In other words, you have a difficult time in finding confreres to talk shop to in this type of performance.

Mr. OUIMET: That is true. We are a rather strange phenomenon because of our existence on the North American continent where we try probably in the most difficult way to do things, that is, by a mixture of both the private and the public resources in the one organization.

The CHAIRMAN: Mr. Cameron, and then Mr. Rock.

Mr. CAMERON (*High Park*): You will agree that this has been very interesting, and I assume you will also agree that you are trying to conduct a public service and at the same time make it profitable commercially. But if you emphasize one aspect as against the other, you are damned.

I was thinking about Mr. Winch's point concerning programs which are available for sale, and following Mr. Grégoire's suggestion about the quite classical musical ones which you would not want to sell to, let us say, a beer sponsor or something like that, because your customers would not appreciate it.

Mr. FISHER: What about the O'Keefe Centre?

Mr. CAMERON (*High Park*): You do not want to cheapen them by selling them at less than a prestige cost. I was interested in Mr. Fisher's suggestion about the extension of the percentage as between French and English stations. It seems to me that the principle you are trying to follow is to give the same service clear across Canada, regardless of where it is. It may be that the French market does not produce as much revenue, because there are not as many sponsors in that particular market to pay for it. But the French listener should not be prejudiced by that fact. Have I made a clear summation of the matter?

Mr. OUIMET: I believe it is, sir.

Mr. CAMERON (*High Park*): I hear a little laughter. Why is it not fair?

Mr. HARKNESS: I wondered what the question was.

Mr. ROCK: On page 11 you have investments in government bonds.

The CHAIRMAN: We have not got to page 11 yet.

Mr. ROCK: I do not think you have got anywhere. You have been scattering all over the place and I have the same right as anyone else.

The CHAIRMAN: If you can relate what is on page 11 to what is on page 9, then by all means carry on. We stopped at page 9 which included a very comprehensive body of material. If you can relate page 11 to page 9, then by all means please do so.

Mr. ROCK: You have securities there of some kind.

An hon. MEMBER: You are out of order.

Mr. ROCK: I do not see why I should be.

The CHAIRMAN: Please carry on.

Mr. ROCK: In this case there could be added revenue if there was a different government policy.

The CHAIRMAN: Your question is tied up to that page?

Mr. ROCK: Yes.

The CHAIRMAN: All right, carry on.

Mr. ROCK: I refer to the bond investments you have of $1,445,000 in value, and you mention that their cost was $1,500,000, 2¾ per cent government of Canada bonds. May I know what date these were purchased?

Mr. DAVIES: They were purchased around 1955. I am not sure of the date however.

Mr. ROCK: Were they at that time purchased at par or below par?

Mr. HENDERSON: I think the fact is—

Mr. DAVIES: They were purchased below par.

Mr. HENDERSON: Because the cost is shown at $1,445,000, with parity of $1,500,000, this shows that they have been purchased below par.

Mr. ROCK: Now, the value at this point, the market value as of March 31, 1963, is $1,380,000 which is away below par. Are these bonds perpetual bonds?

Mr. DAVIES: No, they are 1967's and 1968's, and they will become due at maturity for their full value. They are not perpetual bonds.

Mr. ROCK: No. Well they are not the same bonds that I am stuck with then.

Mr. GRÉGOIRE: Where did you get the money to buy those bonds?

The CHAIRMAN: Please let Mr. Rock finish.

Mr. ROCK: I would like to know from the Auditor General if the bonds issued today by the government are being sold below par, or if they are sold at par at all times.

Mr. HENDERSON: Some of the offerings go out slightly under par. It all depends on the market. It is the prevailing interest rate which generally determines the offering price of any bonds issued. The interest rates are what usually govern the prices when they are offered.

Mr. ROCK: At the time of the conversion, were they converted to bonds which had a par value at all times?

Mr. HENDERSON: These particular bonds were not part of the conversion. The corporation is obviously holding these bonds until maturity so that it can get 100 cents on the dollar.

Mr. ROCK: I do not blame them, after holding them for so long. Now, in your picture of revenues for commercial broadcasting and advertising, and also the cost to do this advertising with your television, and your cost of production in general, does the cost of all your advertising, the cost of getting the customers to advertise with the whole staff there—at least equal, or is it less than the amount which you receive?

Mr. OUIMET: You are asking whether we are losing money on our commercial operations.

Mr. ROCK: I would like to know whether it pays to run your commercial operations or not; in other words, does your commercial operation equal the amount of revenue for your commercial broadcasting?

Mr. FISHER: On a point of redundancy, Mr. Chairman, I think you should rule on this.

The CHAIRMAN: You mean on the question of whether this is repetitive of a matter which was brought up earlier?

Mr. FISHER: I think it has been gone over three times.

The CHAIRMAN: Yes, it has been. This was discussed. But probably I should let Mr. Ouimet or Mr. Davies answer this, and limit it to their answers. It was discussed this afternoon and it will be found in the record. But I see no reason why we should not answer this question, and I hope it will stop there.

Mr. OUIMET: Let me say immediately that we do not lose money by engaging in commercial operations.

Mr. GRÉGOIRE: I do not know about the C.B.C.

Mr. OUIMET: On the other hand, it is very difficult to relate the actual cost in toto to the total revenue. One way of doing it is to look at exhibit 2

where you see we have $30,846,000 gross there, and the payments that we had to make were $28,801,000. But we must keep in mind that there is more to it than that. I find that in many cases such commercial operations bring us programs for which we would have to pay if we did not engage in such commercial operations. That is where it is difficult to get an exact balance.

Mr. ROCK: I have one more quickie. Have you as a corporation any intention in the future of going into the movie type of broadcasting rather than the live production of Canadian historic stories which could be sold to other countries, after you had put them through your television network?

The CHAIRMAN: I must rule that this question does not come within 1962 and 1963.

Mr. ROCK: Very well.

The CHAIRMAN: However, if as a matter of general interest Mr. Ouimet wishes to answer it, I would not object.

Mr. ROCK: I am not thinking about Davey Crockett or the Pierre Radisson sort of thing, but rather of the one hour type of movie production that we get from many other countries.

Mr. OUIMET: Generally speaking, we will try to encourage the development of a Canadian film industry. Whether we will go more to film than to live broadcasting is a very difficult thing to say. At the moment there is definitely a greater amount of film used than there was five years ago. The main phenomenon now is that there is a great deal of videotape used. We still call it live but actually the program has been recorded on videotape. It has been produced in the studio by live television techniques. This gives us great advantages in a number of ways.

Mr. ROCK: There is not much difference in cost between utilizing that technique and making a real film; is that right?

Mr. OUIMET: There is still a great deal of cost difference between making a film where there is a great amount of shooting done for the number of minutes filmed compared to the use of videotaping where, generally speaking, we shoot exactly 60 minutes for a 60 minute program or 30 minutes for a 30 minute program.

The CHAIRMAN: Mr. Crouse, did you indicate some time ago you had a question to ask?

Mr. CROUSE: Yes.

The CHAIRMAN: I have Mr. Fisher's name next on my list, although I understand Mr. Grégoire wishes to rise on a point of order. Am I correct in that regard, Mr. Grégoire?

Mr. GRÉGOIRE: I did not wish to refer to my point of order at this time in view of the fact we intend to adjourn at ten o'clock, but Mr. Speaker has promised that all committees will be organized to provide a French and English reporting system so that when we are speaking French it will not be interpreted into English and taken down by English reporters. I think it would be advantageous to all committee proceedings to have these facilities made available. I think this is only a fair request. I did not intend to burden this committee at this time with this suggestion but I think my request is fair and should be considered in respect of our next meeting.

The CHAIRMAN: Your request is eminently fair, Mr. Grégoire. On behalf of this committee I made reference to this situation at the procedures committee. Although that meeting was in camera I think I am safe in stating that this situation was discussed and brought to the attention of Mr. Speaker. The indication was given that this situation was under discussion and being

attended to with the hope that by next week the facilities to which you have referred will be available in this room.

Mr. GRÉGOIRE: Will those facilities be available to this committee at its next sitting?

The CHAIRMAN: That certainly is my understanding of the intention, but sometimes there is a gap between intention and fulfilment.

Mr. GRÉGOIRE: You may recall, Mr. Chairman, that the privileges and elections committee had facilities of this type installed within 12 hours. These facilities are now installed in room 308 of the west block, and it is my understanding that room was not used but available today. I have further questions to ask my friend, Mr. Ouimet, in French, and I feel that if my questions and his answers are taken down through the use of a French reporting system it will be more satisfactory than if performed through the interpretation system.

The CHAIRMAN: Mr. Grégoire, room 308 had been reserved by another committee which subsequently cancelled its arrangements.

Mr. GRÉGOIRE: I am sure the same system could be installed in this room.

The CHAIRMAN: We hope that will be done very quickly.

We have a few minutes available before our adjournment. Do you have a question to ask before we adjourn, Mr. Fisher?

Mr. FISHER: Yes.

Mr. Ouimet, when you are planning a program schedule for the fall and winter and you are buying films from the United States and Great Britain in the late winter and early spring, do you ever purchase more films than you need?

Mr. OUIMET: As far as I know we have not done so. However, I hope I am not proven wrong after further investigation.

Mr. FISHER: You would never purchase a show to make sure it did not get into the hands of a private network?

Mr. OUIMET: No, definitely not. That policy would prove to be a very costly way of doing business. We would have to pay for those shows which cost $3,000 to $4,000 per week for a period of from 26 to 39 weeks. Such a practice would involve an extensive investment.

Mr. FISHER: Would you be prepared to make some sort of comment in respect of your schedule placements if at our next meeting I presented the names of one or two shows in relation to which the suggestion has been made that you purchase them this year and last year in order to keep them out of the hands of the private network?

The CHAIRMAN: Would the transactions to which you have referred occur within the two years we are considering, Mr. Fisher?

Mr. FISHER: I am sure one of the purchases would fall within that period of time.

Mr. RYAN: I should like to ask a supplementary question, Mr. Chairman. Mr. Ouimet, do you always have a market for the sale of a film before you buy the film, or buy the rights to the film?

Mr. OUIMET: That is not always the case because sometimes we must take risks.

Mr. FISHER: What does happen to a film you buy and cannot find a spot for in your schedule?

Mr. OUIMET: I would say that would depend on the length of time covered by the rights purchased. If the rights purchased covered a fairly long

period of time we would endeavour to sell the film during the following season. This is a hypothetical question. I am not sure that such a situation has arisen.

Mr. FISHER: I am not sure that is a hypothetical question. I am sure I saw reference in the Auditor General's long report, to a program purchased but not shown.

Mr. OUIMET: Mr. Chairman, may I ask Mr. Fisher whether he is referring to a feature or syndicated film? We must be careful that we are referring to the same thing.

Mr. FISHER: At page 15 of the last report of the Auditor General there is reference to script rights being written off. There is also reference to the fact that single episodes of film contracts expired by the end of the year and not telecast because of unsuitability, and I assume that the film rights in this respect were written off. I assume this fact would suggest a bad or unwise purchase; is that right?

Mr. OUIMET: That is not necessarily correct. In certain cases such a circumstance would indicate that we had bought a show in a batch of feature films made available to us in order to obtain good films. I might say most of the films in such a package deal are good, but sometimes we must take a few which are not of suitable quality. When we make such a deal we figure those in our costs and do not show the bad films. Many other cases occur in respect of which the film is not shown because of pre-emptions. During the showing of a syndicated series of perhaps 29 or 36 episodes something of importance may happen preventing us from showing episode 15, for example. The situation which develops following the cancellation of that episode may make it impossible to show it at a later date. A great number of special occasions arise which prevent us from showing a scheduled episode, such as the assassination of the President of the United States. Many other reasons cause the displacement of one episode of such a series.

Mr. FISHER: I will make an effort to present one or two examples at our next meeting.

I should also like to ask questions in respect of a further subject, but before doing so I should perhaps inquire whether it was discussed this afternoon. I am referring to the salaries of the president and other officials of the C.B.C.

The CHAIRMAN: No, we did not go into that in its entirety. It was mentioned, I think, by the Auditor General in the discussion at large, but I think there is a point further on where it will be dealt with in detail. Possibly at this point as it is approximately ten o'clock, if it meets the views of the committee, we might adjourn and then, next Tuesday, we may start at page 7 of the balance sheet and reach all these other items. This course will permit discussion of the different items the members wish to bring before the committee.

We are running out of long form reports. May I therefore express the hope that those of you who will attend the meeting on Tuesday will bring back those reports.

The meeting is adjourned until 9.30 a.m. on Tuesday.

APPENDIX I

CANADIAN BROADCASTING CORPORATION

CONTENTS

Report to the Board of Directors of Canadian Broadcasting Corporation dated December 6, 1962.
Report to the Minister of National Revenue dated June 4, 1962.
Financial Statements for the year ended March 31, 1962:

Balance Sheet .....Exhibit I
Statement of Operations .....Exhibit II
Statement of Proprietor's Equity Account .....Exhibit III

AUDITOR GENERAL OF CANADA

OTTAWA, December 6, 1962.

The Board of Directors,
Canadian Brodcasting Corporation,
Ottawa.

We have examined the accounts and financial statements of the Canadian Broadcasting Corporation for the year ended March 31, 1962 pursuant to the provisions of section 34(2) of the Broadcasting Act under which the Auditor General of Canada is appointed auditor of the Corporation.

A report in the form required by section 87 of the Financial Administration Act was addressed to the Minister of National Revenue under date of June 4, 1962 and copies were made available for distribution to the Directors. The financial statements of the Corporation for the year ended March 31, 1962 were prepared in accordance with the provisions of section 85 of the Financial Administration Act.

The accounting functions of the Corporation are decentralized and during the year we examined the accounts and records at the Head Office in Ottawa, National Engineering Headquarters in Montreal and offices located in Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver. Our examination was made in accordance with generally accepted auditing standards, and included a general review of the accounting procedures and system of internal control, together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

For convenient reference we are attaching copies of our report to the Minister of National Revenue dated June 4, 1962, Balance Sheet as at March 31, 1962 and Statements of Operations and Proprietor's Equity Account for the year then ended.

A copy of this report is being sent to the Honourable G. E. Halpenny, P.C., who was designated, for the purposes of the Financial Administration Act, as the appropriate Minister with respect to the Canadian Broadcasting Corporation by Order in Council P.C. 1962-1160 dated August 22, 1962.

RESULTS OF OPERATIONS

Funds to a total of $70,418,000 were provided under Vote 43, Appropriation Act No. 5, 1961 for the net operating requirements of radio and television services for the year ended March 31, 1962. With the net operating requirements amounting to $70,252,273 (exclusive of depreciation charges totalling $4,039,041

which are included as an expense for cost ascertainment purposes), the unexpended balance of $165,727 was recorded as a liability of the Corporation at March 31, 1962 and refunded to the Receiver General early in the current year. The net operating requirement of $70,252,273 for the year under review is compared with the requirement of the previous year in the following summary:

	Year ended March 31, 1962	1961	Increase (Decrease)
Expense:			
Cost of production and distribution	$ 100,643,515	$94,714,235	$ 5,929,280
Selling and general administration	6,967,639	6,238,590	729,049
Total Expense	107,611,154	100,952,825	6,658,329
Advertising income, etc.	33,319,840	38,088,223	(4,768,383)
Net Expense	74,291,314	62,864,602	11,426,712
Less: Depreciation charged as expense for cost ascertainment purposes	4,039,041	3,576,126	462,915
Net Operating Requirements	70,252,273	59,288,476	10,963,797

An operating budget of $70,418,000 for the year ended March 31, 1962 was by Order in Council P.C. 1961-494 dated March 30, 1961. The following table shows a comparison of the operating budget with the actual results of operations for the year:

	Budget	Actual	Actual Over (under) Budget
Artists', speakers', musicians' fees, copyrights, performing rights, manuscripts and plays	$19,509,000	$18,301,000	$(1,208,000)
Film purchases and rentals	7,676,000	8,620,000	944,000
Network transmission, LPRT's operating expense—radio and extended television coverage	8,009,000	8,223,000	214,000
Building rental and maintenance	3,727,000	3,628,000	(99,000)
Salaries and wages	41,569,000	41,701,000	132,000
Unemployment insurance and pension contributions	2,581,000	2,346,000	(235,000)
Other departmental expenses	14,318,000	13,164,000	(1,154,000)
	97,389,000	95,983,000	(1,406,000)
Less: Expenditures recovered from capital grants and other governments	1,971,000	2,256,000	285,000
	95,418,000	93,727,000	(1,691,000)
Less: Estimated income (net of commissions and payments to private stations)	25,000,000	23,475,000	(1,525,000)
Net operating requirements	70,418,000	70,252,000	(166,000)

As shown by the table on page 3, the net operating requirements of the Corporation increased by $10,963,797 from $59,288,476 for the year ended

March 31, 1961 to $70,252,273 for the year ended March 31, 1962, an increase of 18.5% compared with the previous year's increase of $6,988,198 or 13.4%.

Increasing expenses and declining revenues have both contributed to the enlarged operating requirement. Increased expenses contributed to the extent of $6,195,414 to the increased operating requirement for the year ended March 31, 1962 over the requirement for the previous year, while decreased revenues accounted for $4,768,383. Reduced television advertising revenue amounting to $5,064,315, offset to a small degree by $372,782 more radio advertising revenue, largely accounted for the reduction in income. The significant decrease in revenue from this source was attributed by the Corporation mainly to the etsablishment of second television stations in eight major areas previously served only by the Corporation.

Details of increases in the various expense classifications totalling $6,658,329 follow:

	Year Ended March 31, 1962	1961	Increase (Decrease)
Artists', speakers', musicians' fees ...	$ 18,301,000	$ 18,084,000	$ 217,000
Salaries and wages	41,701,000	37,308,000	4,393,000
Film purchases and rentals	8,620,000	8,000,000	620,000
Travelling and duty entertainment ...	2,020,000	1,710,000	310,000
Long distance telephone	323,000	293,000	30,000
Selling expense	1,541,000	1,356,000	185,000
Commissions to agencies and networks	4,620,000	5,187,000	(567,000)
Payments to private stations	4,851,000	5,279,000	(428,000)
Other	25,634,000	23,736,000	1,898,000
	107,611,000	100,953,000	6,658,000

Salaries and wages accounted for $4,393,000 or 66% of the total increase in expenses. $2,482,000 of this increase was due to salary scale adjustments and built-in increases, $750,000 relates to a full year's salary for employees engaged during the previous year, $180,000 was for additional overtime and $981,000 was attributed to salary costs for 336 employees engaged during the year, of whom 90 were employed at the new television station in Edmonton. The remainder of the increase in expenses and part of the salary costs for newly-engaged personnel is ascribed by the Corporation to the operating costs of the new television station in Edmonton, equation of hours of the French language television station in Montreal with those of the English language station, extension of radio and television networks for improved coverage, increase of 5.6% in the total broadcast hours of television stations and increased administrative and supervisory costs.

Included in the $175,500 for executive officers' remuneration shown in the note to the Statement of Operations are the salaries of the President and Vice-President of the Corporation, $20,000 and $16,000, respectively. Section 22 of the Broadcasting Act, 1958, c.22 provides for the appointment of a President and a Vice-President of the Canadian Broadcasting Corporation by the Governor in Council, and the present incumbents were duly appointed by Orders in Council P.C. 1958-1940 dated November 10, 1958 and P.C. 1960-94 dated January 26, 1960. However, their salaries have not been fixed by the Governor in Council, as required by section 25 of the Act and they were paid at rates applicable to the General Manager and Assistant General Manager of the Canadian Broadcasting Corporation as established by Order in Council P.C. 1954-1953 dated December 8, 1954. This apparent lack of authority for the remuneration of the President and Vice-President has been drawn to the attention of the

management of the Corporation and we were informed that such action as may be required to remedy the situation will be taken.

The Corporation has paid representation allowances to these two senior officers for a number of years. The amounts currently approved by the Board of Directors are at the rate of $3,000 per annum for the President and $2,500 per annum for the Vice-President and monthly payments during the year ended March 31, 1962 totalled $2,510 and $2,355, respectively. We have advised the Comptroller that the claims for reimbursement should be supported by receipted vouchers and details of representation undertaken which are not presently provided. In the absence of such supporting evidence these payments could be regarded as income of the officers concerned under th Income Tax Act. These payments are not reported by the Corporation in its annual Return of Remuneration Paid filed with the Taxation Division of the Department of National Revenue.

BALANCE SHEET

Cash—$3,422,119

At March 31, 1962 this item comprised the following balances:

Cash on hand and on deposit—	
Head Office	$2,905,204
Regional Offices	364,865
Contractors' security deposits	152,050
	3,422,119

The cash on hand was verified by actual count and the balances on deposit were confirmed by certificate received directly from the banks concerned and reconciled with the balances in the Corporation's accounts.

Accounts Receivable—$3,950,121

Details of the balances comprising this account, with comparative figures for the previous year, are as follows:

	Year ended March 31,	
	1962	*1961*
Trade receivables	$3,290,073	$3,575,817
Due from employees re purchase of Canada Savings Bonds	290,051	264,076
Travel advances	96,137	96,968
Group insurance dividends receivable	92,408	43,369
Trade accruals	24,465	37,032
Accrued interest on savings account	18,917	59,216
Miscellaneous	148,070	152,685
Less: Allowance for doubtful accounts	10,000	10,000
	3,950,121	4,219,163

Confirmation of the balances of trade accounts receivable at January 31, 1962 was carried out on a co-operative basis by our office and the internal auditors of the Corporation. In each region, we requested a selected group of debtors to confirm the balance of their accounts directly to our office, and the remainder of the receivables were confirmed directly to the internal auditors, whose procedures and findings we reviewed. This test circularization revealed no material discrepancies.

The allowance for doubtful accounts, which was deducted from the accounts receivable figure for balance sheet presentation, remained unchanged from the allowance of $10,000 at the close of the previous year. During the year under review accounts totalling $5,523 were written off as uncollectible with the approval of the Finance Committee. This compares with similar write-offs las year of $12,490.

Investment in Government of Canada Bonds—$1,457,031

This item, unchanged during the year, represents $1,500,000 2¾% Government of Canada bonds due June 15, 1968. The market value at March 31, 1962, including accrued interest, was $1,389,000. The securities on hand at March 31, 1962 were verified by actual count.

Engineering and Production Supplies—$1,569,345

The following is a summary showing the changes in the stores inventories at March 31, 1962 and 1961:

	Year ended March 31,		
	1962	*1961*	*Decrease*
Engineering supplies	$ 577,424	$ 635,235	$ 57,811
Production supplies	991,921	1,320,410	328,489
Stationery supplies	....	228,815	228,815
	1,569,345	2,184,460	615,115

A change in the method of accounting in March 1962 reflected the decision to charge certain supplies directly to expense at the time of purchase. This involved removing from inventories stationery stores valued at $254,888, technical stores consisting of partially used videotapes valued at $396,910 and partially used image orthicon tubes valued at $4,307, and production supplies consisting of "flats", or background scenery, valued at $44,943. The effect of this change in accounting procedure is that expenditures for stationery will be charged against operations when supplies are purchased, rather than, as has been the practice, when they are used; videtapes will be charged to operations on first use when withdrawn from stores, a departure from the previous practice of charging a portion of the cost of the tape to operations on each "pass"; and the practice in the Quebec Region of carrying "flats" as an inventory item will be discontinued to conform with usage throughout the other regions. The management of the Corporation believe that the implementation of this policy will eliminate the need for certain detailed accounting records and thereby reduce manpower requirements, while the continuance of existing physical controls will be adequate for control requirements.

In addition to the reduction in engineering and production supplies inventory of $701,049 brought about by the change in accounting procedures, the Corporation also wrote off from inventory accounts an amount of $85,894 made up as follows:

Stationery supplies—unuseable and obsolete stock	$ 4,312
Technical supplies—including $59,575 at National Engineering Headquarters representing the write-off of the balance of the items remaining on decentralization of the technical stores	76,904
Production supplies—net of small overages and shortages revealed by physical inventory and unuseable and obsolete supplies	4,678
	85,894

We observed the physical stocktaking of floor inventories at the various regions at the year-end, tested the accuracy of controlled stores by physical examination and subsequent comparison with perpetual stock records during the year and generally tested inventory quantities and prices to the extent considered appropriate.

Programs Completed and in Process of Production—$3,341,001

The balance in this account increased by $1,212,028 or 57% over the balance at the end of the previous year, as shown in the following analysis:

	Year ended March 31,		
	1962	*1961*	*Increase*
Programs completed	$1,988,222	$1,436,862	$ 551,360
Programs in process of production	1,352,779	692,111	660,668
	3,341,001	2,128,973	1,212,028

This increase is attributed by the Corporation to the increased use of videotapes for recording programs in advance of broadcast. Inventory in the Quebec region accounts for 79% of the increase, $513,652 in completed programs and $448,383 in programs in process of production.

Write-offs from this account during the year amounted to $206,913, compared with $53,109 during the previous year. Included among the write-offs are the following:

Cuba Si—an abandoned program described as "valueless for telecasting purposes"	$ 42,633
High Arctic Hunter—a program cancelled while in process of production due the evacuation of an Eskimo community on which the program was based, because of the outbreak of an epidemic	31,557
Reve de Valse—rights not available	15,304
R.C.M.P. television series—amount by which Corporation's investment of $273,000 in this series exceeded $206,111 revenue earned	66,889
Miscellaneous—including programs abandoned while in process of production, preempted, cancelled due to technical difficulties, performers' illnesses, etc.	50,530
	206,913

Film and Script Rights—$1,656,324

This item shows a decrease of $325,817 from the balance of prepaid film and script rights at March 31, 1961 of $1,982,141. A comparative summary follows:

	Year ended March 31,		
	1962	*1961*	*Decrease*
Prepaid film rights	$ 1,513,524	$ 1,809,401	$ 295,877
Prepaid script rights	142,800	172,740	29,940
	1,656,324	1,982,141	325,817

The decrease of $295,877 in prepaid film rights is largely attributable to the effective tightening of commitment procedures and reduction in terms for which the rights were acquired in the Ontario region, where a reduction of $342,000 was achieved. In the Quebec region, prepaid film rights increased by $26,000, with the amount invested in film rights in that region amounting to approximately $1,298,000 at March 31, 1962, or 85% of the total amount so invested, as compared with $1,272,000 or 70% of the total invested at the close of the preceding year.

In addition to the $1,513,524 carried in prepaid film rights as amounts paid for films awaiting broadcast, the Corporation at March 31, 1962 was committed under contract to purchase film rights to a value of $5,237,000. Commitments at the same date last year amounted to $4,338,000.

The Corporation wrote off as a charge to operations for the year an amount of $165,185 in determining the inventory values of prepaid film and script rights at the year-end. An analysis of this write-off is given in the following summary:

Film rights written off due to expiry of contracts, unsuitability of films for broadcast because of program content or technical quality and changes in programming	$ 127,868
Script rights expired	34,417
Portion of script writer's salary chargeable to programs	2,900
	165,185

The comparable write-off for the previous year was $241,536.

Capital Assets—$32,036,304

The capital budget of the Corporation was approved by Order in Council P.C. 1961-494 dated March 30, 1961. Vote 44, Appropriation Act No. 5, 1961 provided a grant of $9,640,000 for capital requirements, including the replacement for existing capital assets of the radio and television services. With the total amount of the grant being drawn down, and capital expenditures during the year amounting to $6,214,232, the balance of $3,425,768 remaining unexpended at the year-end lapsed; $3,000,000 was refunded to the Receiver General in March 1962 and $425,768 was refunded early in the current year.

Major capital additions during the year included the construction and equipping of a studio, office building and television transmitter at Edmonton, the purchase of five mobile videotape recording units at Montreal, Halifax, Toronto, Ottawa and Edmonton, modification of existing videotape recording equipment, purchase and installation of two videotape recording units at Montreal, construction of a television tower antenna at Montreal, installation of a low power television station at Mont Laurier, Quebec, and enlargement of the equipment room at Ottawa. A net book loss of $14,353 was experienced during the year on the disposal of capital assets which originally cost $268,260, after giving effect to accumulated depreciation of $191,872 and proceeds from sales of $62,035. This loss is reflected in the Statement of Proprietor's Equity Account.

During the past three years, expenditures totalling $1,869,000 have been made in connection with the proposed consolidation of facilities in Toronto, Montreal and Ottawa. The estimate of the cost of this consolidation, as set out in summary form in the Minutes of Proceedings of the Special Committee on Broadcasting (Appendix B of No. 27 of June 7, 1961, page 804), amounts to $46,560,000 during the five-year period ending March 31, 1966, together with $26,986,000 required in subsequent years to complete the projects. An estimated cost of $69,335,000 to complete the consolidation was approved by the Board of Directors on October 30, 1959 and submitted to the Minister of National Revenue and the Minister of Finance on November 6, 1959, in accordance with the provisions of section 35(2) of the Broadcasting Act. The footnote to the Balance Sheet as at March 31, 1962 sets out that the estimated total cost of the proposed consolidation would be $81,087,000, of which approximately $2,890,000 would be expended during the year ended March 31, 1963 and $76,328,000 during the three years ended March 31, 1966. At the time this report was prepared, a revised capital budget for the year ended March 31, 1963 had been submitted for approval by Governor in Council. In this budget the estimated expenditure on the consolidation project for the 1962-63 fiscal year is shown as $1,578,000. The extent to which expenditures may actually be incurred is subject to the provision of funds by annual parliamentary appropriations.

With the rapid expansion of the Corporation over the past ten years, the physical and accounting control over capital assets has been a matter of some concern. Accordingly, the management has set up study and working groups to identify the specific problems in this area and to come forward with recommendations for their solution. The working group is presently taking inventory of all capital assets throughout the Corporation. When this physical inventory is completed and reconciled with the accounting records, the recommendations of the working group will be considered by the management and implemented to the end of establishing and maintaining improved physical and accounting control over the capital assets of the Corporation.

Accounts Payable and Accrued Liabilities—$6,142,004

The composition of this liability, compared with that at March 31, 1961, is as follows:

	Year ended March 31, 1962	*1961*	*Increase (Decrease)*
Trade accounts payable	$ 4,236,174	$ 3,656,966	$ 579,208
Due to Federal Government departments	608,122	509,789	98,333
Due to Provincial Governments	37,961	67,009	(29,048)
Pension plan contributions ..	496,461	412,547	83,914
Accrued overtime salaries ...	316,219	204,424	111,795
Contractors' security deposits and holdbacks	216,846	172,000	44,846
Other items accrued and payable	230,221	100,967	129,254
	6,142,004	5,123,702	1,018,302

The increase in trade acounts payable is due to a deceleration in the payment of accounts and also to a change in payment policy so as to make payment to private stations within thirty days.

The management of the Corporation has certified as to the correctness of the above liability figure; that there were no contingent liabilities as at March 31, 1962; that contractual obligations and purchase commitments of the Corporation were not in excess of normal requirements; and that no contract of material importance had been entered into not in the ordinary course of business.

Proprietor's Equity Account—$41,026,304

The equity of the Crown in the Canadian Broadcasting Corporation at March 31, 1962 amounted to $41,026,304, comprising working capital of $9,000,000 ($6,000,000 as provided by section 39(1) of the Broadcasting Act and a further $3,000,000 advanced for the purpose of increasing working capital by Vote 759, Appropriation Act No. 2, 1961) and $32,026,304 net book value of fixed assets. This represents an increase of $2,154,192 over the equity of $38,872,112 at March 31, 1961. Details of this increase were as follows:

Parliamentary grant for capital requirements—		
Vote 44, Appropriation Act No. 5, 1961 ..	$ 9,640,000	
Less: Amount of Vote 44 not expended	3,425,768	
		$ 6,214,232
Cost to Department of National Health and Welfare of emergency transportable radio transmitters transferred to the Corporation under authority of Order in Council P.C. 1960-23/884, June 29, 1960	272,662	
Less: Accumulated depreciation to March 31, 1961	109,065	
		163,597
		6,377,829
Deduct: Portion of net result of operations represented by depreciation	4,039,041	
Write-off of improvement to properties held under lease	170,243	
Net loss on retirement of capital assets	14,353	
		4,223,637
		2,154,192

Under the provisions of the Public Service Re-arrangement and Transfer of Duties Act, R.S., c. 227, Order in Council P.C. 1960-23/884 transferred responsibility for emergency broadcasting from the Emergency Measures Organization, Department of National Health and Welfare, to the Canadian Broadcasting Corporation and the Corporation acts as agent of the Federal

government in coordinating the broadcasting activities of all stations forming part of the emergency network. The portable radio transmitters originally purchased by the Emergency Measures Organization at a cost of $272,662 were transferred to the Corporation during the year under review. Accordingly an amount of $163,597, which is the original cost of the transmitters less accumulated depreciation to March 31, 1961 of $109,065, has been added to the capital assets and proprietor's equity accounts of the Corporation.

Trustee Pension Plan

The Board of Governors of the Canadian Broadcasting Corporation, pursuant to authority under section 8(m) of the Canadian Broadcasting Act, 1936, c.24, and By-Law No. 6(1) of the Corporation, by resolution established the Group Annuity Plan for the Retirement of Employees of the Canadian Broadcasting Corporation which became effective on April 1, 1943.

By resolution of the Board of Directors of the Corporation at a meeting held June 26-29, 1961, under authority of section 26(2) of the Broadcasting Act, 1958, c.22, the By-Laws were amended by the addition of section 17 establishing a new Pension Fund for the Directors, Officers and Employees of the Corporation and their Dependents, which came into force on September 1, 1961. The Board of Directors also by resolution at the same meeting authorized management to terminate the Group Annuity Plan for the Retirement of Employees of the Canadian Broadcasting Corporation as of August 31, 1961. The President and the Principal Financial Officer of the Corporation, under date of September 1, 1961 directed that the balance in the CBC Pension Trust General Reserve Fund be paid to The Mutual Life Assurance Company of Canada to be applied to increase by a uniform proportion the normal current service annuities in respect of each employee registered in the Plan at August 31, 1961. The balance in the General Reserve Fund amounting to $2,805,684 was paid to The Mutual Life Assurance Company of Canada, of which $2,637,098 was paid during the fiscal year ended March 31, 1962 and $168,586 was paid during the period April 1 to May 15, 1962, to purchase annuities to increase by 25.5% the aggregate regular 2% current service annuity for each employee registered in the Plan at August 31, 1961.

For the purpose of implementing the CBC Trustee Pension Plan, the Corporation and the CBC Pension Board of Trustees executed a Trust Deed under date of August 3, 1961 setting forth the manner in which the Plan is to be administered. Section 3 of the Trust Deed provides that there shall be seven trustees, a majority of whom shall either hold office as directors of the Corporation or be officers employed full-time by the Corporation. The President, the senior executive officer responsible for personnel and the senior executive officer responsible for finance shall be trustees by virtue of their office with the Corporation, and all other trustees shall be appointed by the Corporation. At the date of this report, there are six trustees, one vacancy having existed since the inception of the Plan.

Under the provisions of section 7(3) of the Trust Deed, the Corporation selected the Montreal Trust Company and The Royal Trust Company for appointment by the Trustees as agents to make and manage investments for the Fund. The Trustees, by agreements dated September 18, 1961, engaged these agents to act in this capacity and to perform certain other routine administrative functions.

No provision is made in the Trust Deed for independent actuarial valuations in the future to determine the soundness of the Pension Fund, and in our report to the CBC Pension Board of Trustees dated June 20, 1962 concerning the accounts and financial statement for the period from the date of inception September 1, 1961 to March 31, 1962, we recommended that the Trust Deed be amended to provide that the Trustees obtain such a valuation at least once every five years.

Special Survey

In our report last year we referred again to the recommendations made two years ago to the Board of Directors that in our opinion a useful purpose would be served by having the organizational structure of the Corporation in terms of its present size, complexity and costs made the subject of a study by independent management consultants working in co-operation with our office. We understand that a study of this nature was completed by the Royal Commission on Government Organization during the fiscal year ended March 31, 1962 but at the time of the preparation of this report the contents of this portion of the Commission's report are not yet available.

We shall be glad to furnish you with any additional information you may wish in connection with our examination or this report.

A. M. Henderson,
Auditor General of Canada.

AUDITOR GENERAL OF CANADA

Ottawa, June 4, 1962.

The Honourable G. C. Nowlan,
Minister of National Revenue, Ottawa.

Sir,

The accounts and financial statements of the Canadian Broadcasting Corporation have been examined for the year ended March 31, 1962. In compliance with the requirements of section 87 of the Financial Administration Act, I now report that, in my 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 operations, give a true and fair view of the operations of the Corporation for the financial year; and

(*c*) the transactions of the Corporation that have come under my notice have been within the powers of the Corporation under the Financial Administration Act and any other Act applicable to the Corporation.

Yours faithfully,

A. M. Henderson,
Auditor General of Canada.

EXHIBIT I

CANADIAN BROADCASTING CORPORATION

(Established by the Broadcasting Act)

Balance Sheet as at March 31, 1962

(with comparative figures as at March 31, 1961)

Assets

Current Assets:		1962	1961
Cash		$ 3,422,119	$ 3,358,012
Accounts receivable		3,950,121	4,219,163
Due from Government of Canada in respect of expenditures incurred on behalf of the International Broadcasting Service		199,926	458,033
Investment in Government of Canada Bonds, at cost, including accrued interest (market value, $1,389,000)		1,457,031	1,457,031
Engineering and production supplies, at cost		1,569,345	2,184,460
Programs completed and in process of production		3,341,001	2,128,973
Film and script rights		1,656,324	1,982,141
Prepaid rent, insurance and other items		137,632	195,585
Total Current Assets		15,733,499	15,983,398
International Broadcasting Service Facilities, at cost (contra)		6,273,628	6,273,287
Capital Assets, at cost:			
Land and buildings	$ 22,255,815		20,759,427
Technical equipment	29,726,407		25,644,578
Furnishings and equipment	3,316,918		3,022,428
Other	591,643		353,925
	55,890,783		49,780,358
Less: Accumulated depreciation	23,864,479		19,908,246
		32,026,304	29,872,112
		54,033,431	52,128,797

Liabilities

Current Liabilities:		1962	1961
Accounts payable and accrued liabilities		$ 6,142,004	$ 5,123,702
Due to Receiver General of Canada:			
Unexpended balance of Parliamentary Grant received in respect of the net operating requirements of the radio and television services	$ 165,727		1,496,524
Unexpended balance of Parliamentary Grant received for the capital requirements of the radio and television services	425,768		363,172
		591,495	
Total Current Liabilities		6,733,499	6,983,398
International Broadcasting Service Facilities, provided by the Government of Canada (contra)		6,273,628	6,273,287
Proprietor's Equity Account, per statement attached		41,026,304	38,872,112
		54,033,431	52,128,797

NOTE: Proposed Consolidation of Facilities in Toronto, Montreal and Ottawa.

Capital assets shown above in the amount of $55,890,783 include the sum of $1,869,000 expended during the last three years in connection with the proposed consolidation of facilities in Toronto, Montreal and Ottawa. It is estimated that the total cost of consolidation of facilities at these locations will be $81,087,000, of which, subject to the provision by Parliament of annual appropriations for the purpose, approximately $2,890,000 will be expended during the year ending March 31, 1963 and $76,328,000 during the three years ending March 31, 1966.

Certified correct:

V. S. Davies,

.....

Comptroller

Approved on behalf of the Corporation:

J. A. Ouimet,

.....

President

R. L. Dunsmore,

.....

Director

C. Leeson,

.....

Director

The above Balance Sheet and the related Statements of Operations and of Proprietor's Equity Account have been examined and reported upon under date of June 4, 1962 to the Minister of National Revenue, as required by section 87 of the Financial Administration Act.

A. M. Henderson

.....

Auditor General of Canada

EXHIBIT II

CANADIAN BROADCASTING CORPORATION

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1962
(with comparative figures for the year ended March 31, 1961)

	Programs without Advertising	Programs with Advertising	1962	1961
Expense				
Cost of Production and Distribution—				
Cost of programs	$ 49,784,695	$ 17,711,100	$ 67,495,795	$ 62,784,251
Network distribution	7,886,357	2,047,474	9,947,013	9,237,351
Station transmission	2,999,703	893,443	3,893,146	3,635,492
Payment to private stations	—	4,851,069	4,851,069	5,278,928
Commissions to agencies and networks	—	4,620,207	4,620,207	5,187,441
	60,670,755	30,123,293	90,807,230	86,123,463
Northern Radio Service			993,343	760,126
Operational Supervision and Services:				
Program		3,276,299		2,806,282
Administrative		3,459,680		3,098,118
General		2,106,963		1,926,246
			8,842,942	7,830,646
Total Cost of Production and Distribution			100,643,515	94,714,235
Selling and General Administration:				
Selling expense		1,540,736		1,356,026
Engineering and development		943,128		899,720
Management and central services		4,483,775		3,982,844
			6,967,639	6,238,590
Total Expense for the Year			107,611,154	100,952,825
Income				
Advertising revenue (gross)	32,910,118			37,601,651
Interest on investments	185,291			145,645
Miscellaneous	224,431			340,927
		33,319,840		38,088,223
Parliamentary Grant				
In respect of the net operating requirements of the radio and television services:				
Vote 43 Appropriation Act No. 5, 1961	70,418,000			
Less: Amount of Vote 43 not expended to be refunded	165,727			
		70,252,273		59,288,476
			103,572,113	97,376,699
Depreciation included in total expense for the year			4,039,041	3,576,126
			107,611,154	100,952,825

NOTE: Included in the above expenses for 1962 are $175,500 for executive officers' remuneration, $33,700 for directors' honoraria and $14,991 for legal expenses.

EXHIBIT III

CANADIAN BROADCASTING CORPORATION

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT FOR THE YEAR ENDED MARCH 31, 1962

Balance as at April 1, 1961			$ 38,872,112
Parliamentary Grant for the capital requirements of the radio and television services for the year ended March 31, 1962:			
Vote 44 Appropriation Act No. 5, 1961		$ 9,640,000	
Less: Amount of Vote 44 not expended—			
Refunded March 1962	$ 3,000,000		
To be refunded	425,768		
		3,425,768	
		6,214,232	
Add: Cost to the Department of National Health and Welfare of Emergency Transportable Radio Transmitters transferred to the Corporation under authority of Order in Council P.C. 1960-23/884 dated June 29, 1960	272,662		
Less: Accumulated depreciation to March 31, 1961	109,065		
		163,597	
			6,377,829
			45,249,941
Deduct:			
Depreciation included in total expense for the year per Statement of Operations		4,039,041	
Write-off of improvements to properties held under lease		170,243	
Net loss on retirement of capital assets		14,353	
			4,223,637
Balance as at March 31, 1962			41,026,304

CANADIAN BROADCASTING CORPORATION

Report to the Board of Directors
on the examination of the accounts and financial statements
for the year ended March 31, 1963

AUDITOR GENERAL OF CANADA

Ottawa, November 22, 1963.

The Board of Directors,
Canadian Broadcasting Corporation,
Ottawa.

We have examined the accounts and financial statements of the Canadian Broadcasting Corporation for the year ended March 31, 1963, pursuant to the provisions of section 34(2) of the Broadcasting Act, 1958, c. 22, under which the Auditor General of Canada is designated auditor of the Corporation.

In compliance with section 87 of the Financial Administration Act a report, in the form required by the section and containing no qualification, was addressed to the Secretary of State under date of June 3, 1963 and copies were made available for distribution to the Directors. A copy of that report together with the financial statements of the Corporation, comprising the Balance Sheet as at March 31, 1963 and Statements of Operations and of Proprietor's Equity Account for the year then ended are attached for convenient reference.

The accounting functions of the Corporation are decentralized, and during the year we examined the accounts and records at the Head Office in Ottawa, National Engineering Headquarters in Montreal and regional offices located in Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver. Our examination was made in accordance with generally accepted auditing standards, and included a general review of the accounting procedures and system of internal control, together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

A copy of this report is being sent to the Secretary of State who was designated as the appropriate Minister with respect to the Corporation for the purposes of the Financial Administration Act by Order in Council P.C. 1963-678 of April 30, 1963.

Results of Operations

The sum of $73,244,000 was provided by the Government of Canada as a "Grant in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service" for the year ended March 31, 1963, $61,661,000 under authority of parliamentary appropriations and $11,583,000 under authority of Governor General special warrants. Subsequently the full amount was authorized by Parliament by an item in the Special Appropriation Act, 1963. With the net operating amount required amounting to $72,654,738 (exclusive of depreciation charges totalling $4,308,552 which are included as an expense for cost ascertainment purposes), the unexpended balance of $589,262 was recorded as a liability of the Corporation at the year-end and refunded to the Receiver General on May 31, 1963.

The net amount required of $72,654,738 for the year under review is compared with that of the three previous years in the following summary:

	Year ended March 31			
	1963	1962	1961	1960
Expense:				
Cost of production and distribution	$101,097,131	$100,643,515	$ 94,714,235	$ 88,336,815
Selling and general administration	7,268,751	6,967,639	6,238,590	5,702,950
Total Expense	108,365,882	107,611,154	100,952,825	94,039,765
Advertising income, etc.	31,402,592	33,319,840	38,088,223	38,563,940
Net Expense	76,963,290	74,291,314	62,864,602	55,475,825
Less: Depreciation charged as expense for cost ascertainment purposes	4,308,552	4,039,041	3,576,126	3,175,547
Net operating amount required	72,654,738	70,252,273	59,288,476	52,300,278

An operating budget of $74,994,000 for the year ended March 31, 1963 was approved by the Board of Directors at a meeting held April 17, 18 and 19, 1962. Subsequently a reduction of $1 million was effected in compliance with the government's austerity program and approved by the Board of Directors at a meeting held September 5, 6 and 9, 1962 and an operating budget of $73,994,000 was approved by Order in Council P.C. 1962-1834 dated December 21, 1962. The following table shows a comparison of the operating budget with the actual results of operations for the year:

	Budget	Actual	Actual Over (under) Budget
Artists', speakers', musicians' fees, copyrights, performing rights, manuscripts and plays	$ 17,408,000	$ 17,309,000	$(99,000)
Film purchases and rentals	8,391,000	8,880,000	489,000
Network transmission	8,757,000	8,331,000	(426,000)
Building rental and maintenance	3,779,000	3,708,000	(71,000)
Salaries and wages	44,138,000	44,063,000	(75,000)
Unemployment insurance, pension contribution expenses	2,997,000	3,009,000	12,000
Departmental expenses generally	13,309,000	12,454,000	(855,000)
	98,779,000	97,754,000	(1,025,000)
Less: Expenditures recovered from capital grant and other departments	2,285,000	2,401,000	116,000
	96,494,000	95,353,000	(1,141,000)
Less: Commercial revenue (net of agency and U.S. Network commissions and payments to private stations)	22,500,000	22,698,000	198,000
Net operating amount required	73,994,000	72,655,000	(1,339,000)

As shown by the table on Page 3, the net operating amount required by the Corporation increased by $2,402,465 from $70,252,273 for the year ended

March 31, 1962 to $72,654,738 for the year ended March 31, 1963, an increase of 3.4% compared with the previous year's increase of $10,963,797 or 18.5%.

Both increasing expenses and declining revenues have continued to contribute to the enlarged net operating amounts required: expenses increased to the extent of $485,217 and revenues declined to the extent of $1,917,248.

Expense

Details of increases and decreases in the various expense classifications giving rise to a net increase of $754,728 follow:

	Year ended March 31,		*Increase*
	1963	*1962*	*(Decrease)*
Salaries and wages	$44,063,000	$ 41,701,000	$ 2,362,000
Performers' fees, artists', speakers' and other rights	17,309,000	18,301,000	(992,000)
Film purchases and rentals	8,880,000	8,620,000	260,000
Payments to private stations	4,334,000	4,851,000	(517,000)
Commissions to agencies and networks	3,872,000	4,620,000	(748,000)
Employment expenses other than salaries and wages	3,009,000	2,346,000	663,000
Travelling and duty entertainment	1,897,000	2,020,000	(123,000)
Other	25,002,000	25,152,000	(150,000)
	108,366,000	107,611,000	755,000

The increase in salaries and wages, which accounted for more than the overall increase in expenses, is mainly attributed to the provisions of the collective bargaining agreements together with an increase in the number of employees during the first four months of the fiscal year. Staff reductions during the balance of the year more than offset this early increase and by March 31, 1963 the Corporation had 179 fewer employees than at the end of the previous year.

Included in salaries and wages as stated in Note 5 to the Financial Statements are the executive officers' remuneration of $195,600 which includes the salaries of the President and Vice-President of the Corporation, $20,000 and $16,000, respectively. In our report last year we pointed out that while these officers were duly appointed by Order in Council in accordance with the requirement of section 22 of the Broadcasting Act, their salaries had not been fixed by the Governor in Council as stipulated by section 25 of the Act and they were paid at rates equivalent to those previously applicable to the General Manager and Assistant General Manager of the Corporation. This lack of authority with respect to the remuneration of the President and Vice-President was not remedied during the year under review.

The reduction in the amount paid to private stations is mainly due to the disaffiliation from the network of CHCH-TV, Hamilton, and CFRN-TV, Edmonton. This disaffiliation has, of course, also resulted in cessation of revenue from these sources.

Commissions paid to agencies were reduced by $307,000 from $3,476,000 for the year ended March 31, 1962 to $3,169,000 for the year ended March 31, 1963 and payments to networks fell by $441,000 from $1,144,000 to $703,000. The decrease in commission payments was directly related to reduced revenue, while the decrease in payments to networks was the result of reduced purchases

of "feeds" from networks in the United States. The purchases of "feeds" have been reduced by approximately 76% since 1959, as shown in the following table:

Year ended March 31, 1959	$2,896,000
1960	1,746,000
1961	1,202,000
1962	1,144,000
1963	703,000

The increase of $663,000 in employment expenses other than salaries and wages is the result of a number of factors. With expenditure in salaries and wages increasing by $2,362,000, other employment expenses increased accordingly. Moreover, the Corporation's contribution to the Canadian Broadcasting Corporation pension plan which commenced on September 1, 1961, amounts to 7½% of salaries and wages for male employees and 6% for female employees, whereas the contribution under the former retirement plan was 6% for both— and married women, who were ineligible under the former plan, are eligible to join the new plan. The year ended March 31, 1963 is the first full twelve month period during which increased contributions were made. In addition, during the year the Corporation made contributions for the first time to the pension fund for certain employees who, as members of the International Alliance of Theatrical Stage Employees and Moving Picture Machine Operators, did not previously contribute to the CBC pension plan.

Income

As shown in the summary on Page 3, advertising income, etc., continued to diminish. The following is a summary of various classes of income for the past two years:

	Year ended March 31,		*Increase*
	1963	*1962*	*(Decrease)*
Advertising	$30,846,627	$ 32,910,118	$ 2,063,491)
Interest on investments	253,898	185,291	68,607
Miscellaneous	302,067	224,431	77,636
	31,402,592	33,319,840	(1,917,248)

A decrease in television advertising revenue of $2,198,000 was offset to a small degree by increased radio advertising revenue of $134,000. Continuing and increased competition from independent television stations and a private television network are cited by the Corporation as the reasons for this reduction. As noted earlier in this report, the disaffiliation of two stations from the CBC network has also contributed to the declining revenue although the inauguration of station CBXT-TV in Edmonton on October 1, 1961 has alleviated the loss of revenue from these stations.

The Statement of Operations (Exhibit II) segregates Cost of Production and Distribution under the headings of "Programs without Advertising, $63,586,267" and "Programs with Advertising, $28,801,732". The former classification comprises two types of programs: those which are available for advertising but which have not attracted advertising revenue; and programs of a public service nature which, because of Corporation policy, are not available to prospective advertisers. A segregation of the total cost of "Programs without Advertising" under these headings follows:

	Programs Available for Advertising	*News and Public Service Programs*	*Total*
Cost of programs	$22,526,072	$29,967,073	$52,493,145
Network distribution ..	2,788,387	5,177,794	7,966,181
Station transmission ...	1,202,342	1,924,599	3,126,941
	26,516,801	37,069,466	63,586,267

The total cost of production and distribution of programs with advertising potential, therefore, is $55,318,533, comprised of the $26,516,801 shown above and $28,801,732 shown as cost of production and distribution of programs with advertising. As gross advertising revenue only amounted to $30,846,627, the difference of $24,471,906 was required to be met from the parliamentary grant during the year.

BALANCE SHEET

Cash—$3,617,059

The following were the balances comprising this item at March 31, 1963 and 1962:

	March 31,	
	1963	*1962*
Cash on hand and on deposit—		
Head Office	$3,279,511	$2,905,204
Regional Offices	319,683	364,865
Contractors' security deposits	17,865	152,050
	3,617,059	3,422,119

Cash on hand in all regional offices except Newfoundland ($475) was verified by actual count. Balances on deposit were confirmed by certificate received directly from the banks concerned and reconciled with the balances in the Corporation's accounts.

Accounts Receivable—$3,664,761

The following is a summary of the balances comprising accounts receivable at March 31, 1963 and 1962:

	March 31,	
	1963	*1962*
Trade receivables	$3,158,498	$3,314,538
Travel advances	205,229	96,137
Accrued interest on savings account .	13,100	18,917
Accrued interest on investments	12,031	12,031
Group insurance dividend receivable .	..	92,408
Due from employees re purchase of Canada Savings Bonds	..	290,051
Miscellaneous	285,903	148,070
	3,674,761	3,972,152
Less: Allowance for doubtful accounts	10,000	10,000
	3,664,761	3,962,152

Confirmation of the balances of trade accounts receivable at the year-end and at various dates during the year was carried out jointly by our office and the internal auditors of the Corporation. In each region we requested a selected group of debtors to confirm the balances of their accounts directly to our office, and the remainder of the receivables were confirmed directly to the internal auditors, whose procedures and findings we reviewed. This test circularization revealed no material discrepancies

The allowance for doubtful accounts, which was deducted from the accounts receivable figure for balance sheet presentation, remained unchanged from the allowance of $10,000 at the close of the previous year. During the year under review accounts totalling $3,345 were written off with the approval of the Finance Committee. This compares with similar write-offs last year of $5,523.

Investment in Government of Canada Bonds—$1,445,000

This item, unchanged during the year, represents the cost of $1,500,000 2¾% Government of Canada bonds due June 15, 1968. The market value at March 31, 1963 was $1,380,000. We verified the securities on hand at the year-end by actual count.

Engineering and Production Supplies—$1,645,955

A summary of the balances comprising this item, with the comparable amounts at March 31, 1962, is as follows:

	March 31, 1963	1962	Increase
Engineering supplies	$ 1,157,321	$ 1,083,069	$ 74,252
Production materials	400,304	400,059	245
Engineering work in process	88,330	86,217	2,113
	1,645,955	1,569,345	76,610

Of the increase of $74,252 in engineering supplies, $42,000 was in controlled stores in the Ottawa regional office, where a new storage area was set up in 1962, and $32,000 was in technical floor inventories in the Prairies Region for the Edmonton television station operation.

During the year, the Corporation wrote off from the inventory accounts $2,086 in engineering supplies and $939 in production materials. Comparable deletions in the previous year were $76,904 in technical supplies (which included $59,575 at National Engineering Headquarters, representing the write-off of the balance then remaining on decentralization of the technical stores) and $4,678 in production materials.

We observed the physical stocktaking of floor inventories at the various regions at the year-end, tested the accuracy of controlled stores by physical examination, made comparisons with perpetual stock records during the year and generally tested inventory quantities and prices to the extent we considered appropriate.

Programs Completed and in Process of Production—$3,588,990

The cost of programs completed and in process of production at March 31, 1963 increased by $247,989 over that at the end of the previous year, as shown by the following analysis:

	March 31, 1963	1962	Increase (Decrease)
Programs completed	$ 2,354,951	$ 1,988,222	$ 366,729
Programs in process of production	1,234,039	1,352,779	(118,740)
	3,588,990	3,341,001	247,989

The cost of programs completed and in process of production in the various regions at March 31, 1963 and 1962 were as follows :

	March 31, 1963	1962	Increase (Decrease)
Ontario and English network	$ 1,637,541	$ 1,259,316	$ 378,225
Quebec and French network	1,634,162	1,599,484	34,678
British Columbia	102,577	142,327	(39,750)
Prairies	89,129	132,860	(43,731)
Maritimes	89,529	133,527	(50,998)
Other	43,052	73,487	(30,435)
	3,588,990	3,341,001	247,989

The bulk of the program inventory continued to be in Toronto and Montreal for the English and French networks, respectively, and included programs recorded in advance of broadcast on videotape ($2,277,000) and film ($1,176,000). We have been informed that approximate telecast dates of the programs comprising the inventory at March 31, 1963 are:

April to June, 1963	$1 1,935,725
July to September, 1963	218,068
After September, 1963	916,552
To be announced	518,645
	3,588,990

Write-offs from the account during the year amounted to $115,119, compared with $206,193 during the previous year. The write-off represents the cost of 106 programs or parts of programs abandoned because of performer, technical or scheduling difficulties or pre-emptions. Most of the programs written off involved costs of less than $1,000; however, two items involving more material amounts were:

(i) L'Homme Devant La Science and Histoires Extraordinaires—the cost of six episodes on film in process of production was written off when the producer became bankrupt and was unable to deliver films, after the Corporation had made progress payments and advances totalling $44,917.

(ii) Christmas at Alberta Game Farm—a program which cost $5,430 and was written off because of difficulties encountered with technical equipment in the VTR mobile unit.

Film and Script Rights—$1,877,346

The balance of prepaid film and script rights at March 31, 1963 increased by $221,022 over the balance at March 31, 1962, as shown in the following summary:

	March 31		
	1963	*1962*	*Increase*
Prepaid film rights	$1,704,902	$1,513,524	$191,378
Prepaid script rights	172,444	142,800	29,644
	1,877,346	1,656,324	221,022

In the Quebec region, prepaid film rights increased by $65,000, with the result that the amount invested in film rights in that region was approximately $1,363,000 or 80% of the total amount so invested at March 31, 1963, compared with $1,298,000 or 85% of the total invested at the close of the preceding year. We were informed by the management that the reason for this large proportion of prepaid film rights in the Quebec region lies in the limited supply of French language films available in Canada and the consequent intense competition encountered by the Corporation in acquiring rights to these films. This condition has tended to increase the cost and has also made it necessary to acquire film rights in this region far in advance of the customary requirements of the Corporation.

In addition to the $1,704,902 carried in prepaid film rights as amounts paid for films awaiting telecast, the Corporation at March 31, 1963 was committed under contract to purchase film rights to a value of $5,274,000. Commitments at the same date last year amounted to $5,237,000.

The Corporation wrote off as a charge to operations for the year a total of $137,129 in determining the inventory values of prepaid film and script rights at the year-end. The comparable write-off for the previous year was $165,185. Film rights written off represent, for the most part, single episodes of film contracts expired by the end of the year and not telecast because of unsuitability of program content, technical deficiencies or pre-emptions. One series, "Cesar" was purchased in 1957 for the Howdy Doody program which was cancelled before all the episodes were used. Episodes costing $28,744 were included in the total write-off of film rights amounting to $73,478. Script rights totalling $63,651 were written off because the rights had expired or the scripts were considered unsuitable. The larger items comprising this total were:

Hospital series	38 scripts	$15,200
Science Fiction	14 scripts	7,500
General Motors Presents	13 scripts	6,912
First Person	24 scripts	6,383
Other		27,656
		63,651

International Broadcasting Service Facilities—$6,279,857

The Corporation, in addition to operating a national broadcasting service as required by section 29(1) of the Broadcasting Act, also operates the International Broadcasting Service on behalf of the Government of Canada. This service broadcasts Canadian programs to foreign countries in the languages of those countries. In accordance with the provisions of Order in Council P.C. 156/8855 of November 17, 1943, the Corporation carries in its books and shows on its balance sheet as a separate item the total cost of International Broadcasting Service facilities which amounted to $6,279,857 at March 31, 1963

together with an offsetting amount as a liability to the Government of Canada. All operational and maintenance costs of the International Service are borne by the Government of Canada, being recovered by the Corporation under a separate parliamentary appropriation.

Capital Assets—$33,797,724

The capital budget of the Corporation was approved by Order in Council P.C. 1962-1834 dated December 21, 1962. The Revised Estimates for the fiscal year ended March 31, 1963 tabled during the First Session of the Twenty-Sixth Parliament provided for a grant of $6,600,000 for the capital requirements of the national broadcasting service, $6,050,000 was received under the authority of parliamentary appropriations and $550,000 under authority of a Governor General special warrant. With the capital expenditure during the year amounting to $6,390,418, the unexpended balance of $209,582 was recorded as a liability of the Corporation at the year-end and was refunded to the Receiver General on May 31, 1963.

Capital assets of the Corporation, recorded at cost, increased by $5,959,581, from $55,890,783 at March 31, 1962 to $61,850,364 at March 31, 1963. This increase represents the cost of assets acquired of $6,390,418 reduced by the write-off of improvements to properties held under lease and the cost of assets retired during the year of $430,837. A book loss of $48,983 was experienced on the disposal of capital assets which originally cost $194,385 after giving effect to accumulated depreciation of $120,391 and proceeds from sales of $25,011. This loss is reflected in the Statement of Proprietor's Equity Account. Major capital additions during the year were:

Increase in construction in progress	$ 1,884,765
Technical equipment	1,557,430
Transmitter	865,373
Buildings	535,284
Tower and antennae	486,012
Studio and office furnishings	248,271
Videotape equipment	165,011
Cars and trucks	125,718
Electrical equipment	115,751
Transmission lines	97,742
Land	91,808
Other	217,253
	6,390,418

Most of the increase in construction in progress represents the costs incurred during the year on the consolidation of facilities in Toronto, Montreal and Ottawa. During the past four years a total of $3,802,000 has been expended on these projects. As noted in our report last year, the estimated cost of this consolidation as set out in summary form in the Minutes of Proceedings of the Special Committee on Broadcasting (Appendix B of No. 27 of June 7, 1961, Page 804), amounted to $73,636,000: $46,650,000 during the five-year period ending March 31, 1966 and $26,986,000 in subsequent years, to complete the projects. An estimated cost of $69,335,000 to complete the consolidation had previously been approved by the Board of Directors on October 30, 1959 and submitted to the Minister of National Revenue and the Minister of Finance on November 6, 1959 in accordance with the provisions of section 35(2) of the Broadcasting Act. A note to the Financial Statements as at March 31, 1963 sets

out that present estimates of the cost of current plans indicate the cost of consolidation of facilities at these locations to be $83,058,000. Subject to the provision of annual appropriations by Parliament for the purpose, approximately $1,597,000 will be expended during the year ending March 31, 1964 and the remainder during the four years ending March 31, 1968.

In our report last year, we also referred to a physical inventory of all capital assets of the Corporation being made with a view to establishing and maintaining improved physical and accounting control over such assets. The physical count was completed during the year under review but pricing of these assets and comparison of physical count with accounting records remains to be completed. We were informed that this phase of the project would be finished during the current fiscal year.

Accounts Payable and Accrued Liabilities—$6,618,475

The composition of this liability, compared with that at March 31, 1962, is as follows:

	March 31, 1963	1962	Increase (Decrease)
Trade accounts payable	$ 4,471,717	$ 3,990,124	$ 481,593
Due to federal government departments	633,213	608,122	25,091
Pension plan contributions	415,605	496,870	(81,265)
Accrued overtime salaries	279,252	316,219	(36,967
Contractors' security deposits and holdbacks	181,816	216,846	(35,030)
Due to provincial governments	37,870	37,961	(91)
Other items accrued and payable	599,002	475,862	123,140
	6,618,475	6,142,004	476,471

The management has certified as to the correctness of the above liability figure; that there were no contingent liabilities as at March 31, 1963; that contractual obligations and purchase commitments of the Corporation were not in excess of normal requirements; and that no contract of material importance had been entered into not in the ordinary course of business.

Proprietor's Equity Account—$42,797,724

The equity of the Crown in the Canadian Broadcasting Corporation at March 31, 1963 amounted to $42,797,724, comprising working capital of $9,000,000 ($6,000,000 as provided by section 39(1) of the Broadcasting Act and a further $3,000,000 advanced for the purpose of increasing working capital by Vote 759, Appropriation Act No. 2, 1961) and $33,797,724 net book value of fixed assets. This represents an increase of $1,771,420 over the equity of $41,026,304 at March 31, 1962. Details of this increase were as follows:

Grants for capital requirements, received under authority of:		
Parliamentary appropriations	$6,050,000	
Governor General special warrant	550,000	
	6,600,000	
Less: Amount not expended	209,582	
		$6,390,418

Deduct:		
Portion of net result of operations represented by depreciation	4,308,552	
Write-off of improvements to properties held under lease	261,463	
Net loss on retirement of capital assets	48,983	
		4,618,998
		1,771,420

Trustee Pension Plan

We have examined the accounts and financial statements of the CBC Pension Board of Trustees for the year ended March 31, 1963 pursuant to the provisions of the Trust Deed dated August 3, 1961 between the Canadian Broadcasting Corporation and the CBC Pension Board of Trustees and have reported thereon under date of June 21, 1963 to the CBC Pension Board of Trustees. In our report last year, we noted that no provision had been made in the Trust Deed for independent actuarial valuations to determine the soundness of the Pension Fund and recommended that the Trust Deed be amended to provide that the Trustees obtain such a valuation at least once every five years. The Trust Deed was so amended by resolution of the Board of Directors on February 6, 1963, with the first actuarial valuation to be obtained not later than March 31, 1965 and subsequent actuarial reports to be obtained at least once every five years.

By-Laws of the Corporation

At a meeting of the Board of Directors held June 22-24, 1959, By-Law No. 3 of the Corporation was amended to provide that a Chairman and Vice-Chairman of the Board be elected by the Board at each annual meeting and that the Chairman, or in his absence the Vice-Chairman, should preside at all meetings of the Board. At each subsequent annual meeting, Directors were duly elected to these offices and thereafter presided at meetings of the Board. Under date of May 16, 1963 the Deputy Attorney-General, in response to a request from the Secretary of State for an opinion as to the validity of By-Law No. 3, replied, in part, as follows:

> It is therefore my opinion that section 3 of the by-laws is invalid in so far as it purports to authorize or require persons other than the President and Vice-President of the Corporation to preside over meetings of the Board of Directors of the Corporation.

The Board of Directors, taking cognizance of the opinion of the Deputy Attorney General, ratified and confirmed all by-laws, contracts, acts and proceedings of Directors of the Corporation since June 24, 1959 at a meeting held May 30, 31 and June 1, 1963.

Special Survey

In our report to the Board of Directors for the year ended March 31, 1960, we drew attention to various weaknesses in the system of internal control and made recommendations designed to correct these weaknesses. At the same time we suggested to the Board that a useful purpose might be served by having the Corporation's organizational structure in terms of its

present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the Audit Office.

It will be recalled that this particular report was tabled during hearings of the Special Committee on Broadcasting held in 1961 and was the subject of discussion in committee. In its report to the House of Commons on June 28, 1961 the Committee recommended that, following a review of the report of the Royal Commission on Government Organization, consideration be given by the Board of Directors of the Corporation to the advisability of commissioning management consultants to enquire further into the operation of the Corporation.

In Report 19, Volume 4, of its reports, released on April 17, 1963, the Royal Commission on Government Organization duly reported on the results of its review of the Canadian Broadcasting Corporation. The Commissioners stated that, while they had not undertaken the detailed investigation and appraisal which the Special Committee on Broadcasting may have contemplated, their report was proposing guidelines and criteria which, subject to government decisions on policy, should permit the Corporation to adjust its internal organization and operations to management and performance needs, with the aid of such advice, from within the government or elsewhere, as it may consider necessary.

Several of the Commissioners' comments, particularly those relating to financial administration, refer or deal with matters which had been the subject of critical comment in our 1960 report. However, as explained in our subsequent reports to the Board, we found that a number of these matters have since been remedied, particularly those relating to the position of the Chief Financial Officer, the formation of an effective internal auditing section and more effective stores control.

Notwithstanding this action on the part of the management in adopting our recommendations and suggestions, we felt that a useful purpose would be served if we reviewed the comments made by the Royal Commission on Government Organization in Report 19 having regard to its critical appraisal of the Corporation's operations, particularly in the area of internal financial control. We therefore discussed these with the Chairman of the Board, the President and the Chief Financial Officer in a meeting held on June 19, 1963 and received their assurance that appropriate remedial action would be taken after discussion of the points by these officers with the Board of Directors. The President also undertook to furnish us with a copy of any report which he may submit to the Director of the Bureau of Government Organization on the Commissioners' findings in Report 19.

* * * * * * *

We shall be glad to furnish you with any additional information you may wish in connection with our examination.

A. M. Henderson,
Auditor General of Canada.

AUDITOR GENERAL OF CANADA

Ottawa, June 3, 1963.

The Honourable J. W. Pickersgill,
The Secretary of State,
Ottawa.

Sir,

I have examined the accounts and financial statements of the Canadian Broadcasting Corporation for the year ended March 31, 1963. In compliance with the requirements of section 87 of the Financial Administration Act, I report that, in my 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 operations, give a true and fair view of the operations of the Corporation for the financial year; and

(*c*) the transactions of the Corporation that have come under my notice have been within the powers of the Corporation under the Financial Administration Act and any other Act applicable to the Corporation.

Yours faithfully,

A. M. Henderson,
Auditor General of Canada.

CANADIAN BROADCASTING CORPORATION

(Established by the Broadcasting Act)

BALANCE SHEET AS AT MARCH 31, 1963

(with comparative figures as at March 31, 1962)

ASSETS

		1963	1962
Current Assets:			
Cash		$ 3,617,059	$ 3,422,119
Accounts receivable		3,664,761	3,962,152
Due from Government of Canada in respect of expenditures incurred on behalf of the International Broadcasting Service		427,738	199,926
Investment in Government of Canada Bonds, at cost (market value $1,380,000)		1,445,000	1,445,000
Engineering and production supplies, at cost		1,645,955	1,569,345
Programs completed and in process of production		3,588,990	3,341,001
Film and script rights		1,877,346	1,656,324
Prepaid rent, insurance and other items		150,470	137,632
Total Current Assets		16,417,319	15,733,499
International Broadcasting Service Facilities, at cost (contra)		6,279,857	6,273,628
Capital Assets, at cost: (Note 1)			
Land and buildings	$ 24,659,699		22,255,815
Technical equipment	32,931,218		29,726,407
Furnishings and equipment	3,557,738		3,316,918
Other	701,709		591,643
	61,850,364		55,890,783
Less: Accumulated depreciation	28,052,640		23,864,479
		33,797,724	32,026,304
		56,494,900	54,033,431

LIABILITIES

		1963	1962
Current Liabilities:			
Accounts payable and accrued liabilities		$ 6,618,475	$ 6,142,004
Due to Government of Canada: (Notes 2 and 3)			
Unexpended balance of grant received in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service	$ 589,262		165,727
Unexpended balance of grant received for the capital requirements of the national broadcasting service	209,582		425,768
		798,844	591,495
Total Current Liabilities		7,417,319	6,733,499
International Broadcasting Service Facilities, provided by the Government of Canada (contra)		6,279,857	6,273,628
Prioprietor's Equity Account, per statement attached		42,797,724	41,026,304
		56,494,900	54,033,431

CANADIAN BROADCASTING CORPORATION

BALANCE SHEET (Cont.)

The accompanying notes are an integral part of the financial statements.
Certified correct:

V. F. Davies
Comptroller

Approved on behalf of the Corporation:

J. A. Ouimet
President

R. L. Dunsmore
Director

C. B. Lumsden
Director

I have examined the above Balance Sheet and the related Statement of Operations and have reported thereon under date of June 3, 1963 to The Secretary of State.

A. M. Henderson
Auditor General of Canada

EXHIBIT II

CANADIAN BROADCASTING CORPORATION

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1963
(with comparative figures for the year ended March 31, 1962)

	Programs without Advertising	Programs with Advertising	1963	1962
Expense				
Cost of Production and Distribution:				
Cost of programs	$ 52,493,145	$ 17,512,353	$ 70,005,498	$ 68,361,465
Network distribution	7,966,181	2,179,787	10,145,968	10,061,504
Station transmission	3,126,941	902,599	4,029,540	3,893,146
Payment to private stations	—	4,334,789	4,334,789	4,851,069
Commissions to agencies and networks	—	3,872,204	3,872,204	4,620,207
	63,586,267	28,801,732	92,387,999	91,787,391
Emergency Broadcasting			282,540	13,182
Operational Supervision and Services:				
Program		2,984,504		3,276,299
Administrative		3,429,174		3,459,680
General		2,012,914		2,106,963
			8,426,592	8,842,942
Total Cost of Production and Distribution			101,097,131	100,643,515
Selling and General Administration:				
Selling expense		1,646,990		1,540,736
Engineering and development		1,080,411		943,128
Management and central services		4,541,350		4,483,775
			7,268,751	6,967,639
Total Expense for the year (Note 4)			108,365,882	107,611,154
Income				
Advertising revenue (gross)		30,846,627		32,910,118
Interest on investments		253,898		185,291
Miscellaneous		302,067		224,431
			31,402,592	33,319,840
Parliamentary Grant				
In respect of the net operating amount required to discharge the responsibilities of the national broadcasting service (Note 2)			72,654,738	70,252,273
			104,057,330	103,572,113
Depreciation included in total expense for the year			4,308,552	4,039,041
			108,365,882	107,611,154

The accompanying notes are an integral part of the financial statements.

EXHIBIT III

CANADIAN BROADCASTING CORPORATION

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT FOR THE YEAR ENDED MARCH 31, 1963

Balance at April 1, 1962		$ 41,026,304
Parliamentary grant for the capital requirements of the national broadcasting service for the year ended March 31, 1963 (Note 3)		6,390,418
		47,416,722
Deduct;		
Depreciation included in total expense for the year per statement of operations	$ 4,308,552	
Write-off of improvements to properties held under lease	261,463	
Net loss on retirement of capital assets	48,983	
		4,618,998
Balance at March 31, 1963		42,797,724

The accompanying notes are an integral part of the financial statements.

CANADIAN BROADCASTING CORPORATION

Notes to Financial Statements

1. Capital assets in the amount of $61,850,364 include the sum of $3,802,000 expended during the last four years in connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. Present estimates of the cost of current plans indicate the cost of consolidation of facilities at these locations to be $83,058,000, of which, subject to the provision by Parliament of annual appropriations for the purpose, approximately $1,597,000 will be expended during the year ending March 31, 1964 and $77,592,000 during the four years ending March 31, 1968.

2. (*a*) The Revised Estimates for the fiscal year ended March 31, 1963 tabled during the First Session of the Twenty-fifth Parliament provided for a grant of $73,994,000 in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service. Since the net operating amount actually required was $72,654,738, an amount of $1,339,262 remaining available was not expended.

(*b*) The sum of $73,244,000 was received, $61,661,000 under authority of parliamentary appropriations and $11,583,000 under authority of Governor General special warrants. Since the net operating amount actually required totalled $72,654,738, an unexpended balance of $589,262 was refundable to the Government of Canada at March 31, 1963. The Corporation remitted this sum to the Receiver General on May 31, 1963.

3. The Revised Estimates also provided for a grant of $6,600,000 for the capital requirements of the national broadcasting service; $6,050,000 was received under the authority of parliamentary appropriations and $550,000 under authority of a Governor General special warrant. Since the capital requirements actually were $6,390,418, an unexpended balance of $209,582 was refundable to the Government of Canada at the year-end. The Corporation remitted this sum to the Receiver General on May 31, 1963.

4. Included in the total expense for the year ended March 31, 1963 are $195,600 for executive officers' remuneration, $28,400 for directors' honoraria and $16,187 for legal expenses.

APPENDIX 2

(Returns tabled by Mr. Ouimet to inquiries by Mr. Francis)

PROGRAMS NOT AVAILABLE FOR ADVERTISING

A list of the types of programs not available for advertising under present policy follows:

(*a*) News programs
(*b*) Civic affairs programs
(*c*) Public affairs forums, discussions or commentaries
(*d*) Talks or interview programs in which the full expression of controversial opinions is sought
(*e*) Programs dealing with consumer information or advice
(*f*) Farm and fisheries programs
(*g*) Documentaries and dramatized documentaries, dealing with social, political, economic or human relations questions in which contentious views or opinions are explored
(*h*) Religious programs
(*i*) Formal educational programs
(*j*) Weather and tide forecasts
(*k*) Children's programs, the purpose of which is predominently educational.

CBC COMMERCIAL ACCEPTANCE POLICY

SUBJECT: Unacceptable Accounts

Advertising for the following products and services is not acceptable on CBC networks or CBC-owned stations:

1. Laxatives, cathartics and diuretics, including foods and beverages when advertised as such.

2. Sleeping tablets.

3. Hair and scalp treatments advertised to grow hair.

4. Personal hygiene products, including Bathroom Tissue.

5. Program Promotional Announcements.

6. Corn Removers (Unacceptable in TV only).

7. Denture cleaners or preparations designed to keep dentures in place.

8. Depilatories.

9. Toilet Bowl Cleansers, Septic Tank cleaners and Outdoor Toilet Sanitizers.

10. Bathroom Deodorizers.

11. Men's and Women's Underwear.

12. Foundation Garments . . . including Girdles and Brassieres.

13. Rest Homes.

14. Undertaking parlours, funeral homes, cemeteries and related products or services.

15. Social Clubs.

16. Memberships in Associations whose goods or services are provided to their members *indirectly* (i.e., through a third party) and not by the Association itself.

17. Stamp Promotion Plans.

18. Cottage sites in areas for which development plans have not been registered with the appropriate authorities.

19. Help Wanted Advertising.

20. Mail Order Advertising . . . except for companies who are well-established in the mail order business, whose business methods and integrity are highly regarded by the public at large and the acceptance of whose business has been specifically approved by the Head Office Sales Policy Department.

21. Health Studios.

22. Alcoholic beverages.

NOTE: The sponsorship of programs by Breweries and Wineries is permissible in those provinces in which it is legal to advertise such products. Such sponsorship must be in accordance with BBG Regulations.

23. Adult-type cosmetics for children (such as make-up items, perfumes, nail polish, nail polish remover, scented hand lotions, etc.)

24. Professional services, such as medical, dental, legal services, osteopathy, chiropractic, etc.

25. Any other product or form of advertisting prohibited under the regulations of the BBG.

(end)

Issued by Sales Policy and Planning, Ottawa . . . July 1, 1962.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

Public Accounts, Volumes I, II and III (1963)

Reports of the Auditor General relating to the Canadian Broadcasting Corporation

---

TUESDAY, JULY 7, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and
From the Canadian Broadcasting Corporation:
Messrs. J. A. Ouimet, President and V. F. Davies, Comptroller.

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

21108—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Berger,
Cameron (*High Park*),
Cardiff,
Chaplin,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,
Grégoire,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,
Pilon,
*Prittie,
Regan,
Ricard,
Rinfret,
Rock,
Rondeau,
Ryan,
Scott,
Smith,
Southam,
Stefanson,
Stewart,
Tucker,
Valade,
Wahn,
Whelan—50.

M. Slack,
Clerk of the Committee.

*Replaced Mr. Winch on Monday, July 6.

ORDER OF REFERENCE

HOUSE OF COMMONS,
MONDAY, July 6, 1964.

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

Attest.

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

21108—1½

MINUTES OF PROCEEDINGS

TUESDAY, July 7, 1964.
(16)

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

Members present: Messrs. Baldwin, Cardiff, Fisher, Forbes, Francis, Gray, Grégoire, Hales, Harkness, Lessard (*Saint-Henri*), Loiselle, McMillan, O'Keefe, Pigeon, Prittie, Rinfret, Rondeau, Ryan, Southam, Stewart, Tardif (21).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; *From the Canadian Broadcasting Corporation*: Messrs. J. A. Ouimet, President; V. F. Davies, Comptroller; R. C. Fraser, Vice-President, Corporate Affairs and A. Watkiss, Assistant Director, Accounting; and Messrs. Stokes and Laroche of the Auditor General's office.

The Committee resumed consideration of the Auditor General's 1963 long form report to the Canadian Broadcasting Corporation.

Mr. Ouimet tabled a return to an inquiry by Mr. Grégoire dealing with "Analysis of Pay Roll", and was questioned thereon and on related matters. The Committee agreed that this return be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

Messrs. Henderson, Ouimet and Davies were further examined, particularly on budget matters.

The examination of the witnesses still continuing, at 11.25 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(17)

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

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Drouin, Dubé, Fisher, Forbes, Francis, Hales, Harkness, Loiselle, McMillan, O'Keefe, Prittie, Rinfret, Rondeau, Ryan, Southam, Stewart (20).

In attendance: (same as at morning sitting).

The Committee resumed the examination of Messrs. Ouimet, Henderson and Davies.

Mr. Ouimet tabled two returns to inquiries by members dealing with "Operating costs of radio and television services in English and French languages", and "Approximate costs of a typical week's programs in the fall schedule". The Committee agreed that these returns be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

Mr. Ouimet made a brief statement relating to the request that the C.B.C. provide more information in its annual report.

Mr. Henderson then reviewed the sections of his long form report dealing with the balance sheet and related matters and was questioned thereon.

Messrs. Ouimet and Davies were also examined and supplied additional information.

The examination of the witnesses still continuing, at 5.20 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(18)

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

Members present: Messrs. Baldwin, Cardiff, Fane, Fisher, Forbes, Francis, Gendron, Grégoire, Hales, Harkness, Loiselle, McMillan, Pigeon, Pilon, Prittie, Rinfret, Rondeau, Ryan, Southam, Tardif (20).

In attendance: (same as at previous sittings this day).

The Committee resumed the examination of Messrs. Henderson, Ouimet and Davies on the 1963 long form report of the Auditor General.

Mr. Henderson reviewed the section, "Capital Assets". Mr. Ouimet then made a statement relating to consolidation projects in Montreal and Toronto, and was questioned thereon together with Mr. Henderson and Mr. Davies.

Mr. Henderson reviewed the section "Special Survey", and then Mr. Ouimet commented on the Auditor General's observations. Mr. Ouimet referred to the study group looking into the organization of the C.B.C. and also commented on the advisory committee on broadcasting.

Messrs. Henderson, Ouimet and Davies were further examined.

The examination of the witnesses being concluded, the Chairman thanked Mr. Ouimet and his officials for their assistance. Mr. Ouimet, in turn, thanked the Committee.

At 10.30 p.m., the Committee adjourned until 9.30 a.m. on Thursday, July 9, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 7, 1964.

(Text)

The CHAIRMAN: Gentlemen, we have a quorum. Are you all plugged in and wired for sound? I ask you this question because we are breaking new ground today. We are using mechanical devices which are being applied to committee hearings in the hope that this not only will expedite our deliberations but be of assistance to those members who wish to put questions in French.

As usual, we have with us the reporters taking down the questions and answers in English. However, because we have this machinery available there will be a recording which will be effective not only for the English but also for the French. In this way there will be a verbatim French report following the meetings. This is the first time that this system has been used in this committee and I hope that it will prove highly acceptable to all members. Having in mind the very considerable role which, in my opinion, this device can and will be playing, I hope it will prove to be an excellent method.

Mr. Grégoire, do you wish to deal with this particular point?

Mr. GRÉGOIRE: No.

The CHAIRMAN: We have some material to file first.

At the last meeting the C.B.C. agreed to file certain information in response to questions asked. Mr. Ouimet has handed me this information and he will indicate to the committee the detail of the material which is available.

Mr. J. ALPHONSE OUIMET (*President, Canadian Broadcasting Corporation*): I have ready now, Mr. Chairman, an answer to a question of Mr. Grégoire in respect of the analyses of the payroll in breaking down radio and television programming, technical, design, staging and so on.

Mr. FISHER: Mr. Chairman, have you extra copies of that information. The reason I put the question is that I would like to see it. Most of my questioning today will be based on this field.

The CHAIRMAN: We have just four copies of this information, which will be filed and marked as exhibits.

Mr. GRÉGOIRE: Could we have a copy?

The CHAIRMAN: Is it agreed that this information be printed as an appendix to today's proceedings?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Then this information will be tabled and will form part of the proceedings. If members wish for the purpose of their questioning to examine this information they can request a messenger to come up to the table and obtain this. As I said, there are only the four copies available.

Is it on this point you wish to speak, Mr. Grégoire?

Mr. GRÉGOIRE: No, Mr. Chairman. I wanted to request a copy of that information.

Mr. PRITTIE: Mr. Chairman, on that point I had put a question on the order paper, requesting the operating costs of the radio networks and the amount of money received from the sale of advertising time on these networks. Would that information be contained in the material which is being filed this morning?

The CHAIRMAN: No, I do not think so. Perhaps you should address your questions to Mr. Ouimet.

Mr. Ouimet, Mr. Prittie has said that he has filed a question on the order paper and is asking if the information which he has requested will be contained in the material you have filed.

If not, Mr. Prittie, you could ask the question later.

Mr. OUIMET: Certainly, this will be answered, in great part, in the information we are preparing for an answer to a question from Mr. Fisher. This should be ready sometime later today.

The CHAIRMAN: If the information proves not sufficient you can supplement it by subsequent questions.

Is there some further material you are filing, Mr. Ouimet?

Mr. OUIMET: No. For the moment that is all I have.

Mr. GRÉGOIRE: May we ask some questions on this?

(*Translation*)

To get some details, to get some explanations on the details we have just been given, may we ask some questions in this connection now?

(*Text*)

The CHAIRMAN: Mr. Grégoire, we are up to page 9 and I had hoped we would start with the next item, which is the balance sheet. But, you certainly can ask questions in respect of the material which has been filed, because it was filed in response to questions which were properly up for discussion.

(*Translation*)

Mr. GRÉGOIRE: Moreover, Mr. Chairman, I do not believe we had necessarily finished the study up to page 9 prior to last Thursday; when we left we were still dealing with the matter preceding page 9 of the report.

(*Text*)

The CHAIRMAN: Yes. We had not brought it to a legal close. I hoped it would be finished, but it is still open for questioning at this time.

(*Translation*)

Mr. GRÉGOIRE: Mr. Ouimet, when you speak of programme production, what classes of employees does that include?

Mr. OUIMET: The production of television programmes includes the producers, the script-assistants, the co-ordinators, the technical producers, the stage directors, all the people on the stage.

Mr. GRÉGOIRE: The technical production?

Mr. OUIMET: Technical production also includes the people around the stage, the cameramen, sound technicians, lighting technicians and all the others; there are several other classes.

Mr. GRÉGOIRE: The scenic and staging services?

Mr. OUIMET: The scenic and staging services comprise the designers, decorators, painters, carpenters, make-up people, costumes and the graphic arts.

Mr. GRÉGOIRE: Mr. Ouimet, in asking that question, that was not quite the type of detail I expected, I would like to know how many employees there are and what salaries are paid in the production field alone, and secondly in the administrative field. But it is not broken down in a way that would enable us to get that information.

Mr. OUIMET: If you want to know how much was paid in salaries for production as compared with the salaries paid, let us say, for management and general services, you have the figures at the bottom here, you have television,

programme production, for radio and television. Then you have the integrated services that are common to both and which can not be split up. Immediately after that there is supervision, sales, management, technical services for construction. The number of auxiliary employees is not very large. So that can be calculated, if you want to.

Mr. GRÉGOIRE: Do you know how many employees there are on the administrative staff alone at the C.B.C.

Mr. OUIMET: It is extremely difficult to give you an accurate figure as it is a matter of definition. What does the administrative staff comprise exactly since there is programme administration, technical administration and general administration. So one would have to be a lot more specific. We have figures for all the classes of personnel.

Mr. GRÉGOIRE: Taken as a whole, could you tell us how many employees there are at the C.B.C. for radio and television, for the English and French networks?

Mr. OUIMET: At the present time, about 8,000.

Mr. GRÉGOIRE: Eight thousand employees in all.

Mr. OUIMET: Perhaps slightly less, but with the opening of the St. John's (Newfoundland), Quebec and other stations there will soon be 8,000.

Mr. GRÉGOIRE: Mr. Ouimet, I would also like to know, if possible, how much the C.B.C. spends, during any normal week of the year, in the five main areas of classification you may have?

Mr. OUIMET: Yes, I hope to have that information for you this afternoon.

Mr. GRÉGOIRE: In that connection it is . . .

(Text)

The CHAIRMAN: Mr. Grégoire, have you completed your questions? Mr. Pigeon is next.

(Translation)

Mr. PIGEON: No, no, Mr. Chairman, I do not want to deal only with the table, with the payroll analysis. I want to ask some general questions but in any case I do not want to deprive Mr. Fisher of his turn.

Mr. GRÉGOIRE: Mr. Chairman, I would like to mention that—I am not going to ask any more questions in that connection, but as far as the information I wanted to get is concerned this is far from satisfactory. It is not known, and I think I indicated the other night what we wanted to know, that is, the amount spent—we have it for the performers—solely on technical production and thirdly on administration. I think we are far from having obtained that information at the present time.

Mr. OUIMET: We can tell you off hand that the total is $44,000,000. That is the total of the salary estimates. For supervision, sales, management, technical services, auxiliary employees—those are the five last groups—you have $5,380,000, $1,169,000, $3,001,000, $1,837,000 and $1,033,000. So, very rapidly, that adds up to 9, 10, 11 million dollars. You have approximately 11 million dollars of the 44 millions.

Mr. GRÉGOIRE: Then, one question in that connection, Mr. Ouimet, with regard to programme production does that also include the producers' secretaries?

Mr. OUIMET: Yes, in programme production that includes script-assistants, they are not . . .

Mr. GRÉGOIRE: Also the producers' secretaries?

Mr. OUIMET: The producers' secretaries, I do not think we have many of them. I think they are script-assistants.

Mr. GRÉGOIRE: At least in administration they are . . .

Mr. OUIMET: No, no they are not in administration. They are employees who work on producing programmes in the studio and play a very active part in programme production.

Mr. GRÉGOIRE: Do those producers have secretaries?

Mr. OUIMET: They certainly have some office work to do and for that, I cannot give you a precise answer because I do not know it myself. What I am giving you are the expenses we charge to programme production. It is all for programme production. If a secretary has to type a text it is obviously for the performers and for the programmes.

Mr. GRÉGOIRE: But that is included in production?

Mr. OUIMET: I think it is included in production but I have not prepared . . .

Mr. GRÉGOIRE: Even the office work?

Mr. OUIMET: No, not all the office work, because farther on we have subsidiary services for programme production, joint services, such as the record library for example, and several other services, the library, but they all serve programme production.

(Text)

The CHAIRMAN: Mr. Pigeon, I thought you agreed to waive in favour of Mr. Fisher?

Mr. FISHER: I have a question to ask Mr. Henderson.

The CHAIRMAN: May I make this suggestion? Our time is limited. I have been trying to do without supplementaries, letting it go round to each member who wants to ask questions, in the hope that he could initiate, develop, and conclude a reasonable line of examination, but if you would restrict yourselves to one area at a time, then your turn will come again and in this way an opportunity will be given to each member. As I had Mr. Pigeon down, I would ask him to ask his questions first and Mr. Fisher will follow.

(Translation)

Mr. PIGEON: Mr. Chairman, I know you are limited in your activities on account of the budget Parliament makes available to you, I would like to ask you this. How much would it cost the C.B.C. to extend their network throughout Canada, that is where there are fairly large French minorities?

Mr. OUIMET: You mean, to extend the French network for example to Edmonton and Vancouver, because in the West we already have a station at Winnipeg-Saint Boniface and there are also large minorities in Saskatchewan. Now, from the economic standpoint, I do not believe it would be possible to extend the micro-wave network to carry French programmes throughout the country, even in Winnipeg we are not linked up by micro-wave. The programmes are transmitted by tape-recordings. So if we were to do the same thing for stations that might be built at Edmonton or Vancouver it would cost a few thousand dollars a year to operate, and a few millions for construction and fixed assets.

Mr. PIGEON: Now, Mr. Ouimet, in order to serve the English minority where it is not yet served in certain parts of Quebec, and the French minority in other parts of Canada, would it be possible, for example, in a day or two, to show us the places on the map, the places where it would be possible to set up French radio stations, French television stations both English and French, and the approximate cost?

Mr. OUIMET: As you are aware there is no limit with regard to extending either the English or the French networks. They are still a lot of places that are not served in one language or the other, and we have several projects under study. We have at least a hundred projects under study but they are projects we have not decided on, and I would hesitate to provide you with figures in that connection. Each year we allocated part of our budget to extending the service, we try to do it fairly for the two languages. If it were to be done all at once I would first like to know where we should stop. For instance there are localities who want television or radio and where the population is only two or three hundred, so, the per capita cost in that case is very high. We cannot go that far. For the time being, we allocate approximately two or three dollars, sometimes a little more, per capita. We have gone up to four, five or even six dollars per capita.

Mr. PIGEON: In another connection, I would like to ask you this Mr. Ouimet. Would it be possible to have a table by province to know the overall cost of C.B.C. offices. For instance here in Ottawa you do not have a large enough building with a sufficient number of offices to concentrate all your offices in the same building. In Montreal and other large centres in Canada would it be possible, for instance the . . .

(Text)

The CHAIRMAN: Could I interrupt here. There is a special section under which we will deal with the building program—that is, the new buildings and so on—and I think it would make for a more orderly discussion if you would wait until we reach that section. We will be going into this at that time and then you will have an opportunity to put questions in this respect.

(Translation)

Mr. PIGEON: Mr. Ouimet, I will end by asking you this question, what plans have you this year to extend the French network in Canada?

(Text)

The CHAIRMAN: Mr. Pigeon, I am sorry to interrupt you again.

As a public accounts committee we are dealing with the report of the C.B.C. for the fiscal years ended March 31, 1962 and March 31, 1963. While we have had some general discussions in respect of the opinions of officials from the C.B.C. and members of this committee, if we do get into these matters we will be getting into the financial statement for the current year. This will be a matter for the public accounts committee next year. They will deal with this. It is my feeling that we will be departing from our terms of reference if we continue on in this way.

(Translation)

Mr. PIGEON: So, for the time being Mr. Chairman, I would like to thank Mr. Ouimet for his co-operation.

(Text)

Mr. FISHER: Mr. Chairman, I wanted to ask Mr. Henderson questions in respect of the subject we were on the other day. My reason for putting these questions is I am dissatisfied about certain things. I do not feel that the members of parliament, which gave the C.B.C. its mandate, is able to obtain adequate information from these C.B.C. reports to parliament. These reports do not give us a really clear picture of what is going on and developing so far as its spending is concerned.

Mr. Henderson, I wanted to ask you a number of questions to determine whether you know from the work that your organization does that this information is available or could be fairly readily available from the records of the C.B.C., as you have examined them.

My first question relates to page 4 of the last long report where you have this breakdown of, what I presume, is the budget which is brought before treasury board.

Is the procedure of treasury board flexible enough to permit the C.B.C. to bring in a budget analysis including many more breakdowns than given here?

Mr. A. M. HENDERSON (*Auditor General of Canada*): The budget figures you see at page 4 are those submitted by the corporation to the treasury board in support of the corporation's request for the net operating amount it requires for the forthcoming fiscal year.

Now, the breakdown you see on page 4 generally is conceded to be the broad areas of its operations, the type of expenses it encounters, and you will see that the major portion is salary and wages.

Behind these figures the corporation naturally has full particulars in respect of their buildup and is in a position to explain and does, in fact, explain to treasury board the reasons for the increases compared with the previous year, and such other facts as the corporation may want to introduce in justification of its demands. Treasury board generally poses a lot of questions to the corporation's representatives, the president and the senior officials, at the meeting with the treasury board, which is usually when the final amount is approved.

Does that answer your question, Mr. Fisher?

Mr. FISHER: But, who determines the form? Is it the treasury board? Has the treasury board a set of rules, or has this become a tradition?

Mr. HENDERSON: The form which you see on page 4 is one which was set up by treasury board in conjunction with the C.B.C. some four or five years ago, I think. Is that not correct, Mr. Ouimet?

Mr. OUIMET: That is correct.

Mr. HENDERSON: I thought it was a mutually agreed upon form designed to bring out the major areas of spending.

Mr. FISHER: But the kind of thing it does not do is give you any kind of indication in that set-up. I am assuming that the major job of the C.B.C. is programming; this tells you very little about expenditures in respect of that subject.

Mr. HENDERSON: That is correct. They are really what you would describe as the objects of expenditure. It might be that this is a question which Mr. Ouimet should answer. I say this because, obviously in presenting a budget such as this to treasury board the president would go on to give the members of the Board a quick rundown and a rather more broad picture.

Mr. FISHER: Well, let me mention one thing. We have been here a couple of days now and there have been quite a number of questions put on this basic business of spending on English and French networks. Apparently, there is nothing which I can see in that budget outline which would indicate the percentage of spending or the relationship or ratio in respect of English and French.

Mr. HENDERSON: I would question whether that is necessary at this stage. Obviously, the corporation knows how much it is going to spend on its networks and stations. It owns a number of stations. It keeps its accounts in a manner which permits it to know what its profits and losses are—I hesitate to use those words—perhaps I should say what its expenditures are in these various areas. The corporation's own accounting department prepares a good

breakdown along the standard lines which are employed by the large broadcasting corporations, at least on this side of the water. But, the extent to which they are prepared to disclose the individual expenditures by stations or by networks is the prerogative, as I see it, of the president; it is not a question for me to answer.

Mr. FISHER: But, in the major area, where we have a rather fundamental discussion going on in the country, where we have the C.B.C. taking the lead in developing its mandate in respect of this question of the extension of services, language, and so on, it seems to me that the most relevant of all questions is what is the percentage of the budget that is going to go into the French network and what is the percentage of the budget that will be applied to the English?

Mr. HENDERSON: The percentage of the budget that would go into French and the percentage which would go into English, the ratios as between Newfoundland and British Columbia and so forth, are matters that I feel the president should answer, and should not be directed to me.

Mr. FISHER: The question I am asking you, Mr. Henderson, is this. Is this information available from your knowledge of the analysis and the accounting system which is used? Could these figures be provided?

Mr. HENDERSON: Yes. To my knowledge, it is available.

Mr. FISHER: Now, the next thing I wanted to ask you is whether this would be available. One of the problems that I encounter in looking at what the C.B.C. is doing in respect of its spending is that it brings in both the French programming and the English programming, and then the amount of foreign programming, particularly American, which is purchased and brought in. I am not hesitant to express my concern; I think the French Canadian part of the C.B.C. is doing a much better job than the English counterpart of the C.B.C. in developing Canadian programming. This is one of the things I want to find out. I cannot see why there could not be included in the accounting the amount of spending that the C.B.C. is doing in respect of importing American programs. Is that information available?

Mr. HENDERSON: Information of that character, of course, is available from the books of the corporation, but what we are examining here are the year end accounts of a corporation which operates in this country from coast to coast. It is a Canadian owned crown corporation, which has its balance sheet and its statement of operations for the corporation as a whole. Such breakdowns as you are suggesting do not have a place on this type of statement any more than they would on a similar statement for the Eldorado Mining and Refining Company or the Canadian Overseas Telecommunications Corporation, or any private corporation. This information would be available from the books of the corporation but the extent to which it is to be produced is, in my opinion, the prerogative of the president.

Mr. FISHER: I am not asking you for the information; I just want to know whether the information is available. For example, we have a film figure here which, I am sure, would include a lot of the American programs. Could the budget which is brought before treasury board not include an estimate of what is going to be spent on purchasing American programming for the French and English networks?

Mr. HENDERSON: Yes, behind that figure there would be a breakdown in greater detail than you are requiring now. This figure represents their estimate of what they require 18 months ahead of time.

Mr. FISHER: To your knowledge, would it be possible to get figures that would indicate the amount of program spending based on what are original programs in the English network and what are original programs on the French network?

Mr. HENDERSON: You have the total figures for Canada as a whole appearing on exhibit 2, the statement of operations; you have the cost of production and distribution showing the cost of programs. The amount that is sold with advertising is $17½ million and under "programs without advertising",—the figure we discussed the other day—which includes the number available for sale but not sold, is $52½ million for cost of programs.

Mr. FISHER: But that does not give you any real look at what is being originated in Canada by the French and English networks and what is being brought in or produced from other sources.

Mr. HENDERSON: That is correct. These are total figures appearing on the company's statement of operations for the year. There are no breakdowns. If I understand you correctly, you want this additional information. If so, I would suggest that your question should be more properly addressed to the president.

Mr. FISHER: The main thing I want to find out is could all this, to your knowledge, be provided from the kind of material that the C.B.C. has in its accounts?

Mr. HENDERSON: I would expect it could be because the corporation, if I may say so, maintains a good set of accounts.

Mr. FISHER: In respect of the figures given to us this morning on the analysis of payroll we have a nice breakdown; it shows approximately $25 million of the payroll appears to go into what you might call roughly administrative, and $19 million into what you might call production. This is for the payroll. What I am wondering about is this. Could this be taken farther, using these same headings, and could you get, for example, the figures that would include talent fees?

Mr. HENDERSON: Well, I do not believe that talent fees are in this figure. Are they?

Mr. FISHER: No. I am sure they cannot be.

Mr. OUIMET: No. They would be in a different budget. This is salaries and wages.

Mr. FISHER: But the point in connection with this breakdown which I am trying to get at is that I think it should be possible to fill in other figures under these headings so that we could actually get some idea of the total and the changes from year to year in the spending which the C.B.C. is doing under the production headings, and then under the administration headings and so on.

Mr. HENDERSON: Yes, I would think so.

Mr. FISHER: When the C.N.R. and T.C.A. appeared before us over the last couple of years both went to great length in order to put all their costs under sort of sections in order that we could determine what these costs were. For instance, they gave the figures in respect of a flight from Toronto to the Lakehead.

Mr. HENDERSON: Yes.

Mr. FISHER: And even announced the president's and vice president's salaries. They gave the whole thing. I would assume the C.B.C. is in exactly the same position to provide such cost figures. Is that a correct assumption on my part?

Mr. HENDERSON: Yes. It would be in a similar position except that you have a rather more complex problem in the case of broadcasting than in the case of the two transportation systems you have mentioned.

If you look at exhibit 2 you will see that the cost of production and

distribution of the programs themselves total $92,387,000 for the year ended March 31, 1963, to which have to be added the operational supervision and services of $8.4 million, bringing it up to $101 million, and then, the remaining overhead, including the president's salary and all the rest, is included in the final figure of $7.2 million, bringing the final amount of the expenses of the corporation for the year to $108.3 million. And, what you are saying is would it be possible for them to take that $15 million and spread it all back directly against the costs of production and distribution. That would be quite possible but it would entail elaborate refinements in the costing techniques and, in the case of this corporation, I am of the opinion it would be less informative than the picture you now have because the selling and general administrative figure generally reflects a breakdown of what the headquarters expenses amount to which otherwise would be lost.

The present costs at the top of this statement really are the direct costs plus what you would normally call direct labour rather than indirect labour and overhead. The total cost of running the corporation for this year is $108.3 million, and rather than see that broken down into five or six figures and limited to that, I would suggest to you this is not only much easier to produce but more informative. Do you follow my point in this connection?

Mr. FISHER: Yes.

Mr. HENDERSON: I cannot quite see what you would gain by taking all the minute expenses right up to the president's salary and prorating and spreading them back. If you did you would be likely to complicate your expense control considerably.

Mr. FISHER: The question which is involved here is the apprehension some of us have about where the C.B.C. is spending its money. I will start with what I think is a good argument for a parliamentarian being critical of the C.B.C. I am referring to the assumption that they probably are spending too much for administrative and not enough on programming. The kind of information I would like to get is eventually if you get it down to, say, a major program series, such as N.H.L. hockey, Bonanza or the Ed Sullivan show, you could see in the costs not only the return the corporation gets but how much is going for all the services. It would seem to me you could put questions and would have a more realistic appreciation of how important these shows are to the C.B.C. and how well they are doing in recouping their expenditures. I suppose they are making a tidy profit on hockey. This would be good to know. But, you see, it is so easy to be baffled by the approach which Mr. Ouimet brought in the other day in respect of chamber music. How can you really get at the commercial quality or the commercial standards which the C.B.C. has if you do not know more information from a cost point of view about the whole variety of its programs?

Mr. HENDERSON: The profits that they may make on some of the programs, such as hockey are of course, offset here against the losses they take on the others. As I said the other day, the programs with advertising—and hockey carries that—costs $28.8 million, and the advertising revenue was $30.8 million. That leaves only a $2 million difference, but that is more than offset by the $15 million worth of overhead shown in the two expense items I have referred to which is not spread. The only way you can get at what you want is to have a complete or summarized listing in some form of the costs of the individual types of programs. The extent to which Mr. Ouimet would feel that should be disclosed, having regard to the fact that he operates in a competitive market, I do not know. You have to ask him.

Mr. FISHER: But, he does not operate in a competitive market, except in a very minor way. He has made the point repeatedly that the C.B.C. is unique and that it is not really like any other organization.

Last week when we tried to get into the commercial aspects he made the point the commercial policy of the C.B.C. always had to be secondary to its mandate.

Mr. HENDERSON: I am using the words "competitive market" in terms of the fact he has to compete for some of these national events. He has to live and work alongside private enterprise engaged in these fields and, therefore, he should have the prerogative I think, of saying the extent to which he wants to disclose his figures.

Mr. FISHER: But, here is the point I want to put to you. We have a national broadcasting service in Canada, namely C.T.V., of which the private stations are part. Now, they are in the programming field, and so is the C.B.C. But, the C.B.C. claims that it has a special responsibility which is generally interpreted as being wider than the C.T.V. stations; yet, if we take Sunday night as an example, the programming from about 6 o'clock through until 10 o'clock both on the C.T.V. and C.B.C. is catch as catch can. It is the same kind of stuff largely, so in this sense the C.B.C. is competing head on. But, when you want to examine the C.B.C. and see how well it is doing, out comes the mandate, and they say they have a greater responsibility.

The point I want to get at and to put to you is if the C.B.C. is in commercial television as strongly as it is and if it dominates its major viewing hours as strongly as it does then we should be entitled and need to know in order to judge its performances more about the costs in that area.

Mr. HENDERSON: As I said earlier, I do not think disclosure of costs of this type have a place in the overall annual financial statements of the corporation. They must be total figures for the operations of the corporation as a whole, and I do not think you would disagree with that. However, this further breakdown which you are seeking is something which the president and the management conceivably might see fit, perhaps in view of a discussion like this, to include in some form or another in the corporation's own annual report; in other words, they could show some tables and a few graphs which would possibly provide answers to some of these questions. But, that is a matter for them to take under advisement and to study, and to the extent to which they might be prepared to do that I cannot say. But, that is what you usually find in corporations operating like this.

Mr. FISHER: But, I wanted to hammer home to my colleagues in this committee this fact; if you examine a C.N.R. report you will note that the breakdowns give figures which are not available to us in respect of the C.B.C. and you get a much broader picture of the costs as well. My point is that the C.B.C. is now into that kind of major area of spending, and I suggest that as this is an organization that rests on parliament this also is where its responsibilities are. I think we should be getting more information of that kind than we are getting at the present time.

Mr. HENDERSON: Then, if that is the feeling of the committee I think it is a perfectly proper question to address to the president. You could inquire of him as to the feasibility of including graphs and tables and more information than presently is provided in their annual report because that would be the proper place for this kind of information, just as you find it in the C.N.R. report and the reports of private corporations.

Mr. FISHER: I have no more questions. Thank you.

(Translation)

Mr. RONDEAU: Mr. Ouimet, a while ago when we were dealing with this subject Mr. Pigeon was called to order. It would perhaps be better to wait a while before asking questions similar to those asked by Mr. Pigeon. So I would prefer to wait until we revert to the matter, to revert to these questions.

(*Text*)

The CHAIRMAN: What was your question?

Mr. RONDEAU: My question has to do with television services and information. I was informed that we would be coming back to this subject today.

The CHAIRMAN: Mr. Rondeau, we will be coming to that subject later on. We will deal with it in its entirety, if we have the time. We have Mr. Ouimet only for this afternoon and this evening. We are going to deal in its entirety with the balance of the 1963 financial long form report.

The matter in which Mr. Pigeon was interested, namely the building program, will come up later on in this report.

The other aspect to which Mr. Pigeon referred was the C.B.C. policy at this time in respect of extensions into other areas, either French or English, which is outside of our terms of reference. We are limited to dealing with the 1962 and 1963 reports. That is why questions in this respect were not permitted at that time.

Would you proceed, Mr. Hales.

Mr. HALES: Mr. Chairman, my question may also be ruled out of order by what you have just said. Also, it may have been answered last Thursday when I was unable to be present.

My question concerns the cost of converting CJBC in Toronto to a French station and what the proposed income from advertising is. I would also like to know what profit or loss they expect from this station.

The CHAIRMAN: I am afraid, Mr. Hales, that that information will not be forthcoming until this committee deals with the 1964 report.

Mr. OUIMET: This would come under the 1963-64 report.

The CHAIRMAN: This will be dealt with by the public accounts committee which will be dealing with the 1963-64 report. I am afraid we would be departing from our terms of reference if we continued in this connection at the present time.

Mr. HALES: Just before we leave this question, can you tell me how parliament gets around to examining these costs and the profit and loss statements? Would it be an estimate committee or someone else who would check into this beforehand?

The CHAIRMAN: I am not in a position of responsibility and my answer will be made without prejudice. I would think when the budget of the C.B.C. comes before the house this budget then would include the various items of cost, the operational and capital costs, and I think this would be the pertinent time to address questions to the minister. We might not have Mr. Ouimet there at that time but the minister would be there.

Mr. FISHER: Mr. Chairman, it may be worthwhile noting that the C.N.R. and T.C.A. do provide us with a projected capital statement.

The CHAIRMAN: Of course, the framework of that committee is a little different than the public accounts committee.

Mr. Fisher, some of your questions were over the line, but I allowed you to proceed. However, you see, we are a public accounts committee, dealing with the financial statements of the preceding year and the expenditures of that year. While we might usefully make an examination in respect of future programming, and so on, I think these questions definitely would be out of order at the present time.

Mr. FRANCIS: Mr. Chairman, I was listening to Mr. Pigeon's remarks and I was going to parallel questions in respect of the English language networks. But, if you rule my question out of order I will not continue.

The CHAIRMAN: I did not rule it out of order. There is no reason why any member is not entitled to ask questions, bearing in mind that we are dealing with the 1962-63 report; but, questions directed to the current year would be out of order.

Mr. FRANCIS: I would like to join with others in requesting that more information on the C.B.C. annual report on regional breakdowns, breakdowns of costs in respect of the different language networks, the costs on the revenue side by stations, and so on should be supplied. I cannot help but feel that the C.B.C. has an important part to play in the bilingual and cultural development of this country. I realize the costs cannot be accepted at face value in any instance, but the total lack of information in this aspect of the annual report of the C.B.C. is one that disturbs me very much.

The CHAIRMAN: The information which has been requested will be given this afternoon. When our committee files its report, this is a subject matter which I think we will be quite free to deal with. At that time we will be able to deal with the form of the budgets and any recommendations we make are within the ambit of our authority.

Specifically, part of the information you are asking for, Mr. Francis, will be available this afternoon.

Mr. FISHER: Could I make one suggestion? There is a special committee, Fowler, Steele and Lalonde, who are going to be looking at many of the things we are trying to cover here, and it may be of value—I gather they are on holidays but in a few weeks they will begin to operate—for the steering committee of the public accounts committee, after reviewing the material we have here, to have a private meeting with those gentlemen and to express to them some of the questions and some of the concern which were brought up here.

The CHAIRMAN: This might be considered, Mr. Fisher, and the committee is free to make these recommendations, which would include those, at a later date, if they saw fit to do so.

Mr. HARKNESS: The first thing I would like to ask is something in connection with what you mentioned a while ago. I think it is important in so far as we are considering the expenditures as shown in 1963. Mr. Ouimet no doubt is at a point where he is going to make public the figures for 1964. I wonder if he could tell us at this time how much increase in expenditure they will show? We have these figures on page three showing how expenditures have gone up from 1960-61 to 1962-63.

Mr. OUIMET: You place me in some difficulty because this is a matter for parliament to decide. Until our annual report is tabled, it is difficult for me to reveal what it contains. It will be tabled in Parliament in due time.

Mr. HARKNESS: I thought the time has just about come when you will be tabling it, and I thought that probably you could give us some indication of the amount of increase. I was not asking for detailed figures on the budget.

The CHAIRMAN: Mr. Harkness, I would think that if Mr. Ouimet feels that this would promote our deliberations, that is fine, but I would think that it would be outside our terms of reference to ask him to disclose information on a financial statement and his report which are not yet tabled in the house, and which, as a matter of fact, will only be before the committee next year. If he wants to give the information I would not stop him, but if he feels he cannot, I am sure we would agree.

Mr. HARKNESS: I wonder if you could indicate to us whether there would be a considerable increase as far as next year's budget is concerned.

Mr. OUIMET: You mean next year's budget or the achievements of the year just finished? We are dealing with 1961-62 and 1962-63. We will be reporting to parliament for 1963-64. We are on 1964-65, and we are working on the long range forecasts.

Mr. HARKNESS: I mean the year ended March 31, 1964.

Mr. OUIMET: The year after this there will be an increase in the order of between $5 million and $6 million. This is without the benefit of consulting the exact figures.

Mr. HARKNESS: That increase would be almost entirely for operational expenses, not for capital expenses. Is this correct?

Mr. OUIMET: I am speaking of the operating budget.

Mr. HARKNESS: In view of that, do you see any possibility of reducing the constant increase in operational expenses shown on the table on page three which continues at an even more rapid rate than was the case in 1962-63. In 1962-63 there was very little increase. The expenditures were held down pretty well at half a million dollars difference.

Mr. OUIMET: Yes, sir. There is a means of holding them down, and that is to stop extending the service, developing the service, or keeping up with the development of television—because it is still developing generally, not just in Canada—stopping the spiralling of wages, which is no greater in the C.B.C. than in other institutions or private enterprises. All of these factors contribute to increase our cost. As far as we know, our costs are not increasing in relation to equal service for constant dollars or for a constant wage rate. There is no increase in cost. On the contrary, our costs have gone down in this respect. We have been able to reduce some of our production costs, but we have to meet conditions as they present themselves, and that includes, just on the wage side, an average increase in cost of about three per cent in Canada per year. Wages and fees are a very high percentage of the total expenditures in broadcasting, not only in the C.B.C. but in all broadcasting organizations.

Mr. HARKNESS: I was wondering particularly whether there was not some room for cutting down expenditures as far as the administrative costs are concerned. I mention this particularly because the Glassco commission report used a considerable amount of space on the headquarters organization which, as you realize, it criticizes pretty severely. It points out that over 10 per cent of the employees of the corporation were found in the headquarters group. At the same time it points out:

> —the most striking feature of the headquarters organization is that fewer than 20 people are directly concerned with programming while over 800 are engaged in ancillary operations. It is therefore difficult to resist the conclusion that the headquarters organization is excessively preoccupied with secondary matters.

It goes on and says that as a result of a recommendation of the 1959 committee the process of decentralization may have gone too far, that action was taken by the corporation to build up a central headquarters organization but that there was no real reorganization. What happened was that a whole new level of management was superimposed on the existing organization, but the effective management of broadcasting remained where it always has been, in Montreal and Toronto.

Now, as a result of this report, I wonder whether you have taken another look at the number of people at your central headquarters here and at the jobs they are doing, and made any effort to cut down the number of these people, which as far as the government organization committee was concerned, quite evidently were looked upon as being excessive and not really doing a job which contributed effectively to any improvement in your broadcasting.

Mr. OUIMET: Mr. Harkness, you realize that your question contains quite a number of statements. Are we to discuss organization generally at this point? If this is the case, then I would like to tell you what we are doing with respect to organization, the study we are undertaking at the moment. However, if you are going to take the Glassco report and quote it sentence by sentence, then I will have to deal with each sentence as it comes. For example, you were speaking about the headquarters organization of 800. That includes 275 engineers, draftsmen and architects who are busy preparing the plans for consolidation and construction. Of course, this has nothing to do with the supervision of the corporation or its administration, so head office administration is not 10 per cent. When you reduce the figures to what I think they should contain, and you take engineering out of it—because this is not a supervisory department, it is a construction department—then the percentage of the headquarters office in terms of people, in relation to the total, is about six per cent. I do not think that six per cent is out of line for any organization. To find out whether it is out of line for a broadcasting organization would require a very careful analysis of the kind of supervision we have to make.

There are quite a number of statements that were made in the report which I think would warrant very careful consideration one by one. I just happened to pick one of them to indicate to you that anyone can make it look pretty bad when they say that 10 per cent of the whole staff of the corporation is engaged in administration and overhead, but out of that 10 per cent there is four per cent actually doing engineering and construction work. It therefore does not belong there in my view. Is six per cent bad? I do not think anyone can say that six per cent is bad. I think six per cent is pretty good.

As far as the suggestion that only 20 people are engaged in programming matters at headquarters is concerned, these are specialists who are dealing with such matters. It does not include the time of all the senior people who give at least half of their time to program matters.

Mr. HARKNESS: I think, Mr. Ouimet, that the basic thing is not whether it is six per cent, eight per cent or 10 per cent, but whether these people are effectively employed. In the view of the commission that examined this, they were not effectively employed. The thing that I think particularly needs explanation or a change is this statement that a whole new level of management was superimposed on the existing organization. The implication is that they are not doing useful work.

Mr. OUIMET: I would be very pleased to deal with this. I would like to deal with this at least, if you will allow me, Mr. Chairman. The whole new level of management consists of three people.

Mr. FISHER: Three more?

Mr. OUIMET: Three general managers.

The CHAIRMAN: Gentlemen, I stopped Mr. Fisher yesterday in part. On page 21, under the heading "special survey" the Auditor General, in his long form report, introduced this subject within certain limitations. If the committee wants at this stage to launch a discussion on it, all right, but there are some matters in between. This is one of the matters which Mr. Harkness, in making the motion which the committee accepted, dealt with. I am sure he wants to pursue it. However, I would hope we might be able to hurry on from page nine and reach these one or two other matters which I am sure the committee, from its questioning, has indicated it is quite concerned with. All members will then be able to indulge in a discussion at a time and in a manner more appropriate to this subject. I understand Mr. Ouimet wants to deal himself with the questions which Mr. Harkness has raised, but I do think he could do it better under 21.

Mr. HARKNESS: I brought this up at this time because we have been dealing with this breakdown in the number of employees in various forms of activities, radio and television, which are common to both in administration as opposed to programming. I thought this was an appropriate time to bring this up.

The CHAIRMAN: You are quite right. What we have been dealing with so far covers the whole gamut of the report, but there was a special section on this subject. When we come to it, we can deal with it then. If the committee feels that they would like to launch into a discussion on this, it is perfectly all right, but we should limit ourselves to this so that the discussion ranges around it and does not go into other matters.

Mr. FORBES: I have one short question.

Mr. HARKNESS: I do not care whether we go into it at this time or later. I am happy to go into it at a later time, but there is just one point in connection with what Mr. Ouimet said that should be put on the record at this point. He mentioned the fact that 280 of these 800 people in headquarters were in the engineering headquarters. This again is one of the things which the Glassco commission complained about. They point out that the Columbia Broadcasting System in the United States, with a total staff of approximately 12,000, has an engineering staff of only 116, and plans to reduce that number. This was two years ago when they were investigating it. They point out particularly that it is extremely questionable that the corporation should have a staff of more than 70 people in its architectural division. I would think this is the case. It is extremely questionable why there should be a staff of 70 in the architectural division. The whole engineering end of the thing, in comparison with the larger United States broadcasting system, seems to be a way out of proportion. You are top heavy in the engineering end of things.

Mr. OUIMET: When you make comparisons between different organizations you have to be sure that they are organizations which can be compared. The C.B.C. is an organization engaged in broadcasting, but C.B.S. is limited by law to the ownership of only five stations in radio and five stations in television. We own in total probably 40 or 50 stations plus at least 100 of the smaller type stations. Furthermore, C.B.S. television has a small engineering staff, but it is C.B.S. Incorporated, the mother company, which has the C.B.S. research laboratories and they do the research and engineering work for them. Therefore, without a very careful comparison of exactly what they do and exactly what we do, you cannot possibly draw a comparison between the two.

The CHAIRMAN: Has anyone any further questions up to page nine?

Mr. PRITTIE: I am at a loss where I should ask questions. Are we confining ourselves to the Auditor General's report, or can questions be asked on the C.B.C. report this morning?

The CHAIRMAN: You can use the C.B.C. report as a launching ground so long as they come within the ambit of our terms of reference.

Mr. PRITTIE: I have a couple of questions regarding cost. I want to know what is the average cost of the installation of low power relay transmitters and the average cost of your annual operation.

Mr. OUIMET: As far as radio is concerned, the average cost of installation is about $5,000.

Mr. PRITTIE: What would it cost you to operate that for a year?

Mr. OUIMET: That depends entirely on how far a relay transmitter is located from the existing radio network. If it is very nearby, then the operating cost can be very small; it would be in the order of $1,000 or $2,000. However,

if it is some distance away, then you have to pay for the network connection charges and mileage, and then you can run into thousands of dollars per year. This applies to radio. Television is entirely different.

(*Translation*)

Mr. PIGEON: If I understand rightly, each year you ask for an increase, I think you said $5,000,000 for one year; you ask parliament for that amount to operate this Crown Corporation. On what basis do you ask for $5,000,000, you could just as well ask for $25,000,000 a year since, as Mr. Ouimet said, the extension of the networks alone, of the French network, for example, could cost, I do not know how much, but in that connection I would like Mr. Ouimet to tell me, in general, on what general basis he asks for an increase in the budget, since this increase, if it was only up to Mr. Ouimet, might be of $30,000,000 or $40,000,000.

Mr. OUIMET: Mr. Pigeon, the basis is as follows. First of all we have to maintain the service that has already been established. Unfortunately to maintain the service that has already been established we need, in general, three or four per cent more than the previous year simply because expenses are increasing, money has not exactly the same value as the preceding year. In addition we have to keep up-to-date with regard to technical developments. Ten years ago, for instance, there was no such thing as tape-recordings, but now this is an essential factor in our operations. So, from the technical standpoint our programmes must be as good as those from the United States simply to maintain the present level. Some salaries are increasing but I have included that in the already given total figure for the years under consideration, that is three or four per cent. In addition, well we must have enough money to operate the new stations we are asked to establish. So each year we set up new stations in various places, English language stations, French language stations, stations in the Far North, and our services are progressively increasing at the request of the public. Through the years, since television began twelve years ago, we have greatly increased the number of hours of operation needless to say. At first we operated two hours, the next year it was three. Then it increased fairly rapidly and at the present time we begin around 10 o'clock in the morning. The American stations, which 60% of the Canadian population can tune-in to directly, start very early in the morning. So we have to meet considerable competition from that point of view. We start at 10 o'clock. It would be better if we could start earlier. We could keep our audience all through the day. But as it is very expensive we are going about it slowly, very progressively. So our increases are due to two factors, namely, the gradual increase in cost from year to year in order to maintain our present service and in addition, the improvements to the service which can take the form of extensions to the network. In reality we should also—and we cannot do it because we are limited even with these increases of $5,000,000 and $6,000,000 a year, improve the quality of our programmes, the percentage of programmes which should be of Canadian content. We cannot improve them as much as we would like; moreover that is a minimum. That is, we ask for a little more than we are given and the Treasury Board usually cut us down by a few million dollars.

Mr. PIGEON: In other words the Treasury Board acts as a cataliser.

Mr. OUIMET: Of course the Treasury Board decide what estimates are to be recorded in the books submitted to Parliament. So all the money spent from year to year is first of all approved by the Treasury Board and then by Parliament. So if the increased costs of the C.B.C. are criticized, it must not be forgotten that in so doing what the Parliament decides is also criticized. In any case we have never spent more than the amount voted us.

Mr. PIGEON: Mr. Ouimet, the Canadian public want to have colour television before long as they have it in a number of other countries such as the United States. So I am wondering why, in your future estimates or in those you are submitting, you do not provide for adapting the network in that respect so that some programmes could be in colour? Can you tell me whether it is a matter of cost which the Treasury Board refuse to accept.

Mr. OUIMET: Mr. Pigeon, in the case of colour television the C.B.C. have simply considered that the time has not yet come to launch colour television in Canada. But I can tell you that it will very soon be time to do so and that it will have to be done before long.

Mr. PIGEON: If the funds are available do you expect that in two years' time we shall be as advanced and on the same footing as the United States.

(*Text*)

The CHAIRMAN: We have had a very interesting philosophical discussion, but we are getting a little ahead of ourselves.

Mr. PIGEON: But that concerns the budget.

The CHAIRMAN: That is the budget for two years ahead.

(*Translation*)

Mr. PIGEON: To govern is to foresee the future.

(*Text*)

The CHAIRMAN: If you wanted to ask a question on why Mr. Ouimet did not have colour television in 1963, you would be well within the ambit of our discussions. But if you ask him whether he is going to have colour television in 1964-65, then you are out of order.

(*Translation*)

Mr. PIGEON: But why was that? Last year you did not provide for that since, compared to many other countries, we are surely as advanced as they are. I do not know, maybe they have a larger budget than ours.

Mr. OUIMET: It is because colour is very expensive of course, and we want to be absolutely sure that the experiments in the United States are successful before going in for colour ourselves. So last year, in 1963, we considered that the time was not yet ripe for colour in Canada because of the considerable cost. If it were not for the cost we could, of course, have started colour television. But as it is very expensive, it was too early to do so.

Mr. PIGEON: Just one last question. Have you any idea of how much it would cost for the two networks—the French and English networks?

Mr. OUIMET: In general, to operate colour television—and I am not speaking of the investment cost—I would say approximately 15% more than black and white.

Mr. PIGEON: Thank you Mr. Ouimet.

(*Text*)

Mr. FORBES: Mr. Ouimet, I think it is about two years ago that you were directed by the board of broadcast governors to have your programs contain 50 per cent or more Canadian content. If I am right in assuming that, has this caused you more expense than if you were renting or purchasing films?

Mr. OUIMET: No, sir, because actually our own policies call for a greater content than that imposed by the B.B.G. on all broadcasting stations in Canada. The percentage stipulated by the B.B.G. is 55 per cent actually, and on our network we transmit about 65 per cent. We do so in accordance with our own policy. We think that a national service would not be doing its job if it did less than this amount, and we would like to increase it if possible. The problem

is that it costs money to produce Canadian programs, while usually we make money showing United States programs. There is a difference in economics there, and we would like to do more, but it will cost more to raise the percentage of Canadian programs in our schedule.

Mr. FORBES: Have you increased your staff as a result of this directive?

Mr. OUIMET: No, because I think we were doing 65 per cent ourselves before the B.B.G. came into existence. So the directive of the B.B.G. has not caused any increase in staff.

Mr. FORBES: You said you would make more profit out of American films. Therefore, I would assume that it must cost you more to produce your own.

Mr. OUIMET: Yes. When we buy American films or American syndicated programs we pay a small proportion of the cost of making these films. These films already have been paid for by the American distributors so they are available here at a very cheap cost compared to the cost of making a film. In respect of our costs of making programs in Canada we have been able to keep much below the American costs; perhaps one half or one third. But, when you pay, say, $3,000 for the rental of an American syndicated program that costs $60,000 to make, then we cannot possibly compete purely on the basis of costs.

Mr. FORBES: Do you employ principally Canadian artists, engineers and so on when making your own programs?

Mr. OUIMET: Yes, all the staff is Canadian. In respect of artists, I would say 95 per cent of our total expenditures are for Canadian artists and maybe 5 per cent for international artists or talent.

The CHAIRMAN: Mr. Fisher is next, and then Mr. Rondeau and Mr. Cardiff. I hope we will be able to continue this morning beyond 11 o'clock in order that we may be able to finish up to page 9 and then get back on the rails this afternoon.

Mr. FISHER: If you look at page 4 of the Auditor General's long report for the year ended 1963, under what heading would appear the expenditures, say, where you hired or contracted with the Canadian producer to prepare a program for you.

Mr. OUIMET: Are you talking about a contract producer?

Mr. FISHER: Yes.

Mr. OUIMET: Or, a film production?

Mr. FISHER: A contract producer.

Mr. OUIMET: You are referring to where we include a producer on contract?

Mr. FISHER: Yes.

Mr. OUIMET: That would be in salaries and wages.

Mr. FISHER: Would you give us a rough estimate of the extent of television work you farm out which is not basically a C.B.C. production with all the C.B.C. resources. I am thinking of a kind of organization such as Screen Gems which produces the Berton program.

Mr. OUIMET: We are talking about different things. I was speaking earlier about the number of producers we have on contract—that is, either on a series of programs or on an occasional basis. But, you are talking about the amount of film or program production from outside.

Mr. FISHER: Yes.

Mr. OUIMET: And, your question?

Mr. FISHER: Generally, what is the ratio? Perhaps that is an unfair question. What I wanted to know is whether it would be possible in your budget to have a breakdown showing the amount of money that is actually going, say, to the national film board as an outside producer, or an individual firm?

Mr. OUIMET: Well, we always could do this. But, again, we are dealing in a competitive field. I think the national film board publishes it in its own annual report, if I am not mistaken. At least, I think they did. But, when you get to the point of publishing how much is going to various segments of the industry I am wondering whether this will be sufficiently useful to you to warrant the other difficulties.

Mr. FISHER: Well, let us look at something which may be very useful. You break up your programming into different aspects, public affairs, news and features, and this kind of thing.

Mr. OUIMET: Yes.

Mr. FISHER: Is there any reason why you could not have a budget to cover that? I have in mind a budget revelation on how much you were projecting to spend on, say, public affairs; how much on variety, and so on.

Mr. OUIMET: Of course, the minute we make our schedule we have that and we allocate our budget. We have all this information.

Mr. FISHER: But we have not it.

Mr. OUIMET: I know. For example, there are problems in the presentation of this information.

Mr. FISHER: What are they?

Mr. OUIMET: What I mean to say is that the B.B.G. has a number of categories which they use in connection with the private stations' logs, and we also have to supply the same information. It is very difficult to divide programs into exact categories. For example, if you have music of a religious type, is this religion or is this music? If you have music in a ballet, is that dance or is that music? In this way you end up with a pretty arbitrary division. In any case, I find no great difficulty myself in making an attempt to give this information, but perhaps it would not be as useful as you would think it would be.

Mr. FISHER: Let us take a look at the major categories. First of all, you have, let us say, American programs commercially sponsored. I do not know what the classification of them would be, but that is one of your major programming categories.

Mr. OUIMET: If I may interrupt, we do not think of them as American program categories; they are either drama, variety or music, you see. Then, there is the other category; you have the American, the British and, so far as we are concerned, you also have the French, the European as well as the Canadian.

Mr. FISHER: This is the subject upon which I want you to elaborate. There are a number of ways you can classify your accounts in your budget so that we could get a better picture of what you are doing and on what you are spending money. Now, surely you should be able to give some kind of projection of what you intend to spend in the coming year on drama and break that down into Canadian originations and foreign. Surely you can tell us how much you are going to spend in your news department for the coming year. You should be able to give us a sort of rough projection.

Mr. OUIMET: For the coming year? You are talking about the budget now?

Mr. FISHER: Yes.

Mr. OUIMET: You know, I am in the hands of the committee.

The CHAIRMAN: I think Mr. Fisher's question is a general one; I do not think he is referring to the 1964 budget. Am I correct in this assumption?

Mr. FISHER: I am suggesting the information you bring to parliament and the headings under which you work with treasury board should give some indication of what you are spending. The reason I raise this is not to stir up

anything but more and more of these questions are being asked about the amount of spending you are doing, say, in respect of Canadian talent, the ratio and so on.

Mr. OUIMET: This we can answer directly very easily. It is much less difficult to answer when dealing with the matter like this and tabulating anything we have done than in getting into these categories a year ahead of time in respect of how much will come from each area. We would have to schedule away ahead of time in order to do that.

Mr. FISHER: Well, you talk about balanced programming and you say the C.B.C. wants to offer balanced programming. Surely you have some kind of formula or analysis. You know what the pattern is and what you are going to do, and I suggest if you are going to offer balanced programming—and this is what you say the C.B.C. offers—you should know what is going into it and how much generally the components are going to cost. You should be able to give us some projection in this respect.

Mr. OUIMET: Of course, we know, but the question is how much of this can be reasonably expected to find its way into the budget or the annual report. You see, we table a budget in parliament every year. I had never received any indication before today that what we tabled was not satisfactory, and neither had I received any indication that our annual report was not satisfactory.

Mr. FISHER: I want to offer an objection here. I have been in attendance at all the broadcasting committees and surely you, Mr. Ouimet, have been aware of the way that members of parliament in committee have thrashed around and probed in an effort to obtain information. You will recall one committee which had over 1,000 pages of evidence, most of which contained appendices which you provided here and there. I suggest that was an example of the fact that your annual report and budget statements are inadequate.

I would like to put it to you that every time the broadcasting committee has met over a long period of years, if you want to get a quantitative sample—

The CHAIRMAN: If I may interrupt, Mr. Fisher, I think we are getting beyond our terms of reference. You are making a valid argument on the basis of why you think Mr. Ouimet should include more information.

Mr. FISHER: More financial information.

The CHAIRMAN: Yes, but I think it is irrelevant whether or not he knew about it or did not know about it. I think this is a matter for our consideration.

Mr. FISHER: But I did not want to leave him with his argument on the record without some counter statement.

The CHAIRMAN: You have commented on this.

Mr. FISHER: Could you provide in your annual report or in your budget breakdown, which we find in the Auditor General's long report, such information on how much you spend or have spent or planned to spend on procuring programs from beyond the Canadian borders for each of your networks?

Mr. OUIMET: Yes. This certainly can be done.

Mr. FISHER: Well, it is terrible to get into what is fair. But, if the figures showed that there was a larger percentage of revenue or money being spent on the French network for original Canadian programs than is the case with the English networks I think this would be information that would be useful and most interesting to parliament. I just want to put it to you that it is for that kind of reason that I put the question.

Mr. OUIMET: I can answer you right now. This is not the case; it is the other way about.

I told you yesterday—and you will have the figures this afternoon because you asked for this information on Thursday—that we spend about in the ratio of one third French, two thirds English.

Mr. FISHER: But, this is total, and I am talking about internal.

Mr. OUIMET: Well, this is internal also. The American programs are obtained mostly for the English networks. There are very few American programs available for the French network, and they are paid for totally by the sponsors, if we are talking about syndicated films. When we talk about feature films, then we have the same situation roughly in respect of both networks.

Mr. FISHER: I want to suggest that what you have done here in response to this is what you do repeatedly, and it does not answer what I want to know. I am sure you can provide random one shot pieces of information; you do this for broadcasting committees. But, I am suggesting this kind of categorization should be available on a regular basis in your annual report and in your budget preparation.

The CHAIRMAN: Mr. Rondeau is next and then Mr. Cardiff.

Your comments have been noted, Mr. Fisher.

(Translation)

Mr. RONDEAU: Mr. Ouimet, I rather think that some information is lacking here when one looks at the figures in your estimates. Do you not by chance have any other information you could make available to us, namely, the expenses of your corporation, of the C.B.C., by province? Would it be possible to have that information, the per capita cost of the corporation's operations by province? A moment ago you mentioned the overall per capita cost for Canada I think. That is what you meant when you said that it might cost up to $3 a head and sometimes up to $6? So would you have those figures available so that we can know the per capita cost by province?

Mr. OUIMET: It is certainly possible to divide the cost in a number of ways, but let us take a closer look at the question. For instance let us take the case of the French network. We could also take the case of the English network, but let us take the case of the French network. Approximately 95% of the programmes originate in Montreal. But despite that, these programmes are seen by people in New Brunswick and by people in Ontario. So, should we calculate the per capita cost merely by dividing the cost of programmes by the population of the province of Quebec, or should we divide it by the number of French-Canadians throughout the country who see these programmes. In Toronto and Montreal, of course, the two largest cities of the country, there are a lot more performers and they can get other jobs besides those with the C.B.C. But, of course, the two large cities produce a lot more than the other cities of Canada.

But I think that is fair. I cannot see how the per capita cost figure could help, because it is not the cost of programmes for residents of Ontario or Quebec. This is the cost of the programmes for the entire country. We could not, in the case of programmes originating in Vancouver, divide the cost of the Vancouver programmes by the population of Vancouver to reach a figure that would have some meaning. I do not think it would be much use.

Mr. RONDEAU: I think you have gone beyond my thinking in the matter. I meant statistics concerning, for example, the number of employees of the C.B.C. by province?

I do not see any indication of the number of employees of the C.B.C earning, say, $15,000 or over, $10,000 or over, $5,000 or over, in the report. For example you have the one heading here for salaries and wages. They are taken all together and one cannot see which are salaries and which are wages. We know you have employees who are merely wage-earners, and other employees who receive salaries. So we do not know what salaries amount to or what wages amount to. It is statistics such as these which to my mind . . .

Mr. OUIMET: Mr. Rondeau, that is the kind of information parliamentary committees have asked us for, but quite frankly I do not think we can be expected to submit an annual report, which is a report prepared like that of any other company or business, with figures that go into the details you are proposing, but these figures and this information are those we have supplied, I think we were asked to supply them each time in the past by parliamentary committees. We were asked to supply precisely this kind of information and we did so. But to give all this detail in a public report would take volumes. You are thinking of a few figures but there are several other ways of dividing those figures. I think we are following the tradition established by the Crown Corporations and companies. We are not a government department. There is a distinction to be made.

(*Text*)

The CHAIRMAN: Would you proceed now, Mr. Cardiff?

Mr. CARDIFF: I have just one question.

Mr. Ouimet, you told us that you buy American film and make money on this. Is this a one way street or do you have an opportunity to sell Canadian film to the Americans?

Mr. OUIMET: I wish we could sell them as much as we buy from them. As in other respects we have a bit of a problem here. But, we do export some programs. We do not export a great deal to the United States but we do export some. We export to Great Britain and Australia.

Mr. CARDIFF: Could you give us any percentage which would show the difference?

Mr. OUIMET: Oh, it is all one way.

Mr. CARDIFF: It is practically all one way?

Mr. OUIMET: It is practically all one way, for one good reason. The American programs we import are produced in Hollywood. They are produced for the international market, while the programs we make here we endeavour to make with a Canadian character. We do not try to make them with an international flavour because if we did we would be just defeating the very purpose of our existence. But, the whole problem of broadcasting in Canada is to try and keep something Canadian before the Canadian public and to try to hold Canada together in the face of this tremendous amount of broadcast material that is coming over the border either directly on the airways—I already have mentioned that 60 per cent of the Canadian population receive American stations directly—or imported by the C.B.C. and the private stations. We have to mount and sustain an operation which is Canadian in character and which will be sufficiently good in comparison with what our wealthy neighbours can do in order that we retain a sufficient proportion of the audience and, therefore, make it worth while doing our job. And, in order to mount and sustain such an operation there is a minimum amount that must be spent.

Mr. PRITTIE: If Mr. Cardiff would not mind I would like to ask a relative question at this point. Are the programs which you do sell to Great Britain and Australia included under miscellaneous income and, if not, where would this figure be shown?

Mr. OUIMET: Yes.

The CHAIRMAN: To which table are you referring?

Mr. PRITTIE: I am looking at the company's report, page 21, where you have income, miscellaneous, $302,000. If any programs you sell are included in that amount, then it is not a very great amount.

Mr. OUIMET: Can we check this point? There seems to be some confusion amongst us in this regard.

Mr. PRITTIE: I would like to know what you make on the sales of programs to commonwealth countries?

Mr. OUIMET: We will check on this and obtain this information for you.

The CHAIRMAN: This information will be supplied either this afternoon or this evening.

Mr. CARDIFF: Those are all my questions.

The CHAIRMAN: Would you proceed, Mr. Fisher.

Mr. FISHER: Can I put on the record another disclaimer. Mr. Ouimet has suggested that in achieving a Canadian standard or Canadian quality this rules out the international possibility. I want to put on the record that I do not believe this is so and that I think in many areas—I am speaking of drama and variety—if we cannot meet international standards or try to meet them we are classing ourselves as duds.

Mr. OUIMET: I would like to answer that question.

The CHAIRMAN: Gentlemen, I think we are getting beyond public accounts again.

Mr. OUIMET: We are not talking about the same thing. If you are talking about professional standards, of course, we have to meet these standards and in this respect we do very well. But, on the other hand, you cannot have something typically Canadian that will appeal to all the markets of the world unless, it is travelogue. In other words, a Hollywood product has an international flavour which characterizes it. We do not want to duplicate the Hollywood product because we would be spending a lot of money to do what they already do very well.

The CHAIRMAN: I really feel that both the questions and the answers that are being put on the record at this time are far beyond what we should be dealing with at this time. Of course, this is a problem. We should not be dealing with this aspect of the subject at all.

Would you proceed, Mr. McMillan.

Mr. MCMILLAN: Mr. Chairman, I was interested in page 4, and I agree with Mr. Fisher when he says there is not enough breakdown. For instance, I am looking at salaries and wages, for which the figure of $44 million is set out. In the different departments of government, for instance, it shows the number of employees in our estimates and in the public accounts it gives their salaries under different categories. But, we are confronted here with an expenditure of $44 million without a further breakdown, and I think this is really too much. Also, I think that the top item here, $17 million, should be broken down under these different headings such as artists, speakers and so on.

Would it be possible to get a further breakdown of that $44 million, $17 million, and this other category of $13 million, department expenses generally?

Mr. OUIMET: I think I have already said that it is possible to give this information, and we have given it consistently to parliamentary committees on broadcasting. We have already given you some of this information. The information you have asked for we will be giving to you this afternoon. On the other hand, your suggestion seems to indicate that you are placing the C.B.C. as a crown corporation very much in the same category as a government department, and there is a distinction which was made very clear when the C.B.C. was established. It has a different administrative set-up, with 11 directors; it has a board of directors, with nine outside the corporation who are part time, and these are the trustees appointed by parliament. Now, this is the system that has been established. On top of that we have the treasury board supervision. The officials go over our budgets; they ask a lot of questions

before we appear before the treasury board itself. The treasury board is made up of ministers of the crown and they then pass on the budget. Now, all of this could be different but that would be a decision of parliament. At the moment we are set up as a crown corporation and we are reporting as a crown corporation.

The CHAIRMAN: Gentlemen, can we now take it that we have exhausted our efforts up to page nine and that we will start this afternoon with the balance sheet at page nine and go through and conclude this afternoon and this evening.

The meeting will be adjourned until 3:30 this afternoon, at which time we will be starting on the balance sheet at page nine.

Mr. FISHER: Will the meeting be held in this room?

The CHAIRMAN: Yes. All meetings are being held here today.

AFTERNOON SITTING

TUESDAY, July 7, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. Before we start I have two returns which were asked for by members and which are now being tabled by Mr. Ouimet: One is the operating cost of radio and television services in English and French, and the other is the approximate cost of a typical week's programs in the fall schedule. These are both in English and French. Could I have a motion that these be tabled and printed as an appendix to today's proceedings?

Mr. PRITTIE: I would so move.

Mr. RONDEAU: I will second it.

The CHAIRMAN: These should be distributed to members. There are enough copies to go around to our quorum.

While they are being distributed, before we go on to the next item on page nine, Mr. Ouimet would like to make a general comment with regard to matters brought up. We will then go to the balance sheet on page nine.

Mr. OUIMET: Mr. Chairman, I will be very brief. This morning I answered a number of specific questions regarding expenditures and general policies which govern such expenditures. However, I observed that there was a general desire on the part of the members of the committee to have the corporation provide in its annual report more information than we have provided in the past. Without such complementary information I can well see that you find it difficult to form an opinion regarding the nature, scope and the efficiency of the C.B.C. operations. I believe a lot can be done to improve this situation, and I would like to take this matter up at our next board meeting so that our next annual report may be more directly and explicitly informative and useful to you, keeping in mind the many suggestions you made this morning. I would not like to tie myself down to a specific format at this time because obviously this will require very careful consideration. I simply have the personal conviction that we can meet your needs for more information without getting into a great deal of complication.

If you will leave this in my hands, Mr. Chairman, I think we can get at least a good part of the answer to your problem and to our problem.

The CHAIRMAN: Thank you, Mr. Ouimet.

Can we go on to page nine, the balance sheet? Mr. Henderson, have you a comment to make on this?

Mr. HENDERSON: If hon. members will open up their copies of the corporation's balance sheet and the printed annual report in the appendix to the 1963 report as of March 31, 1963, they will be able to follow what is stated in my report as we deal with each of the assets and liabilities.

The first reference is on page nine of my long form report dealing with cash, which you will see from the balance sheet amounted to $3,617,000 at the balance sheet date. I give a brief reference to what makes that up and refer to our certification of it.

We then come to accounts receivable, which are $3,664,000, and we give a brief summary of their nature. You will see that they are primarily trade account receivables; in other words, receivables due from sponsors, that is billings not paid at the date. My officers carried out a partial circularization of the balances of trade accounts receivable at various dates along with the internal auditors of the corporation. This is a standard test type of verification that is usually applied by auditors. The reserve for doubtful accounts remained unchanged at the figure of $10,000, and it would interest you to note that during the year bad debts written off amounted to $3,345 as compared to $5,523 for the previous year.

The CHAIRMAN: If any members wish to ask any questions at the conclusion of Mr. Henderson's comment before we go on to the next item, this is the time to do it.

Mr. HALES: Yes, Mr. Chairman. First, I would like to ask the Auditor General if he does not think they should circulate all debtors with the accounts receivable the same as business organizations do simply by sending out the regular form stating the amount owing, and if this is not correct you do not have to report back. Why do we not follow this system?

Mr. HENDERSON: It is usually left to the discretion of the auditor whether he would apply what is called a positive circularization of the type you described or a negative. This time we carried out a positive circularization of this group instead of circularizing them all, and leaving it to them to tell us if they did not agree, because experience has shown a great many of the recipients do not pay any attention to the less than positive type circularizations.

Mr. HALES: In your position formerly in the business world did you not circularize everyone?

Mr. HENDERSON: We used both methods. It would depend on our judgment as to the system of internal control present in the business, the efficiency of the procedures, the promptness with which accounts are customarily paid and the creditworthiness of the people. In the case of the C.B.C., they are dealing primarily with large national advertising agencies. It is a matter of judgment on the part of the auditor. I agree with you there is nothing better than a complete 100 per cent check, but we try to use our best judgment.

Mr. HALES: This deals with public funds, and I think we should have a complete circularization rather than a positive circularization, as you refer to it.

Mr. HENDERSON: I am very glad to have your views because we deal with this type of problem in a number of crown corporations.

Mr. Stokes has just reminded me that in many cases of course we are able to confirm receipt of the money settling the account by looking over receipts in the following months, and that will invariably dispose of a number of the outstanding debts.

Mr. HALES: I have another question regarding accounts receivable of a little over $3½ million out of a revenue of $33¾ million. Is this a fair proportion?

Mr. HENDERSON: I would think so, based on the turnover.

Mr. SOUTHAM: I have another question on this particular item of accounts receivable. I notice in the listing on page 10, under the heading, "Miscellaneous" in the year 1962 you have $148,070 and in 1963 the figure increased to $285,903, or almost twice as much. I was wondering if you could give us roughly a few instances of what constituted this increase under this particular heading?

Mr. HENDERSON: I would ask Mr. Davies if he has the details on that.

Mr. V. F. DAVIES (*Comptroller, Canadian Broadcasting Corp.*): No, I am sorry I do not have this readily available. We could make it available.

The CHAIRMAN: Is the committee agreed that this might be made available and the answer printed as an appendix so that information will be here?

Mr. HALES: I have a question in connection with the accounts written off. I would like to know the top three accounts that were written off and the amounts involved.

Mr. DAVIES: The top three accounts would be: the Dartmouth Food Plan Limited, $1,200; the Civic Square Theatre Foundation, $594 and the Wild Duck restaurant, $650.

Mr. HALES: Regarding the highest one of $1,200, your credit department would know that this account was behind and yet it continued to allow advertising. What policy do you follow in that regard?

Mr. DAVIES: The policy we have is that where an account is open for sale, when the order is written, if it is not a well known customer and his credit is not already established, this goes to the accounts department of the area or region involved which calls for a credit report of the prospective customer. They discuss it with the sales department on the basis of the credit rating that is usually established. If there is no credit rating, then they would come to an agreement on how the payment would be made, either in advance or in some other way. Normally it is usual that the credit rating is available and sales are not made until this is available. There are odd cases where payments are made in advance of the commercial, until the credit rating is established. In this particular case I would think it must have been one where something untoward happened to the people involved, and they got behind in their payments and were unable to satisfy the balance of their account.

Mr. HARKNESS: You mean they finally went bankrupt and you could not collect?

Mr. DAVIES: This would be the case. I do not know whether this is what happened in this particular case, but the ones that we have had heretofore were dealt with in this manner. Some of them do come back years later and pay these in small pieces.

Mr. HALES: Would there be a credit man in the area responsible for this, or is this from the central office?

Mr. DAVIES: The chief accountant of the area has this responsibility. There is a credit manager in my office who co-ordinates the general activity so that if there are credit ratings the chief accountant cannot get hold of he contacts the credit manager. Also, if there are questions in one region of the country where a particular advertiser is having trouble, the credit manager gets to know about it by virtue of the reports and he would circulate this to the other accounting offices so that we should not get an imbalance in the relationships between one area of the country and the other.

Mr. HALES: Are there any incentives to your credit manager on a percentage basis for accounts collected, or the opposite, that is deduction for moneys lost?

Mr. DAVIES: We have not done this because of the very small nature of our experience of loss. We find that it would be very difficult to put him on any incentive on this basis because he is not directly related in this way to this kind of error.

Mr. HARKNESS: How long do you hold these accounts in your books before you write them off?

Mr. DAVIES: We do a review every year in complete detail of the balances and accounts receivable. Where there has been a very slow paying account, it has been open for 12 months. We discuss this with the salesman and it is under discussion with the customer. If it looks as though he were in a poor sort of situation, then we would write off the account. If it looks like a fairly healthy situation, recovering in the next year, then we might decide to keep it open. Normally we operate on a conservative basis where we would try to get a write-off within a year.

Mr. HARKNESS: What percentage of these receivables would have been behind payment for six months or more?

Mr. DAVIES: The paying of accounts receivable? It is 96.8 per cent for 60 days, 86 per cent were 30 days. There was only about three per cent that were on the other side.

Mr. OUIMET: I believe the question was how many were beyond six months. I think there were very few.

Mr. DAVIES: Oh, beyond six months? It is .7 per cent, or $20,000.

The CHAIRMAN: Mr. Henderson, would you carry on with page 11? We did deal with the investment of bonds when Mr. Rock was here.

Mr. HARKNESS: I have one question on that. Why is this investment of approximately a million and a half Canada bonds held over? What is the purpose or the reason for it?

Mr. HENDERSON: That is a hangover, I think, from some securities they had some years ago, and because of the low market value they are holding them to maturity, which will occur in 1968—that is their present intention. Ordinarily, the corporation would not have occasion to have an investment portfolio.

Mr. HARKNESS: Parliament has voted $70,000,000 odd for the year's expenses we are dealing with here, and I wonder why the corporation was holding these $1,500,000 in bonds.

Mr. HENDERSON: This is a hangover going back a number of years. They would have been faced with a loss on the market had they disposed of them. The corporation formerly had advances and thus had some surplus funds, so they invested it in these securities. With the market price falling, their best hope would be to hold them until maturity. I think Mr. Ouimet would like nothing better than to cash them now, but he would not want to do so and take a loss of about $120,000.

Mr. OUIMET: If we can hold on for another two or three years we will recover the full amount.

Mr. HARKNESS: Very well.

Mr. HENDERSON: The next item deals with "Engineering and production supplies, $1,645,955". There I give the composition of the balances. It is a fairly routine inventory carried by the corporation made up of engineering supplies, production supplies, and engineering work in process.

In the last paragraph on page 11 you will notice that during the year they had some write offs, not very much, but approximately $3,000. There had been heavier write offs in previous years. And on page 12 we give a rather similar picture with respect to the next two items on the balance sheet which are "Programs completed, and programs in process of production, $3,588,990".

These consist of programs which have been made and put on videotape and are being held pending showing; and programs which at the date of the balance sheet were in process of production. We show the cost of the programs completed and in process, broken down by various regions. This is a breakdown which will probably be interesting to Mr. Fisher in the light of his earlier questions. And we point out that the bulk of the program inventory continued to be in Toronto and Montreal for the English and French networks respectively, and we indicate the approximate dates when this inventory will be used.

On page 13 you will see that we show the approximate telecast dates. We look at them to satisfy ourselves that the inventory is of a current nature and is in fact going to be used. We then make reference on page 13 to the write offs in this area which during the year totalled $115,119 as compared with $206,193 during the previous year. It will be interesting to note that the write offs at this level represent the cost of 106 programs or parts of programs which for various reasons were abandoned. Most of the programs written off involved a cost of less than $1,000, but there were two items in there which involved a rather larger amount. I indicate what these were and I give the reason why the corporation took the action that it did.

Mr. FISHER: In view of the fact that you referred to the point this morning—

The CHAIRMAN: I believe Mr. Hales has indicated that he wanted to ask a question.

Mr. FISHER: It was because this morning I raised the point about some contract. Is it an unusual experience to have outside producers go bankrupt, as in this case?

Mr. OUIMET: It is certainly unusual to have one go bankrupt and leave us holding the bag for $44,000. But I would not be able to answer you whether there have been other producers who have gone out of business.

Mr. FISHER: In hiring a producer what sort of preparation do you make to determine his financial position?

Mr. OUIMET: There are two things we have to determine: We have to determine his production ability, his creative ability as well as his financial position. In this particular case this company had produced over the years for us a number of outstanding series of excellent programs in every way. This was an outstanding production company. And finally, unexpectedly, they had financial difficulties and we took a loss.

But if you consider the kind of programs and their value in terms of program material which we got over the years from the company, I think we did very well. It was one of our best outside producers.

Mr. FISHER: This seems something like the Pearson film situation wherein you had the C.B.C. providing a part of the production facilities and part of the loss was due to his cost as well as the producer being responsible for a certain share?

Mr. OUIMET: I believe that this particular company produced these films in toto completely and delivered them to us.

Mr. FISHER: What rules have you for the other kind of operation where you have a mix, where your equipment and facilities may become part of the cost to picture?

Mr. OUIMET: We have a great many variations of arrangements varying all the way from the commissioning of a film where the total and complete assignment is given to an outside producer, to the arrangement where we have our own producer moving in, sometimes with C.B.C. assistance, and using only the technical facilities of the outside producer. You have a full range of possibilities, and each case depends on the needs at that time.

Mr. FISHER: I shall ask Mr. Henderson this question: When you approach an analysis in this particular area is it at all clear, and is it apparent as to the different arrangements, in so far as the cost set up is concerned?

Mr. HENDERSON: I would say so. We have not had any problems in that regard. Perhaps Mr. Stokes might care to speak to this question.

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): I do not think our audit would enter into this particular field really. We are interested in expenditures which might be incurred rather than the policy which a company might adopt in producing anything.

The CHAIRMAN: Would you mind speaking louder, Mr. Stokes.

Mr. FISHER: How important is it to have this flexibility?

Mr. OUIMET: I think it is quite important and particularly in the case of Montreal where we have fewer studios than we need. Because of limited facilities we do have to assign a number of these productions outside in greater number than we do, relatively speaking, in Toronto.

Mr. FISHER: Do you contemplate the time when you finally get your ideal facilities at Montreal and Toronto that this matter will change at all?

Mr. OUIMET: It might change to a certain degree but I do not contemplate the day when we would do everything ourselves.

Mr. FISHER: In view of the indication that you will consider putting more information in your annual report, I wish to make the point that this is one of the areas which to me would be most interesting; I mean to have a sort of continuity from year to year, and a keeping of a record which would indicate the amount of spending which you have done in the sort of contracting out or partial contracting out of the various arrangements.

Mr. OUIMET: I think this information could be provided.

Mr. HENDERSON: I might point out, Mr. Fisher, that in my report to the house I refer to these inventory write offs. The information you are seeing here was shown in this case in my report to the house. I did not name the programs or the films, but I show them because, as you know, the committee's directions to me over the past several years have been to show non-productive expenses. And where they occur in the case of crown corporations they appear under the appropriate captions in my report of those corporations.

Mr. FISHER: It certainly does appear to be a major figure, but I assume in the light of what has happened recently it will become a most interesting one.

Mr. DAVIES: In respect of this figure and bearing in mind Mr. Harkness' question, in this particular case we are still in negotiation with the trustee under the winding up act in order to recover a certain part of the funds involved, and where we do this it will reduce the value of the amount that we have written off.

Mr. FISHER: In the second one listed, the Alberta game farm, this difficulty had nothing to do with Al. Oming who ran the Alberta game farm?

Mr. OUIMET: No. This was purely a technical fault.

Mr. HALES: I am sorry but I shall have to go back a bit here. On page 11, "Engineering and production supplies", are these priced at cost price?

Mr. HENDERSON: Yes sir.

Mr. HALES: As to these technical supplies and this great inventory which you carry both here at Ottawa as well as at Edmonton, do private television stations carry such inventories as this, or do you interchange with one another in respect of engineering supplies? I suppose Mr. Ouimet might answer this question.

Mr. HENDERSON: Are you directing your questions to me?

Mr. HALES: All right.

Mr. HENDERSON: I do not believe there is any interchange between the corporation and private broadcasters in this field. It might occasionally take place, perhaps.

Mr. OUIMET: I believe that is correct. There are times when we do help one another, if there is a major part missing and we have one while they do not, or it may be vice versa. This has often happened in the past, but there is no attempt to have a common inventory for use by the two stations, the C.B.C. and the private station. I would say generally that the stock might be quite different, depending on the kind of equipment used, whether we use the same kind of make and so on. Although there would be some parts which would obviously be common.

Mr. HALES: Why would you set up a storage of this material in this day of such fast travel? Would not a central place be able to fly the necessary parts when wanted to where needed?

Mr. DAVIES: This is a question—we are talking about—inventories and holding our immediately required spare parts, in relation to the technical equipment involved such as cameras and that sort of thing, for which repair parts could be flown from a central area.

Mr. OUIMET: Some of this equipment is fairly expensive per unit. For example, a camera tube costs something of the order of $1,700 to $1,800 and if you have a number of cameras, you will need a number of tubes as spares. And the same with transmitter tubes, such as for the 50 kilowatt station—at one time they cost $3,000; and then there are the recording heads for videotape recorders. I believe they cost something like $1,400 per head. So it does not require very much to mount up.

Mr. HALES: I just wish to call your attention to the fact that business is tending towards central storage and supplies rather than expanding. Most companies are pulling in their warehousing to a central point, while you are doing the opposite. This is where part of your cost would be involved, and this is what is costing the C.B.C. money.

Mr. OUIMET: I am not sure that we are decentralizing our warehousing. I have not studied this particular problem recently and I am at a loss to give you exact information. But I do not think we are decentralizing at the moment.

Mr. DAVIES: As a matter of fact, I think this is a very difficult question to determine, as you must be quite well aware. It depends entirely on the immediacy of the requirements; it depends on the geographical distribution whether or not you have certain main centres or just one main centre. About 1957, I think, there were centralized stores in Montreal, and this question was studied. But the larger part of those stores were moved separately to each of the areas and divisions; and along with this there was a decentralization of the purchasing department; and whereas heretofore all the purchasing had been done through one central office, there were purchasing agents set up in these areas, and some of them have other duties, so that the immediate requirement to be purchased at a particular station need not be referred through one central office. We have studied this and to the extent we have done it so far it seems to have produced good economies. Now, one never is satisfied, and with an inventory of this size, currently we are continuing to look into this matter to see whether or not certain developments can be made in respect of classification of the inventories on hand, for instance, the slower moving items, to ascertain whether they need be stocked, or whether they are of a nature that they need not be stocked at all, but can be ordered directly from the supplier.

Mr. OUIMET: Perhaps there is one point I should stress. In our type of operation there are supplies which would lend themselves very well to the centralization of which you have spoken, and there are other types of equipment which obviously are needed to keep us on the air. In these cases even a fast jet would be much too slow a process in getting the equipment on the spot. So, tubes, cameras, recording heads, and that sort of equipment must be right there on the spot, because if you lose one, two or five minutes, it is one, two or five minutes too long. It is not quite like it is in industry. However, there are other cases where I think your observation would apply completely.

Mr. HALES: All right; but you have $32,000 of technical inventory at Edmonton, according to this, and five years from now there likely will be five times that much.

Mr. DAVIES: I do not think so, because this is under continual observation.

Mr. HALES: We will see whether it goes up.

Mr. HENDERSON: We are moving into film and script rights on page 13.

The CHAIRMAN: I think there still are some questions on programs completed and in process of production.

Mr. FISHER: I have a supplementary question in respect of engineering. When you make engineering plans and drawings, are they given a book value of any kind?

Mr. OUIMET: Yes.

Mr. PRITTIE: I have one question under inventory. Are tapes of radio programs, such as public affairs programs, dramas, and so on, which probably are kept in store for years, shown as a book value anywhere in the inventory?

Mr. DAVIES: No. We have physical control of these stocks, but they are not considered to be a balance sheet item.

Mr. OUIMET: In many cases they cannot be used without further payment to the artist—step up fees.

(Translation)

Mr. DROUIN: Can Mr. Ouimet tell us who was the producer of the programme entitled: "L'Homme devant la science" (Man before Science) and the extraordinary story of that failure?

Mr. OUIMET: I think that it was produced by the Niagara Company. If I am not mistaken I believe it was the firm Niagara Films.

(Text)

Mr. HARKNESS: Are most of these programs shown as in process of production on video tape?

Mr. OUIMET: Most of them are on video tape; an increasing number are.

Mr. HARKNESS: Some are on video tape and some on film?

Mr. OUIMET: Some would be on film, but I would say that an increasing percentage is on video tape. There is a great proportion of our production now which is put on video tape for a number of reasons. Video tape permits us to equalize our manufacturing load, if you want to call it that, or our production load, so that instead of having a peak season right in the middle of the winter when we have our peak programming, and a very hollow summer, we can produce some of our programs in the summer by putting them on video tape. In this way we can use our facilities and our staff with greater efficiency. There are other advantages in recording these. Without any great additional cost you are able to stop and start the production in order, say, to permit changes in costume or scenery; there are many advantages in recording on video tape.

Mr. HARKNESS: How much of the $15,000 in 1963 and the $206,000 in 1962 were programs which the C.B.C. had made themselves and did not use?

Mr. OUIMET: We do not have the information before us. On the other hand, take the year ended in 1963 where the total was $115,000, out of that $44,000 was outside. That would leave a possibility of $71,000 which might include both inside and outside production.

Mr. HENDERSON: The $115,000 would largely represent parts of programs. It was spread across 106 separate productions; but the largest are the ones we noted here.

Mr. DAVIES: We have a complete list of this by program, and we could file it.

Mr. HARKNESS: Really, all I want is the figure showing the number of programs you made yourself and did not use.

Mr. DAVIES: We could add them up and in a couple of minutes time have them for you.

Mr. HARKNESS: For those two years.

Mr. OUIMET: These would include parts of programs.

Mr. HARKNESS: Would you include such items as when you send a team to some foreign country to take pictures of something or other and then decide not to use them?

Mr. OUIMET: Yes; this has happened.

Mr. HARKNESS: I remember two or three instances in the past where this happened.

Mr. OUIMET: I remember one.

Mr. HENDERSON: In the 1962 report you had an example of that. There was this film "Cuba Si" which was abandoned at a cost of $46,633. This was in the $206,193 figure last year.

Mr. HARKNESS: I would like to have a breakdown of that $206,000 to show how much of it is in programs along this line, because this seems to me to be one of the ways in which a reasonable amount of money is in effect wasted. I do not know just how you can prevent this sort of thing, but I would think that a little better judgment before one of these programs is started might prevent quite a bit of wastage.

Mr. OUIMET: Mr. Harkness, our business is that of producing programs. Our wastage occurs in the production of programs, just as in the case of a manufacturer of some other product, the wastage occurs in the manufacture of a particular product. Our wastage, on the basis of the figures we have just used, is one third of one per cent. I do not think that is high wastage. Of course, we would like to reduce the wastage. We would like never to have a rejection such as the "Cuba Si" program, but such things do happen. If we take so many precautions that programs are never rejected I am afraid the quality of programming will lose something in originality.

Mr. PRITTIE: Mr. Chairman, I wonder whether Mr. Harkness will allow me to ask a question at this point related to this particular subject?

Do you have any way by which you can compare these wastage figures with figures applicable to the B.B.C. or the N.B.C. which I suppose have the same experience in producing programs they do not use? Have you any idea what the comparative figures would show?

Mr. OUIMET: I have no idea what the percentage of reject programs is in respect of those companies, although I know they also reject programs.

Mr. PRITTIE: They reject programs in respect of which they spend quite a bit of money; is that right?

Mr. OUIMET: With regard to program filming by the United States television industry, we know that the majority of pilot projects are rejected before they ever come to a series, but I have no figures in respect of the N.R.C., C.B.S. or B.B.C.

Mr. PRITTIE: I asked the question because we tend to be shocked by the knowledge that many thousands of dollars are spent during the year on programs which are rejected, and I wondered whether this was common experience to the business. It would be useful to know what the experience has been of other companies.

Mr. OUIMET: I cannot answer your question in this regard, Mr. Prittie, but I should be surprised if our record in this regard is not as good as the record of any of those other companies.

Mr. HARKNESS: How do these figures compare with the figures in this respect for the previous three years?

Mr. HENDERSON: Are you referring to the write offs?

Mr. HARKNESS: Yes, I am referring to the write offs.

Mr. HENDERSON: The write offs in 1960-61 totalled $53,109; for 1961-62, which was the previous report you considered, they amounted to $206,193, and for 1963 they amount to $115,119.

Mr. HARKNESS: I was really referring to the $53,000 in the two year period before that. In other words, I was wondering whether this amount was generally going up or down, or whether there was any pattern involved.

Mr. OUIMET: I would suggest that it will be a variable and will depend on the number of specific instances involved such as the "Cuba Si" program of which we spoke. The experience of one "Cuba Si" program can make a big difference in the total cost of rejects in a year, because other rejects are more or less routine and part of all programs that are not used.

Mr. HARKNESS: In connection with this particular film you mentioned, that sum would apply to all others, or videotapes, as the case may be, but who actually makes the decision whether a team will be sent over to make such a picture? Where does that decision lie?

Mr. OUIMET: We are now moving into another area, and this applies to any film whether rejected or not. You are not asking about the "Cuba Si" program in particular; is that right?

Mr. HARKNESS: No.

Mr. OUIMET: You are directing your question to any film. The decision is made by the directors of programming of the English and French network and generally is delegated to that level. On the other hand, there might be special circumstances in respect of which we might be consulted at a higher level. The decision depends on what is being made. Some of the films are pretty well routine, while others are not, and the decision in respect of the routine films are delegated further down the line.

Mr. HARKNESS: By and large the decision would be made then by the director of programming for the English and French networks respectively?

Mr. OUIMET: That is right. Mind you, the decision is made there but, of course, we are responsible for their decision. We cannot delegate the accountability. I would repeat that this is a very good record, and I think if we were to look into the record of other producers of programs, I would be very much surprised if we could find any organization with a record as good as ours. The percentage of rejects amounts to only one third of one per cent. There will always be rejects unless we agree beforehand that we are not going to follow our standards.

Mr. HALES: By the same token a private t.v. producer could not stand this kind of loss; is that right?

Mr. OUIMET: No, and a private station does not make this kind of program either, because a private television station in Canada does not make a $40,000 documentary, or for that matter a $20,000 film.

The CHAIRMAN: Have you completed your questions, Mr. Harkness?

Hr. HARKNESS: Yes.

The CHAIRMAN: I have as the next questioner on my list the name of Mr. Southam and then Mr. Rondeau.

Mr. SOUTHAM: Part of the question I wish to ask arises from the discussion of Mr. Harkness' question, but more specifically refers to the main programs written off involving costs of less than $1,000. You state: ". . . however, the two items involving more material amounts were . . .", and then you specify these extraordinary histories and the Alberta game farm program and, more recently, this one very sensitive one in regard to Prime Minister Pearson. In this respect I notice there are specific instances involving other amounts. Is there any change in policy in this regard on the part of the corporation to tighten up on economic supervision in respect of these programs so that you will not have such a big jump from writing off programs costing $1,000 to programs costing $40,000?

Mr. OUIMET: Obviously when we have to reject a program like "Cuba Si" we do a lot of soulsearching about the situation or conditions which brought about such a situation. We do tighten up to make sure that this sort of expenditure is caught before it is too late to do something about it.

On the other hand, we do schedule programs other than programs such as "Cuba Si", at the national level, regional level, local level, in English or in French, in radio or in television, to the extent of some 200,000 programs per year. One of the problems with which we are faced arises because of the fact they are all individually made and are all different. It is not like producing automobiles or shoes, and I suggest the production of automobiles is a good example. An automobile is a complex mechanism but it is all set-up, the plans are made, you have ten models and you produce a great number of each model. In the case of television and radio programs each one is custom built and is the result of the idea of a creative person who must be given a certain amount of initiative and leeway in order to bring his idea forward so that it can be judged. Sometimes we do get into difficulty, but we try to have as much supervision as we can without going too far, so as not to smother the creative spirit of the producer. Generally our record has been, as I say, very good, because the bulk of these things we are discussing are small items which are not used and which were planned for insertion as part of a program.

Mr. SOUTHAM: I think you have answered quite well the point of my question, but it did not relate entirely to smothering the creative imagination of some of these producers, but was directed rather toward particular care being taken before the programs advance too far before being detected as being something which must be thrown out or discarded. We should have perhaps more supervision of this sort.

Mr. OUIMET: That is usually done, but the times we get into trouble are those times when production is late, when the producers are late in their work, and when we have a deadline to meet and see them at the last minute.

The CHAIRMAN: You are next, Mr. Rondeau, followed by Mr. Prittie.

(Translation)

Mr. RONDEAU: I would like to ask Mr. Ouimet a question concerning the programme entitled: "L'homme devant la science" whose producer went bankrupt and has stated that you had paid the cost of the film in advance. Is it your general policy to pay in advance a great number of the films?

Mr. OUIMET: No, it is not our general policy, but in some cases we must do so in order to obtain good films. In other words, some producers turn out very good films but cannot finance the whole production, so we help them. The main objective of CBC is to obtain good programmes, and in some cases we must assume some risks in order to obtain a good programme. In general, we are quite successful; in that instance, after several years of work done by that firm, we were taken in for $44,000, but nonetheless we hope that we will be able to recover part of that amount.

Mr. RONDEAU: It is precisely on your hopes of recovering part of it. Can you sell back to other firms those films which you decide not to show to the public, in order to recover part of the cost, and would those firms assume the responsibility of showing them?

Mr. OUIMET: In this case, it is not because we have decided not to show them; the films were not completed, and that is the reason why we could not show them.

Mr. RONDEAU: But in other cases where the films are completed and for lack of quality or some other reason, you decide not to show them, does . . .

Mr. OUIMET: In general, if we produce films which are not acceptable according to our standards, we do not think that we should sell them to others. Apparently, this practice exists in the business world, but in the field of programming, if we deem that a film is not acceptable by the CBC, we also think that it should not be shown.

(Text)

Mr. FISHER: What was that again? Mr. Ouimet, would you complete that last sentence in English.

(Translation)

Mr. RONDEAU: But, Mr. Ouimet, if I wished to purchase one of your films which you have deemed unfit to be shown in public, and if I am willing to reimburse you your costs of producing such a film, you are discharged of all responsibility? If I pay you for such a film, it is no longer your responsibility; it reimburses at least your costs, and the CBC is no longer responsible for it.

Mr. OUIMET: Nonetheless, it remains a CBC film, indeed it is.

(Text)

Mr. FISHER: I would like to know what you would do if one of these films won a world prize.

Mr. OUIMET: I do not think it changes the situation.

Mr. FISHER: No, I do not think it would.

The CHAIRMAN: Would you proceed, now, Mr. Prittie.

Mr. PRITTIE: Mr. Chairman, although I do not have a question on this section, before we get into the international broadcasting service facilities I would like to ask one question on the material which Mr. Ouimet presented this afternoon.

The CHAIRMAN: Yes, Mr. Prittie; you can ask questions on that now.

Mr. PRITTIE: Thank you. I am referring to the table showing the costs of operating radio and the receipts from advertising.

Mr. OUIMET: Yes, I have it.

Mr. PRITTIE: I notice that your receipts from radio advertising sales amount to $2,696,000 and operating costs in the amount of $21,156,000. Has the corporation board discussed at any time the possibility of operating a completely commercially free radio system? I do not expect it in television.

Mr. OUIMET: This has not been considered formally but it has been mentioned. This is a subject which might be considered.

Mr. PRITTIE: Thank you. I will have more to say about that on another occasion.

The CHAIRMAN: Mr. Hales, you are next.

Mr. HALES: My question deals with page 12 where it sets out programs completed and in process of production. In respect of CJBC radio station in Toronto, would any of this amount for programs completed and in process of production be set up to be used this year in converting this station to an all French station?

Mr. OUIMET: I do not think there is anything in this figure that would apply to CJBC. Also, this applies to the 1961-62 and 1962-63 years.

Mr. HALES: I know I was ruled out of order on this, this morning and I am trying to get in order. But, I am not too sure how to get in order here.

The CHAIRMAN: You can always try, Mr. Hales.

Mr. HALES: I want to know the proposed cost of the conversion and what revenue you expect from that station. I think it is being changed over on October 1. If I were looking for these figures in respect of 1963, where would I find them?

The CHAIRMAN: I think that is the trouble, Mr. Hales; you would not find them there.

Mr. PRITTIE: Yes, I think he would. They would be in the total radio advertising receipts in this table. Is that not correct?

The CHAIRMAN: Do you mean if the radio station had been in operation—

Mr. HALES: Yes.

The CHAIRMAN:—in 1963, and, if converted, where you would find the figures?

Mr. HALES: Yes.

Mr. PRITTIE: I see. The receipts from their operation as they pertained to 1963 would be in these figures.

The CHAIRMAN: Perhaps Mr. Ouimet could answer where these figures might be found.

Mr. OUIMET: The receipts for 1963 for all our stations are shown in the gross advertising revenue for radio and television for that year.

Mr. FISHER: But you could tell us what the revenue was from CJBC for last year.

The CHAIRMAN: For 1963, yes. That is a perfectly proper question.

Mr. OUIMET: Yes, although we are getting into an area where our competitive situation might have offered some difficulty; but, now that we are abandoning CJBC, I imagine that would be all right.

Mr. FISHER: You are getting a rich French Canadian market in Ontario.

Mr. OUIMET: No. The answer to this one is what we lose on revenue on CJBC—and we will because there will be very little revenue in the French language—we gain in the reduction in the cost of running the station because

in one case you had to program it especially—it was not off the network—while in the case of the French station, it will be running off the network. So, what you lose in revenue is completely compensated by what you make in the return of expenditures.

The CHAIRMAN: Are you asking to be supplied with information in respect of what the revenue would be from this particular station for the year 1963?

Mr. HALES: For the year 1963 I would like to know what the revenue and the cost of operation for CJBC were in 1963.

The CHAIRMAN: Is that available now?

M. HALES: I realize it will take some time to obtain it.

The CHAIRMAN: It could be made available.

You have a question, Mr. McMillan.

Mr. MCMILLAN: I was wondering about censorship. Is there some group which looks after the censoring of ordinary films?

Mr. OUIMET: You are talking about feature films, the old movies?

Mr. MCMILLAN: Yes. Are they all seen first?

Mr. OUIMET: They are always seen first and in respect of movies, as in the case of all other programs, we have to exercise judgment as to what we do and do not show. We avoid using the word "censorship" as much as possible. But there is certainly a selection that is being made.

(*Translation*)

Mr. RONDEAU: I am only concerned about the fact that my friend here asked questions concerning censorship. Can we ask questions on general administration immediately, or should we restrict ourselves to the text before us? Last year, we asked Mr. Ouimet questions on incidental matters which were not in the text.

(*Text*)

The CHAIRMAN: Well, I think so far as general censorship is concerned, this is not an issue before us. But, with regard to this question of programs, I do not think it is an unreasonable question to ask, if you could relate it, as Dr. McMillan did, to the year 1962-63. General questions for that year are quite acceptable. But, if I may say so, I do not think we are involved in the general question of censorship. I do not think this is part of the function of this committee which is examining the accounts of the C.B.C. But, if you want to carry on with general questioning related to this year, you may do so.

Mr. RONDEAU: I have a few more questions about these things, but I would like to retain them until the end of this report so I could speak to Mr. Ouimet about it.

The CHAIRMAN: There is a section 21 which deals with questions of organization and the recommendations of the Glassco royal commission. If your question is in order in other respects I do not see why it might not be put at that time. We will proceed with the film and script rights an page 13.

Mr. HENDERSON: Again we deal with another inventory item under this heading, "Film and script rights". This indicates the extent to which film and script rights were prepaid and therefore in the inventory category at the end of the fiscal year. As you will see, the prepaid film rights increased in the Quebec region by $65,000, so that approximately 80 per cent of the 1963 figure was invested in that region as compared to a somewhat smaller figure but larger percentage at the close of the previous year. I go on to say how we were informed by the management that the reason for this large proportion of prepaid film rights in the Quebec region lies in the limited supply of French

language films available in Canada and the consequent intense competition encountered by the corporation in acquiring rights to these films. This condition has tended to increase the cost and has also made it necessary to acquire film rights in this region far in advance of the customary requirements of the corporation.

Mr. FRANCIS: I would like to ask some questions on this paragraph.

The CHAIRMAN: What we have been doing is that Mr. Henderson has been making general remarks on the whole section. Then, anything within the section itself is open for questioning. You follow Mr. Harkness on the question list.

Mr. HENDERSON: In addition to the inventory shown there for prepaid film rights of $1,704,902, the corporation stood committed at the close of the year under contract to purchase film rights to a value of $5,274,000. The corporation wrote off as a charge to operations for the year a total of $137,129 in determining the inventory values of prepaid film and script rights at the year end. The comparable write off for the previous year was $165,185.

On page 15 it is shown how the film rights represent for the most part single episodes of film contracts expired by the end of the year and not telecast because of the unsuitability of the program content, technical deficiencies or pre-emptions.

We then go on to say how one series was purchased in 1957 for the Howdy Doody program which was cancelled before all the episodes were used. Episodes costing $28,744 were included in the total write off of film rights amounting to $73,478. By comparison, scrip rights totalling $63,651 were written off because the rights had expired or the scripts were considered unsuitable.

We then give a listing of the larger items under that heading.

Mr. HARKNESS: These film and script rights are all things that you have purchased from outside people?

Mr. OUIMET: There are film rights and script rights—they are two separate things. They are all from outside people.

Mr. HARKNESS: So you produced none of these things yourself? They are all things you purchased?

Mr. OUIMET: Yes.

Mr. HARKNESS: What is the total of the amount of film rights and script rights you purchased against which you have these rights amounting to $137,000 plus $28,000 in the one year and $165,000 plus $63,000 in the other?

Mr. OUIMET: Film purchases and rentals for those two years—I have the 1963 figures before me—amounted to $8,880,000. For the previous year the figure was not very much different from this. It is roughly the same.

Mr. HARKNESS: The total write offs against purchase which was around $8 million were $200,000 odd.

Mr. OUIMET: That includes the purchase of old feature films. I should explain to you why we do write off some of these. When you buy feature films you usually buy them in packages. There are occasions when you might buy a single film, but usually you buy a package. Some old films become available and they may be the vintage of 1958 or 1957. In that package you have some excellent films and you also have some films that are not much good. In order to get the excellent films you have to buy the package, and we have to write off some of those which are not up to standard or are not acceptable; they are just plain dull. This is one type of write off. Another type of write off is in the case of the syndicated film series. They are mostly from the United States, but this also applies to some of the British series or some of the French series. We may have a pre-emption and we buy enough films for 39 episodes, but there may be

a special event that happens on the night when we are going to show the twenty eighth episode. It may be some very important national or international event and maybe a special program has been prepared to go on at that time. This is what we call pre-emption, this displaces the film regularly scheduled. In certain cases we can show those films again, but in other cases it may break the sequence and may mean that the film is no longer usable, so you have to write it off. There are quite a number of reasons why a film may not be usable in that way.

Mr. HARKNESS: What about the script rights? You buy these in expectation that you are going to use the scripts to make something yourself?

Mr. OUIMET: That is right. We have to buy scripts ahead of time in order to have enough material for our plays or other types of productions, but usually for plays. You have them here.

There was a hospital and a science fiction series; also a "General Motors Presents" series which was the same thing as "Playdate" today. That is a big drama series; and we buy many of these scripts. We might decide after reconsideration that something better has become available and we may never play what we had originally intended to use. This is simply because something better has become available. But you cannot back down because you have to go ahead and produce those plays every week and you must have material with which to produce them.

Mr. HARKNESS: These scripts are for radio plays?

Mr. OUIMET: They are for radio as well as television plays.

Mr. HARKNESS: Were any of these scripts actually used to produce television plays, which were then scrapped?

Mr. OUIMET: No. In that case it would be shown as a write off of the whole program which never got into production.

Mr. HARKNESS: They would be under the previous heading that we were considering.

Mr. OUIMET: That is right.

Mr. HARKNESS: That is a question I was going to ask about; and if you put them into the amount written off under the program heading, these two figures which we have, it does not include salaries and wages of the people who were engaged in making them?

Mr. OUIMET: Mr. Harkness, would you please repeat the last part of your question?

Mr. HARKNESS: The $115,000 which you wrote off last year, for programs completed or in process of production, would not include the things that you did yourself, such as salaries and wages of the people employed in making these things?

Mr. OUIMET: Yes, it would include full production costs; it includes the full production cost of these programs.

Mr. HARKNESS: And the salaries of the producers?

Mr. OUIMET: That is right, and the fees of the artists, the scripts, the make-up, the wardrobes, the rehearsal, the use of the cameras and tubes, this is full cost accounting.

Mr. HARKNESS: I see. Very well.

The CHAIRMAN: Mr. Francis.

Mr. FRANCIS: Eighty per cent of the total amount invested for prepaid film rights is for the French language network. I have difficulty following the explanation given. Is this a temporary situation? Is this acquiring rights ahead of time? Would it stabilize after you reach a certain level?

Mr. OUIMET: Perhaps Mr. Davies would speak to this question.

Mr. DAVIES: The 80 per cent here refers to those which were prepaid. We have two classes; one for the French network, because of the supply situation, where there are more which are prepaid than in the other case; I notice the $5,274,000 which is not yet paid will be paid for on telecast in the case of the Quebec network. This amounts approximately to 55 per cent; so therefore on balance over-all it is more related percentagewise.

Mr. FRANCIS: Might I be given a breakdown of the $5,274,000?

Mr. DAVIES: I could provide it in just a moment.

Mr. OUIMET: There are differences in broadcasting on the two networks because of different conditions. It is customary on the French network to buy film rights for more than one showing, because on the French network a film which is shown in the evening is usually shown again the next morning or the next afternoon, I believe. There are many differences in conditions of operation as well as supply.

Mr. FRANCIS: I appreciate it. I was just interested in why there should be so much money committed for prepaid films here, and I was trying to understand the reason for the breakdown of $5,274,000. It is apparently on a different proportion.

Mr. DAVIES: Yes. The French network, from Montreal would involve $2,400,000 of this total, while for Toronto it would be $2,000,000. The balance is spread in small amounts between Halifax, Ottawa, Winnipeg, and Vancouver. Now the other thing is that there would be more usage in Montreal as well of the film series.

Mr. OUIMET: They use more of their films in Montreal than would be used in Toronto because there is no equivalent in French to the syndicated series of films which you can get from the United States.

Mr. FRANCIS: I have had difficulty putting this together in my mind. Perhaps I should not even try. I understand the problem of the French network is that you have to produce a great deal more because of the supply situation and because your importing from outside is very much restricted. I appreciate that on the English network you can get material from American sources more easily. Is that why you have committed so much in advance for prepaid on the French network?

Mr. DAVIES: That is partly the reason; but I think it is also the question of supply sources. If you have five or six people ready to supply you through 20 distributors, that is a situation which is different from where you have only two. Therefore, you do the best you can with the contractual arrangements that you are able to negotiate.

Mr. FRANCIS: Apparently you buy a good deal more of this for the English networks, yet you spend more for the French network by way of prepayment. That is why I did not understand it.

Mr. DAVIES: If you added up the figures you would see that the Montreal total, inclusive of what may be prepaid, is $3,000,000; while the Toronto total, inclusive of what is prepaid, would be $2,200,000.

Mr. FRANCIS: You say that because you have to reach further in advance of the commitments?

Mr. DAVIES: No. If you want to tie up the rights for this one supplier, you may have to prepay them. Perhaps another supplier will accept payment at, or before, or even after the telecast. It is simply a question of competition.

Mr. FRANCIS: Competition with whom?

Mr. OUIMET: In the case of English network suppliers there are more of them and more sources, obviously, than there are for French films.

Mr. FISHER: You also have some private network competition.

Mr. OUIMET: Yes. I say yes, but I really should say no. I think you have some competition in Montreal which is not network; but you have a very strong private station.

Mr. DAVIES: May I also suggest that the prepaid rights indicate how much capital is tied up. It has nothing to do with your eventual expenses.

Mr. FRANCIS: The Auditor General said that this condition has tended to increase the cost. That is a direct quote form the Auditor General's report. But might I ask the Auditor General what it means?

Mr. DAVIES: He has said there is a limited supply of French films available in Canada, and this consequently indicates the competition which the corporation encounters in acquiring the rights of these films, and it tends to increase the cost.

The CHAIRMAN: Are you directing your question to Mr. Henderson?

Mr. FRANCIS: Yes. I wonder if Mr. Henderson would care to comment or elaborate on the difference between the costs per film? Is it because of a difference in the cost per footage, or because of a monopoly situation, or because of a supply situation? What does it mean?

Mr. HENDERSON: It is my understanding that in the acquisition of French language films in Canada there has tended to be a monopoly type of situation to the point where the corporation has encountered considerable competition in putting its hands on films which it wants. Therefore, in order to preserve its position in Quebec and on the French network it has had to lay out a considerable amount of money ahead of time to buy up the things that it wants. To the extent to which this may have resulted in the corporation having to pay more than reasonable prices for the films, I cannot say. Perhaps Mr. Ouimet could add something to that. But I do believe that it is because of the supply difficulty in this regard that they have tended to build up this very large inventory for the Quebec region. That condition has accordingly tended to increase the cost, and it places the corporation in a position where it has to carry a heavy inventory of these films way ahead. Is that not correct?

Mr. OUIMET: I would like to add to your comments, Mr. Henderson. I believe it has tended to increase the cost. But the situation is better as of today than it was two, three, four, or five years ago. The monopoly situation is gradually being remedied. Competition though is still very keen. One thing which should be mentioned is that generally speaking the films available in French from France and from Italy, and dubbed in French, are generally of much more recent vintage than those released by American suppliers; and that has also tended to increase the cost. If we could get films of equally recent vintage from American sources, we would also show them, but we are not able to do it. So, these are added factors to keep in mind in considering the total picture.

Mr. SOUTHAM: Mr. Chairman, my question is related to the one asked by Mr. Francis dealing with film strip rights. On page 14 there is one specific statement:

> We were informed by the management that the reason for this large proportion of prepaid film rights in the Quebec region lies in the limited supply of French language films available in Canada and the consequent intense competition encountered—

What I have difficulty in understanding is where this intense competition comes from, because as I understand it, the only market for these films is the market in Quebec. Who is providing the other competition?

Mr. OUIMET: The intense competition comes from the fact that the supply of French films is more limited than the well known Hollywood films. Secondly, there is intense competition in respect of the limited sources of film with the other station in Montreal which uses the same films.

Mr. PRITTIE: Could you not get Mr. Malraux to obtain the films for you free?

Mr. OUIMET: I am not sure we could get anything free.

Mr. SOUTHAM: It is a very interesting situation to find this competition when the market is so limited.

Mr. OUIMET: I would not say that the market is limited. Our consumption of films on the French network is higher than it is on the English network. The usage of film in Montreal is by two stations, the C.B.C. station and the private station. There is the same situation in Toronto. Therefore, the competition is about the same in terms of users. The supply is more limited and, therefore, the total problem is more acute.

The CHAIRMAN: Gentlemen, would you like to go on and complete international broadcasting service facilities before we adjourn this afternoon?

Agreed.

Mr. FISHER: Is there any place, either in the annual report or anywhere else where you indicate whether you spend money on television in education?

Mr. OUIMET: Well, as you know, we spend a great deal of money on school telecasts. We have many programs of an educational type. It would depend on your definition of educational television.

Mr. FISHER: Let us say school or university programs. There is nothing in your annual report.

Mr. OUIMET: It is not shown separately.

Mr. FISHER: You do some broadcasting of this nature?

Mr. OUIMET: Yes. As you know, for years and years we have done school broadcasts on radio and now do quite a number of school telecasts. We also do university telecasts.

Mr. FISHER: Why have you not bothered to show what any of this costs by putting any of it on the record?

Mr. OUIMET: By the way, this is available in part in the information we have given today under children's programs and educational. However, there are other programs in other series which also might be considered educational.

Mr. FISHER: The point I would like to make to the Auditor General is that there is no way, in picking up the annual report, that one can get any idea of what is being spent for school or university television.

Mr. HENDERSON: That is quite true so far as the formal financial statements are concerned. Mr. Ouimet stated that he is going to give consideration to putting in graphs, tables and figures along the lines you discussed this morning and, therefore, I think this would be exactly the sort of thing he could, perhaps, be expected to show, and also what he would want to show.

Mr. FISHER: I just wanted to make sure that the point was made.

Mr. HENDERSON: I think I explained this morning to your satisfaction why it does not appear in the statutory accounts.

Mr. PRITTIE: Do you receive any payment from the department of education in respect of your school program production costs?

Mr. OUIMET: No. We divide the cost according to a formula. We pay part and they pay part. I do not know whether you could call this payment for production. We pay the indirect cost and they pay the direct cost of production.

Mr. PRITTIE: So, they are participating?

Mr. OUIMET: Yes, they are participating.

The CHAIRMAN: Gentlemen, would you like to deal with international broadcast facilities?

Mr. HENDERSON: On page 15 there is reference made to international broadcast service facilities which the corporation operates on behalf of the government of Canada. The facilities themselves are owned by the government as distinct from the corporation. I think this was in accordance with an order in council of 1943. Always, along with the financial statements of the Canadian Broadcasting Corporation, there appears a statement showing the cost of the international service. We do not include that with our statutory accounts of the corporation, but you will find that the details are shown on page 26 in the 1963 report.

The expenditures of the service for 1963 net of their revenues earned was $1,736,000, or $31,000 more than the previous year. The expenditures are broken down between objects of expenditure.

Mr. FISHER: Twice in the last five years I have been lobbied in connection with threatened cuts or slashes in the international service. I have been lobbied as an individual member of parliament. Campaigns have been going on to make sure this service is not retrenched. I would like to know, Mr. Ouimet, what have been the various changes which have led to these two instances, the threat or the intention to reduce the service or cut it down.

Mr. OUIMET: Some years back I believe the treasury board, at the time of looking at our estimates, asked us to look at the possibility of reducing the total expenditures for the international service. As a result of this, there were talks with the external affairs and C.B.C. people and we came up with a recommendation which I think was accepted. There was a cut in the order of about 20 per cent. Then, this year or last year, there was talk of reducing the scope of the international service, but it did not come to any specific action.

Mr. FISHER: What I would like to know is who has the best judgment with regard to the amount which should be put into the budget for the international service; would it be you or the Department of the Secretary of State for External Affairs?

Mr. OUIMET: I think we both have to do it, because in one case it is necessary to have the knowledge of the international situation and the particular need to reflect Canada in certain countries of the world, and, on the other side, you have the broadcasting knowledge, the knowledge of what is possible, what facilities are required, and the effect of any particular increase or decrease.

Mr. FISHER: The point I wanted to bring out is that if you really are going to come to grips with the intricacies of the problem in this field you need to have the external affairs people to comment or collaborate.

The CHAIRMAN: You are quite right. Actually, this aspect properly comes under the purview of a broadcasting committee. In the limited time we have, as you say, it is pretty difficult to come to an issue as to how much we should spend and how much we should not. I think we have to take these figures and any incidental questions may be asked. I do not think we can get beyond this. We certainly cannot get external affairs here in the time the broadcasting officials are here.

Mr. HARKNESS: What I do not understand is that the cost is put in here in your general balance sheet and in this report of Mr. Henderson as being $6,279,000. In your statement on page 26 you reported the expenditures as $1,736,000.

Mr. OUIMET: In one case it is the capital assets and in the other case it is the annual operating costs. On page 26 you have the annual operating costs.

Mr. HENDERSON: It represents the amount of money that the government of Canada has invested in these facilities—the transmitter at Sackville and that sort of thing, and I think the Radio Canada building in Montreal.

Mr. OUIMET: That is correct.

Mr. HENDERSON: It is shown on the balance sheet on both sides by way of keeping it to the forefront. The operating expenses are the subject of a separate estimate in the blue book; they carry a separate vote number. Accordingly, that is discussed at the time the estimates are considered.

Mr. HARKNESS: In the $6 million is the $1,736,000 included or is the $6 million the total capital cost?

Mr. HENDERSON: This represents capital cost or the equity of the government of Canada in the facilities of the service, which facilities have always included the cost of the Radio Canada building on Dorchester street in Montreal. That may seem rather extraordinary when it is occupied by the Canadian Broadcasting Company itself, but it had its origins years ago and remains in that figure. Perhaps a good case could be made for moving it out—

Mr. HARKNESS: I would think so.

Mr. HENDERSON: —into the account of the corporation, but I do not believe that proposition has been opened up, has it?

Mr. OUIMET: No, not recently, but it has been discussed. It is one of those things that I think will be done whenever we come to grips with the long term financial problems of the corporation. I should mention that we pay rent to our international service for the space we use.

Mr. HARKNESS: That is where the $400,000 of income comes in?

Mr. OUIMET: Most of it.

Mr. HARKNESS: This is another question I was going to ask. I was going to ask where the income came from.

Mr. HALES: Are the figures available for CJBC or will they be given at the next meeting?

The CHAIRMAN: The CJBC operating costs for 1963?

Mr. OUIMET: We will try to have them available tonight.

The CHAIRMAN: Having in mind the terms of the motion moved by Mr. Harkness and that so many people have indicated an interest on this last item, my proposal would be that we start this evening at eight o'clock with the special survey having in mind that this will be the last meeting at which we will have the officials with us. I think we can discuss this matter tonight. We will start at eight o'clock with the special survey which is contained on page 21.

Mr. HARKNESS: When will we deal with the capital expenditures?

The CHAIRMAN: That should follow. I am suggesting we start with the special survey. That is part of the motion. I suggest we start with that and get that over with first, and then we will have the rest of the evening in which to discuss the capital expenditure.

Mr. HARKNESS: I would suggest that it should be done the other way round. I would suggest that we deal first with capital expenditure because I am doubtful whether we would finish with the other in time to deal with capital expenditure this evening.

The CHAIRMAN: Perhaps the members will give some thought to it.

Mr. HARKNESS: I think we might deal with capital expenditure fairly rapidly.

The CHAIRMAN: It is for the committee and for you, Mr. Harkness, as you have proposed the motion, to decide the course we should take. In the meantime, the committee is adjourned until eight o'clock this evening.

EVENING SESSION

The CHAIRMAN: Gentlemen we have a quorum.

As you know, this is the last meeting at which we will have the benefit of the presence of the C.B.C. officials, and we still have some considerable area to cover. I suggested before adjournment that we turn immediately to the special survey, but in deference to the form of the motion moved by Mr. Harkness, in which he made a suggestion, and I think quite properly so, we might deal with capital assets appearing on page 16, and then move to page 21 covering the special survey, which involves that part of the motion dealing with the Glassco commission's recommendations, and then, if we do complete those two subjects, in the time remaining we will turn again to the other three items. I think the items to which I have referred are largely the items of value to the members of this committee and in respect of which the members have indicated an interest and desire to ask questions.

That being the case I am going to suggest that we now move to a consideration of page 16 dealing with the question of capital assets and then, on completion of our deliberation in respect of that item, we move to page 21 dealing with the special survey.

I will ask Mr. Henderson to make some general comment in respect of capital assets, after which I will ask Mr. Ouimet to make a preliminary statement, and then both gentlemen will be available for discussion and questions.

Mr. RYAN: Just before we move to that consideration I should like to ask for an explanation of something which looks a little out of the ordinary in respect of the international broadcasting service facilities.

The CHAIRMAN: Yes.

Mr. RYAN: Just before we move away from this item, I note at the fiscal year end, March 31, 1963, at page 5.2 of the 1963 public accounts, the 1963 expenditures are shown as being $1,770,791, whereas in the Canadian Broadcasting Corporation annual report for the fiscal year 1962-63, at page 26, the net expenditures are shown as being $1,736,108 for the fiscal year ended March 31, 1963. There is not much of a difference here, but there is a discrepancy.

The CHAIRMAN: Mr. Davies will comment in this respect.

Mr. DAVIES: The difference in this regard, sir, is due to the fact that the public accounts are on a cash basis and the international services accounts, as reported in our financial statement, are maintained on the same basis as those of the corporation, which are on an accrual basis. Therefore, the difference would be because of the net that had been accrued one year against the other.

Mr. RYAN: Thank you.

The CHAIRMAN: Mr. Henderson, would you care to comment in respect of the capital assets item appearing on page 16?

Mr. HENDERSON: Once again, Mr. Chairman, if members of the committee would turn to the corporation's balance sheet at March 31, 1963, they will

see capital assets shown there at $33,797,724, and in the report I made I give some information regarding the nature of this item. The first reference, you will observe, has to do with the capital budget of the corporation which for the year ended March 31, 1963, was approved by an order in council of December 21, 1962. Under the Broadcasting Act the corporation is required to file an annual operating and annual capital budget, setting down its anticipated expenditures for each fiscal year ahead. You will observe here that the corporation did not spend its complete capital budget during the year ended March 31, 1963, and there was an unexpended balance of $209,582 which, in due course, was refunded to the receiver general, the capital expenditure for the year actually having amounted to $6,390,418.

If you look at the top of page 17 you will see how that money was spent in terms of the type of equipment.

I then go on to say that most of the increase is in construction in progress, and that is the largest figure in the table, and this represents costs incurred during the year on the consolidation of facilities in Toronto, Montreal, and Ottawa during the past four years. That is, through March 31, 1963 there had been expended a total of $3,802,000 on these projects.

If you look at the balance sheet you will see there is a reference there to note 1 which is part of the notes to the financial statements. Right after the financial statements is a list of the notes to the financial statements, and note 1 states that the capital assets in the amount of $61,850,364, that is the gross figure appearing on the balance sheet, included this sum of $3,802,000 expended during the last four years in connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. Present estimates of the cost of current plans indicate the cost of consolidation of facilities at these locations to be $83,058,000 of which, subject to the provision by parliament of annual appropriations for that purpose, approximately $1,597,000 will be expended during the year ended March 31, 1964—that is the year that has just ended—and $77,592,000—that is to say the balance—during the four years ending March 31, 1968. This means that the corporation anticipated having these new facilities completed by 1968.

This note has appeared on the corporation's balance sheet as an integral part of this statement for the several years; in point of fact, ever since the balance sheet of March 31, 1961, at which time as you will note my remark at page 17, it was estimated the cost of consolidation was going to amount to some $73.6 million. Naturally, as time has moved on the figure has had to be revised and the pattern of spending has had to be revised.

The original costs in 1961 were approved at that time, as stated here by the board of directors on October 30, 1959, and submitted to the Minister of National Revenue and the Minister of Finance on November 6, 1959, in accordance with the provisions of section 35 (2) of the Broadcasting Act.

I then go on to refer to the note that I just outlined to you which shows that they presently estimate at March 31, 1963, that this over-all cost would be something in excess of $83 million and that they expected the consolidation would be completed by the end of the 1968 fiscal year.

The next paragraph on page 18 refers to something we dealt with in my 1962 report, and that is the desirability of establishing and maintaining improved fiscal and accounting control over capital assets. This is something that has been long overdue in the corporation. Mr. Davies and the officers of his accounting department continue to be engaged in this work, and we are providing, what assistance we can render. This is a fairly large project but, nevertheless, as you can appreciate, a very important one. This is going to be more so as the corporation spends this money on its capital consolidation in the two big cities.

The CHAIRMAN: I was going to suggest that Mr. Ouimet might make a statement in respect of the entire consolidation program and then, having made his statement, both Mr. Ouimet and/or Mr. Henderson and his officials will be available for questioning.

Mr. HALES: Mr. Chairman, when will we have a chance to ask questions on page 16, under capital assets?

The CHAIRMAN: That is the subject we are dealing with at the present time.

Mr. Henderson has made his general statement. Mr. Ouimet is going to make a comment on the entire paragraph now and then we will be wide open for questioning by members of the committee.

Would you proceed, Mr. Ouimet.

Mr. OUIMET: Mr. Chairman, I think it would be helpful to explain our consolidation projects.

The planning and thinking of these projects were started at the time of the Fowler commission in 1955, and the estimates we had then for both Montreal and Toronto were $36 million and $35 million, for a total of about $71.3 million. Now, that was nine years ago and the projects have not yet been started, except in terms of planning. Since that time the value of money has changed; the cost of construction has changed, and also the requirements have changed. We have to think about what will be required five, six or seven years from now.

In the case of Toronto, we were able to proceed faster than in the case of Montreal. In both cities we immediately looked for suitable sites. We tried to find something downtown in both cases but we were unable to find anything downtown at a reasonable price. However, we located in Toronto a property of some 33 acres, which we purchased in March, 1960. So, we have that property in Toronto at Don Mills. I should mention that at that time we had contacts with the city of Toronto and there was no proposition made by that city for any site nearer the centre of Toronto.

In the case of Montreal it took longer; negotiations with the city took several years. It was only at the beginning of last year that we entered into an agreement with the city of Montreal for the purchase of 25 acres of land downtown. In that case we obtained a definite proposal from the city, and the agreement, I believe, was approved by council in January, 1963. This agreement provides for the payment by the C.B.C. of some $2 million on delivery of the property and then $180,000 a year for 12 years, during which time though there would be no grants in lieu of taxes. This gives you an idea of the cost of the property.

Furthermore, the agreement with Montreal provides for the city to deliver to us by October 1, 1964, the land completely clear. The land has been expropriated and the buildings have been cleared. I see no reason why the city will not be able to turn the land over to us as planned.

The same agreement provides for the C.B.C. to start construction by October 1, 1965; that is, one year after delivery of the land, and to have by October 1, 1968, $10 million worth of buildings constructed on that property. Now, that is the situation in Montreal.

To revert to Toronto, since we purchased our site in Toronto, which happened in 1960, the city has contacted us and now has made proposals to have us locate in the city of Toronto itself. We are looking at these proposals at the moment but no decision has been reached yet, and the city of Toronto has not been advised of what we are going to do because we do not know yet. In the case of Toronto, the engineering plans were made and completed, or practically completed, for the site at Don Mills. In the case of Montreal, the engineering is going ahead for the consolidation on the property that

we expect to own as of October 1 next, so we may be ready to call for tenders in time to start construction, as stipulated by our agreement with the city, by October 1, 1965.

The costs of these projects, which were estimated nine years ago at $71.3 million together, or about $35 million and $36 million for Toronto and Montreal respectively, would be now in a rough way of the order of $45 million, in the case of Toronto, and something like $60 million in the case of Montreal. The reason for the differential is that in the case of Toronto it is mainly the change in the value of the dollar and the extra charges of construction, with some minor changes in requirements. So, it is $35 million versus $45 million. In the case of Montreal there has been a definite change in requirements because at the time we submitted our 1955 estimate to the Fowler commission this was at the beginning of television and we were running Montreal and Toronto pretty well parallel, with about the same load, although even at that time Montreal had a slightly heavier production load. But now, with Vancouver, Winnipeg, Halifax, Ottawa, Edmonton and other cities being able to produce English language programs for the English network, the total load of Toronto is less than the load of Montreal, where there is still only Montreal plus Quebec City which will be starting in about three or four months, namely October 1.

Mr. GRÉGOIRE: Why not Jonquière?

Mr. OUIMET: We have no station planned in Jonquière at the moment.

Mr. PRITTIE: Where is Jonquière?

Mr. FISHER: Yes, where is Jonquière?

Mr. GRÉGOIRE: On the Saguenay.

Mr. PRITTIE: Is that in Canada?

Mr. FISHER: I believe they have an intermediate hockey team there.

Mr. OUIMET: The possible contribution of Jonquière, however talented this city might be, does not compare with the possible contributions by Vancouver or Winnipeg to the English network. So, for that reason our requirements in Montreal have gone up as well as the cost of construction and the changes in the value of money. And this, in a nutshell, is the situation at least at the present time. There are two projects, one $45 million approximately and one $60 million for black and white television.

Mr. HARKNESS: Mr. Ouimet, I see that this entire sum of $83 million which you have in the report was for the consolidation of these facilities in Montreal and Toronto. Is that right or was there anything else included in that?

Mr. OUIMET: This might have included some provision for the Ottawa head office.

Mr. HARKNESS: Has this been completed?

Mr. OUIMET: Yes.

Mr. HARKNESS: So that in the foreseeable future your requirements from the capital point of view, would be entirely for Montreal and Toronto?

Mr. OUIMET: I have been talking only about Toronto and Montreal, but the Fowler commission report covered other cities, and our long term plans also cover the consolidation in Vancouver. We also have something to do in Halifax, in Winnipeg and in Ottawa, but the total cost there is much smaller.

Mr. HARKNESS: The $83 million planning figure does not include any of those, does it?

Mr. OUIMET: No, sir.

Mr. HARKNESS: On the basis of what you have just said, the $83 million has become $105 million?

Mr. OUIMET: Yes, and I should mention to you that until the project is reactivated and re-estimated we will not change the estimate because we have not any other that is better than the previous one. It is only recently that we have reactivated the Montreal project after we got an O.K. from the city of Montreal.

Mr. HARKNESS: It would be more than $105 million, with the rising building costs and so on?

Mr. OUIMET: If the building costs increase, and it may happen, then it will be more. However, we are talking about the value of the 1964 dollar so that I do not see why it should be.

Mr. GRÉGOIRE: There are also taxes and construction material.

Mr. HARKNESS: What is the necessity for the expenditure of these very large sums for the consolidation of these facilities?

Mr. OUIMET: I have mentioned this. In the first place, in the city of Toronto our offices and studios are dispersed in I believe eight or ten locations. The reason I hesitate is that we have now consolidated some locations. We had 12 different offices last year and there was a time when there were 18. However, we have consolidated and we have been able to bring some of these together. In the city of Montreal we are dispersed in 22 different locations. This makes it not impossible, because we are doing it, but impractical to work with such a dispersal, not only in terms of the costs involved in having various specialists in different departments. We have producers in one building, announcers in another, accounting in a different building, make-up people in another, costumes in another, staging in still another place and studios in still another location. It is costly, but more important than that, it makes it impossible to get a really unified operation and to get the best out of our resources. That is why we have to consolidate. I might say furthermore that we are entering a stage where our equipment will have to be replaced in large part. More than half of the costs are equipment costs. If we replace the equipment in our present dispersed condition, it will have to be replaced again later when we consolidate. So it is very important to time the replacement of equipment to coincide with consolidation.

Mr. HARKNESS: How much of these costs of the $60 million and the $45 million respectively for Montreal and Toronto are actual building and construction costs? You have just mentioned the fact that a large proportion are equipment costs.

Mr. OUIMET: About 40 per cent roughly are building costs.

Mr. HARKNESS: In both cases?

Mr. OUIMET: In both cases.

Mr. HARKNESS: And the remainder is for equipment?

Mr. OUIMET: Yes.

Mr. HARKNESS: What happens, under these circumstances, to your present equipment? Do you just scrap it?

Mr. OUIMET: No, but keeping in mind the fact that we are stretching its useful life as far as we can before we can consolidate, much of that equipment will be ready for a write off. We rate our equipment for television for a period of 10 years. Much of that equipment was bought in 1952, and the maintenance costs are starting to be high. We are having trouble in keeping certain of the equipment on the air—although I am not speaking now about the transmitter.

Mr. HARKNESS: What is the cost of the rental in these two locations at the present time?

Mr. OUIMET: It is over $1 million in Montreal. I do not know about Toronto offhand but we could provide a figure for you.

Mr. HARKNESS: Have you any estimate of what the heating, the lighting and the general maintenance costs would be after you get these two headquarters?

Mr. OUIMET: Yes. The heat is not a very great problem, but the light is because we have so much light that it heats the studios. So much light is needed for the operation that our problem is to cool the studios rather than to heat them. However, the light is costly; the light bill is the same where we are as when we move.

Mr. HARKNESS: There is also the matter of taxes or of payment in lieu of taxes.

Mr. OUIMET: Yes, although in Montreal we have I think a very reasonable arrangement both from the point of view of the city and from the point of view of the corporation with the 12 years of payment for the purchase of property during which we will be exempt from payments of grants in lieu of taxes. I do not know what we will be able to do with the city of Toronto eventually or at Don Mills.

Mr. FISHER: Is it still "or"?

Mr. OUIMET: Yes, it is still "or".

Mr. HARKNESS: These are very large sums, and having some acquaintance with the real estate business I would be doubtful whether you would not be better off to continue renting rather than to spend all this money on putting up expensive buildings and having all the maintenance and operation costs to look after. In actual fact, as you are probably aware, a very large number of big commercial corporations at the present time no longer own their own premises; they find it much cheaper to rent rather than to own them and to have that amount of money tied up.

Mr. OUIMET: Has this not something to do with tax arrangements which do not involve us? We are not doing this in order to save a lot of money; we are doing this because one cannot operate efficiently with production forces dispersed in 22 different locations. It is a very difficult operating arrangement and it has to be corrected eventually. I think this is the right time to do it because our equipment will have to be replaced anyway and gradually we will be duplicating expenses.

Mr. HARKNESS: What I am afraid of is that you are going to run into considerably increased expenditures. That is why I am asking all these questions.

Mr. OUIMET: I must give you the complete picture. I have to bring in colour television. We are going to be faced with colour within the time that it will take to put these buildings up. Our present dispersed studios cannot be refitted for colour, and I think that all these factors merge together to indicate that this is the time to do it.

Mr. HARKNESS: As far as the money for these two big complexes is concerned, I know this report says, "subject to appropriation by parliament" but I note that in this year's estimates there is provision for a $14 million loan to the corporation for capital expenditures.

Mr. OUIMET: This is for the consolidation requirements and for other projects.

Mr. HARKNESS: Under the $105 million?

Mr. OUIMET: It is for all our projects. The government has decided that prior to approval by parliament—because it has to go to a vote—it would finance our requirements as loans instead of grants as it has done in the previous years.

Mr. HARKNESS: How do you propose to pay back these loans?

Mr. OUIMET: We propose to pay back these loans from our income which will in great part be from public funds and in a lesser part from commercial revenue.

Mr. HARKNESS: In other words, how are you going to pay the interest on the loan?

Mr. OUIMET: The same way.

Mr. HARKNESS: In other words you are going to get a loan from the dominion government to build these things, then you are going to get a grant from the dominion government with which to pay the interest, and then you are going to get a grant subsequently to pay off the capital.

Mr. OUIMET: It has been suggested to us that in that way our books would show a more accurate picture of our true cost. Since we are in the hands of the authorities who provide the funds, I think this is a matter really not for the corporation to discuss, to defend or to support. I think it is something for the government to deal with.

Mr. HARKNESS: Perhaps then I had better ask Mr. Henderson who, as Auditor General, audits all these accounts, what he thinks of this type of financing which, quite frankly, I must say, seems to me to be ridiculous. You make a loan to a corporation, and then make a grant to it with which to pay interest on that loan, and then some time later you make it a grant with which to pay off the capital. Is that a reasonable proposition at all?

Mr. RONDEAU: It is the government which is doing it.

Mr. HARKNESS: We are here as a public accounts committee, and whether the government loans it or whatever they are doing, it is our business to inquire whether they are spending the taxpayer's money properly or not.

Mr. HENDERSON: This particular proposal you mention is at the present time I think contained in the estimates with which parliament has not yet dealt. Like you, after reading it in the estimates, I thought it to be a rather remarkable exercise in financing.

Mr. HARKNESS: That is a euphonious way to put it.

Mr. HENDERSON: I would not wish to comment on it in any detail until it reaches my desk during my examination of the year in which it will occur, because that is the way in which I operate, as you know. I have had a word, as a matter of fact, about this proposal with the secretary of the treasury board and with the deputy minister of finance who have been good enough to promise me some details of the thinking underlying this proposition. And I think, in fairness to them, I would wish to defer any comment until I have had an opportunity to learn the reasons prompting the proposal.

Mr. FORBES: Who formulated this type of financing? Was it done by the Department of Finance?

Mr. HENDERSON: This would have its origin in the treasury board and the Department of Finance, I think. Would that be right?

Mr. OUIMET: I believe that this is the origin of it. I might say that there were periods in our history when we were financed by loans in this manner before.

Mr. FORBES: In other words, the treasury board suggested this method of financing?

Mr. OUIMET: In the last few years there have been a number of suggestions made with respect to financing. Two or three years ago we heard a great deal about lease-back possibilities and to have construction built by entrepreneurs outside, for which we would pay rent. Then, more recently, the loan project was put forward, and we have no objection to that method of financing. I can see one advantage, that it does show as an expense the cost of the money supplied to us, because it appears as an operating expense.

Mr. HENDERSON: If you are going to borrow money, you should be expected to pay for the cost of getting that money. As the auditor I am naturally interested also to know where the income that is derived from such a loan will appear in the books.

Mr. FORBES: Is there any other crown corporation being financed in this way?

Mr. OUIMET: I really have not checked to see whether there are others. Perhaps Mr. Henderson would know.

Mr. HENDERSON: If I may answer that question, there is, and we shall have an opportunity in this committee to discuss it again when that situation arises. I refer to the national capital commission in my 1963 report which you have before you, and you will see my comments on this rather similar type of approach. If the approach which will be brought to the Canadian Broadcasting Corporation is going to be the same, then it is a reasonable assumption that I might have a similar comment to make. But I repeat that I am without the benefit of knowing the underlying reasons for this exercise, and until I know this, I do not feel that I should express any further opinions on it.

Mr. HARKNESS: Mr. Chairman, I shall be just a minute. I would like to make one further comment. This seems to me to be a most bizarre method of financing, because to me at least it would tend to give the public accounts and the cost generally an incorrect bias, or to give us generally a wrong picture. I think this is something that we should perhaps have the deputy minister of finance or the Minister of Finance come and explain to us, not only in connection with this matter but also in connection with the national capital commission's system of financing in which something along this line appears, and which the Auditor General reported upon unfavourably in both of his last two reports.

The CHAIRMAN: Mr. Bryce will appear before us on July 21. Included in the subject matter which we have down, and which we hope he will deal with, will be financing in respect of the national capital commission. That is the same program, and I assume he will be prepared to go from there to the C.B.C.

Mr. FISHER: And what about the C.N.R.?

The CHAIRMAN: We do not have the C.N.R. set down.

Mr. HENDERSON: When the public accounts committee brought down its fourth report in 1963, after Mr. Bryce appeared before the committee in regard to the national capital commission, the committee supported the point of view I expressed and it indicated its hope that here would be a change in the method of financing the N.C.C. I mention this because you reached that conclusion last December when issuing your fourth report.

The CHAIRMAN: I have Mr. Hales, and then Mr. Rondeau.

Mr. HALES: My question has to do with the statement at the bottom of page 16, and Mr. Henderson may be able to enlarge on it. It says that a book loss of $48,983 was experienced on the disposal of capital assets which originally cost $194,385, which sold for $25,011. Perhaps we might have some explanation of this.

Mr. HENDERSON: Indeed. The corporation provides depreciation for its assets at standard rates just like any other business. These capital assets originally cost $194,385, but they had depreciated to the extent of $120,391; and when their usefulness expired, the corporation disposed of them. Accordingly they were resting on the books at a figure of $73,994, and, as you will see, they were able to realize something slightly more than one third of that figure when it came to disposal. I do not know precisely what the estimates were, but this is orthodox accounting treatment. Perhaps it is not unreasonable, if they were able to realize 33⅓ per cent of the figure which they stood on the books.

Mr. HALES: I am not questioning that. I am interested in knowing what were the capital assets and how many years depreciation this represents.

Mr. HENDERSON: I do not know whether or not Mr. Davis has that information.

Mr. DAVIES: I do not have the details, but against the technical equipment of $194,000, the laid down cost amounted to $163,000 of which there is depreciation of $95,000, leaving a book value of $68,000. There was office and general equipment of $16,000, depreciated to $12,000, and $15,000 in cars and trucks depreciated to $13,000.

Mr. HALES: How many years of depreciation?

Mr. DAVIES: This would represent some fairly long term. The technical equipment, for instance, is depreciated over ten years, and this sort of thing. There is a very tight review on all this. Whenever it is decided that any item of equipment is to be scrapped or traded in, then a complete report goes in, in a number of copies. This is approved by all persons concerned right up to the top of the corporation.

(*Translation*)

Mr. RONDEAU: Mr. Ouimet, this morning I asked if I could obtain the list of the employees who earn such salaries. You replied that you would have this information this afternoon. I understand that it would be too long to read it here, but if you have it, this information could be put in the record.

Mr. OUIMET: Mr. Rondeau, I do not have such a list, and furthermore, I do not think that I gave that answer. I think I said in a general way, at the beginning of the afternoon that I realized that some members of the committee wished to obtain more information and that we would attempt to furnish more in our next annual report.

Mr. RONDEAU: I understand you replied that we may ask questions and that you are willing to give us information. In effect, those questions waste the committee's time, and if this information were in writing, we would not ask so many questions. We would have that information, and it would be more interesting for us to know the number of your employees, their salary range and the fees they may receive. In this regard, we may ask you what advertising firms deal with the CBC and what is their individual amount of business? Those statistics may be of interest to us, at least in the matters we wish to know. I understand that it would be very long for you to give us all this information in this committee, and that is why we would ask you to put it down in writing next time.

Mr. OUIMET: I do not want to promise too much, Mr. Rondeau. When you ask for business figures with agencies, we enter into matters dealing with competition among those agencies. Even if our yearly turnover is but $30,000,000 we must nonetheless follow the business requirements and methods.

Mr. RONDEAU: Do you object to revealing the salary ranges?

Mr. OUIMET: We already gave the salary ranges; I do not object to that.

Mr. RONDEAU: That is done in the budget of the federal government; so many employees receiving such or such salary; so many below $6,000; so many from $6,000 to $8,000; so many below $20,000; so many receiving $35,000, etc.

Mr. OUIMET: Allow me to think it over before I answer. We all talked about that matter this afternoon, and I quite realize the problem. It is a matter of giving the members more information, but I must be careful not to create other problems in other fields.

Mr. RONDEAU: We are not asking for the names.

(*Text*)

The CHAIRMAN: I think Mr. Ouimet made it plain this afternoon that there were specific salaries of certain individuals which he did not feel he would be able to disclose. This is a matter which we have not yet decided, but I would suggest that between now and the end of the meeting, Mr. Rondeau might be good enough to make a list of the information he feels he would like to have. Then he might discuss it with Mr. Ouimet to ascertain at that time the particulars which Mr. Ouimet feels he is free to disclose.

So far as we as members of the committee are concerned, I do not think we are in any better position than are the members of the house when particulars are asked for on written questions or for production.

If you detail the information you desire and then discuss it with Mr. Ouimet and myself, we will see to what extent he feels free to disclose it. Then if you are not satisfied, it will be a matter for the committee to decide.

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman, when I raised the issue, I did not wish to obtain the names of individuals. There is no question of obtaining information which could be confidential. The only question is—we were told that the CBC had a personnel of 8,000 employees, and that its pay list amounted to $44,000,000. The only information asked for at that moment by Mr. Rondeau is one which is given by all other federal departments, that is, the number of employees—their number only, without mentioning names, addresses and telephone numbers who are in such and such salary scales. The president of the CBC can give us that information without revealing any secret, without having to face any competition or assisting any competitor, because he is not revealing the fees paid to the producers or the salaries of the technicians. We do not even wish to know the duties corresponding to the various salaries, but only the number of employees in each category of salaries.

(*Text*)

The CHAIRMAN: Mr. Grégoire, I think I understand. All I suggest is that we do as we would in the house if a motion were to be made. Between now and when we conclude the meeting, if Mr. Rondeau would put in writing in the form of a motion the matters on which he wishes to be informed, then we will ask Mr. Ouimet before he leaves whether he feels he is in a position to furnish this information, or ascertain what information he feels he can furnish. If he has any legitimate objection he can state it, and then it is for the committee to decide in the same way it would be for the house to decide if this were brought up in the house.

(*Translation*)

Mr. GRÉGOIRE: Beforehand, it might be preferable to ask Mr. Ouimet if he is ready to give us this information. Then, the objections will not hold.

Mr. OUIMET: I believe we gave that information to the committee in 1961.

Mr. GRÉGOIRE: Then you would not object to giving them again this year?

Mr. OUIMET: I wanted to think about it for a while, but you are not allowing me much time.

Mr. GRÉGOIRE: Then, if you already gave them, why could you not give them again?

(*Text*)

The CHAIRMAN: Mr. Grégoire, we are departing from our proceedings now. I have made a suggestion.

Mr. GRÉGOIRE: But he is ready to answer it.

The CHAIRMAN: I suggest we carry on with our proceedings. We are now discussing the capital assets. Will you put this in the form of a motion, Mr. Rondeau?

Mr. GRÉGOIRE: There is no necessity to put forward a motion; he is ready to answer.

The CHAIRMAN: I think it is necessary to put it forward in a motion, and you may make a statement of the items in respect of which you wish to be informed.

(*Translation*)

Mr. RONDEAU: It is because the questions I would like to ask of Mr. Ouimet will not be in order.

(*Text*)

The CHAIRMAN: You are dealing with capital assets?

Mr. RONDEAU: No. I will come back to this.

The CHAIRMAN: Mr. Cardiff.

Mr. CARDIFF: Mr. Ouimet stated he had acquired 35 acres of land in the city of Toronto, or on the edge of the city of Toronto, and also 25 acres of land in the city of Montreal. This would be very expensive property I would expect. Why do you need that much land? As I am a farmer I know exactly what is 25 acres of land and I know exactly what is 35 acres of land. Why do you require that much land?

Mr. OUIMET: Because the size of the buildings and of the shops that we have to build, and the storage is quite considerable. In the plans we have for Toronto we are actually using some 14 odd acres of land; and that is not counting the parking and the land around it. There are 14 acres of roof. It is because we are building horizontally that we need so much space. There are many advantages of building horizontally instead of vertically when one is dealing with studios. There are advantages to be obtained from horizontal buildings pertaining to proper insulation between studios. When one is building offices one can build in height, of course, so there will be a combination of fairly high rise buildings for offices and very flat one-storey or two, three, four or five-storey buildings, depending upon the size of the studios themselves. We cannot put studios over one another in television because of the cost.

Mr. CARDIFF: How much land have you in Ottawa?

Mr. OUIMET: In Ottawa we have something like ten acres of land.

Mr. FORBES: Is that sufficient for the Ottawa project?

Mr. OUIMET: Yes, this was for the head offices, and we are using only a portion of the land. That was a parcel of land which was made available to us at that time and the land around the buildings is treated as a park, therefore the two are not comparable because the total acreage the building itself takes is very small. I do not know the actual acreage but it may be an acre or two.

The CHAIRMAN: Is that all, Mr. Cardiff?

Mr. CARDIFF: Yes.

The CHAIRMAN: Mr. Francis.

Mr. FRANCIS: My questions have been answered, Mr. Chairman.

The CHAIRMAN: Mr. Fisher.

Mr. FISHER: In 1961, Mr. Ouimet, you had this to say—and I want to read a paragraph to you which I think you will find is relevant:

> Now, there are other important reasons why these projects—

These are your words and you are referring to the Montreal and Toronto projects:

> —should not be delayed. Our Toronto project is already in relatively advanced stage of engineering planning and design and the necessary property has been purchased. In Montreal the situation is not the same. We are still negotiating there for a suitable location. Engineering consultants for these projects have been engaged several months ago. Also, our own engineering and architectural staffs were enlarged to undertake the extremely complex and extensive planning and design necessary for projects of this kind. To stop this work now for any length of time would, in my opinion, involve a considerable loss of money. I do not know how much, because it would depend on how long the interruption lasted; but if it lasted for any time, the loss could be several hundred thousands of dollars. It might be more accurate if I said some hundreds of thousands of dollars. I have in mind a figure in the order of $300,000.

Did this loss actually take place?

Mr. OUIMET: I think so in the case of Toronto. I think we will have to make considerable revision of our plans. The revising of detailed plans ready for specifications is a very costly process.

Mr. FISHER: When it was decided that you were not to go ahead with these projects several years ago, did you make any cut down in the engineering and architectural staffs?

Mr. OUIMET: Yes, we did—or we did something else instead and did not use these people, obviously, for those projects. I have not the exact figures of engineering for the past six or seven years, but I remember that we changed considerably our personnel and their assignments during that period. I know we had to gear up again when the Montreal project got started.

Mr. FISHER: From what you said earlier, Mr. Ouimet, it would appear that there has now been an inversion in terms of the readiness for development in the two cities. In 1961 you told us that Toronto was in a sense well ahead; and now the Montreal project seems to be well ahead; it is near realization.

Mr. OUIMET: Yes, in the sense that we are bound by an agreement with the city which stipulates that we must get started by October 1, 1965, while in the city of Toronto we have no agreement with anyone to start by any specfic date.

Mr. FISHER: Do any of the expenditures or things upon which you did not spend in the past have any relevance to the difference in the situation between Toronto and Montreal?

Mr. OUIMET: Could you elucidate your question a little? I do not understand its meaning.

Mr. FISHER: Three years ago I assume the Toronto project was much closer to realization than the Montreal project, but then a damper was put on that project, as I understand it, as a result of government policy. A damper was put on the projects; is that correct?

Mr. OUIMET: Yes, as a result of the fact that no money was made available.

Mr. FISHER: Now I understand that you are planning to go ahead, and I assume you have had an undertaking from the government that you should go ahead. Is that correct?

Mr. OUIMET: We had an undertaking from the previous government.

Mr. FISHER: Very well. Has your spending program of the last two years any relationship at all to the fact that there has been this switch which has brought the Montreal project closer? There must be more to it than the fact that you have concluded a land deal in Montreal.

Mr. OUIMET: Oh, yes, we have gone ahead with the engineering in the Montreal project, and we are right in the middle of it. Money was provided in the estimates for 1963-64 and also for 1964-65 to deal with the costs of the engineering of these projects. The money is not provided completely in these projects, but it is provided so we can do the engineering and do it to the point of calling for tenders.

Mr. FISHER: As I recall, in 1961 you said the Toronto project was already in an advanced stage of engineering and design.

Mr. OUIMET: Yes, and that was finished shortly after, and the plans were then put on the shelf. Now, a number of years later, and looking ahead again, we estimate that we will have to revise the plans to a certain extent.

Mr. FISHER: Has there been any consideration, in regard to spending in Montreal by the board of directors of the Canadian Broadcasting Corporation, given to the difficulties and problems current in the present political situation.

Mr. OUIMET: No, we are dealing with the requirements of the national broadcasting organization, and I do not think these considerations would come into the thinking of the board.

Mr. FISHER: I wanted to turn to something else in terms of the capital program. This is the question of an extension of service. In your capital budget during the last three years have you ever brought a proposal before the treasury board that they should give you a special lump sum to clean up the main backlog of television coverage?

Mr. OUIMET: I do not think that we have ever put before the treasury board a formal proposal of this type, but I recall discussing this with officials of the treasury board, and with our minister, as a possibility at various times. Then, by the time we get to estimating generally, the situation from the point of view of money has tightened up and everything has had to be cut a little bit, and we never put forward an accelerated plan of coverage.

Mr. FISHER: Mr. Henderson, when you are examining the expenditures and the spending in the extension of services, is it possible to get any indication of the per capita formula that the C.B.C. talks about in terms of costing the various extensions? Does that become part of the record that you examine?

Mr. HENDERSON: We may have seen the calculations, Mr. Fisher, but we would be concerned with watching the correctness of the expenditure rather than what I would describe as internal reasons for the expenditure.

Mr. FISHER: Suppose for example during the years that are under record here the C.B.C. extended television service to the Kenora-Dryden area—and I believe this past year there would be some money assigned that you would at least have looked at in respect of the development of television service—or

perhaps in respect of the Fort Francis area, would you see any specific notation in the accounts regarding the relationship of these costs to the formula about which the C.B.C. talks?

Mr. HENDERSON: The formula that we would adhere to would be the budget. That is to say, the budget stemming right from the capital budget that is approved by the treasury board.

Mr. FISHER: The point I am trying to get at is this per capita formula and its application to projects, something which is in a sense outside your domain? Is that right?

Mr. HENDERSON: That is right, sir.

Mr. FISHER: The point I am really trying to make, Mr. Chairman, is that this is another item I should like to see brought within the scope of the annual report as part of the report to parliament. The reason I make that statement is the fact that there is no way that I know of by which we can check the relationship of these figures to see whether there is any acceleration or deceleration whichever the case may be, yet the C.B.C. does base its spending program on extension of service upon this formula.

Mr. OUIMET: Mr. Fisher, we will see what we can do to provide more information in respect of this question. I am frankly concerned with the public formulation of long term plans of this respect, because all kinds of things can happen after you talk about the possibility of a station somewhere three years from now. The population situation may change and some other city may get priority. I think we have to handle this situation very carefully, although I think we can attempt to provide more information than we have provided in the past, and that has been rather limited, except when this matter has been taken up by parliamentary committees, at which time we have given quite a bit of information.

Mr. FISHER: The point I am really trying to make is that this is a very important part, in a political sense, of your spending program, yet it is not something that is really surveyed or analysed by the Auditor General.

Mr. OUIMET: Yes. I am just wondering about its effect because I do not know what the Auditor General thinks about this, and I do not know whether he wants to be involved in the area of priority of extension of service in the country.

Mr. FISHER: I am not suggesting that the Auditor General should be involved, but if there are reasonable doubts in respect of that extension of service, on the part of parliamentarians, surely there should be some agency or forum through which this can be examined and details obtained.

Mr. HENDERSON: Mr. Fisher, I should think, as Mr. Ouimet himself has suggested, it would be possible for the corporation to insert some tables or graphs of some description showing how the capital dollar has been spent. Perhaps in his director's report he could also give some indication of the direction in which this is going to be carried in the future. I think that is the sort of thing he has in mind. Heretofore nothing of this sort has been included in the corporation's annual report. To my way of thinking it would be an improvement to have something like this in the report, and I think that is what Mr. Ouimet has suggested may be done.

Mr. FISHER: With regard to this extension of services lump sum idea, have you the capacity in terms of your cost accounting, in respect of extension of service projects, to put such a figure in your budget, or arrive at such a figure, given the conditions of 1964, to put them in your budget?

Mr. OUIMET: I would say yes, in a rough way, because until each one of the projects is engineered it is only a fairly rough estimate that is involved. However, in total the estimate would still be fairly accurate.

The CHAIRMAN: Have you concluded your questions Mr. Fisher?

Mr. FISHER: Yes.

The CHAIRMAN: You are next on my list Mr. Pigeon.

(*Translation*)

Mr. PIGEON: Mr. Chairman, may I ask the unanimous consent of the committee to come back to page 12 of the French report as I was detained this afternoon while addressing the House. I would like to put this question to you, Mr. Ouimet: concerning cars and trucks, office supplies, stationery etc., are you inviting public tenders to be printed in the leading papers?

Mr. OUIMET: Generally, in calling for public tenders we do not follow the government's procedure, but we nevertheless call for tenders.

Mr. PIGEON: Yes.

Mr. OUIMET: We put in our request to some 4, 5, 6 or even 8 firms, in most cases to those who, we feel, may be interested and could offer us the required quality. We have a similar method to reach building contractors; in other words, we do not call for public tendering by advertising in the papers. A number of firms wishing to tender send us a request to do so and, unless they are automatically excluded if we think they cannot meet our requirements, we invite them to tender. This way, we generally receive tenders from five, six, seven, eight and sometimes even from ten and twelve companies.

Mr. PIGEON: In other words—

Mr. OUIMET: I am broadly speaking, if it happened that certain instances, say small scale construction work, would involve costs amounting to approximately five thousand or ten thousand dollars, we would then ask only two or three firms rather than asking half a dozen or even a dozen to quote us prices.

Mr. PIGEON: I am asking you this, Mr. Ouimet, with regard to the purchase of cars and trucks because you do not call for public tenders by way of the papers and, in such cases, CBC or any other cities such as Montreal and Toronto are allowed to call three of four suppliers for tenders, according to their choice. Is that what you mean?

Mr. OUIMET: We ask price quotations to three or four companies, in most cases for cars of different brands.

Mr. PIGEON: But finally, how do you manage to choose between these three or four people, especially in cities like Montreal, Toronto, Vancouver or Halifax. You could find there some fifty or even a hundred dealers in cars or trucks of different makes and this matter of choice may become a very difficult one for the authorities involved for the CBC to take a telephone directory and, with eyes closed so to speak—

Mr. OUIMET: Mr. Pigeon, we do not buy dozens of cars at a time. We may buy one in Montreal and perhaps another in Toronto. Maybe a year later, we buy one or two more cars.

I think we must choose the method best suited to solve the problem. If we had to buy fifty cars at a time, then we would have to proceed differently, but up to now, we did not have any difficulty. We just try to get the best prices and, as you know, finding out what are the best prices for cars is easy enough.

Mr. PIGEON: I would like to ask a question to Mr. Anderson, the Auditor General of Canada. If a Crown Corporation, and keeping in mind the public interest—and here I do not put any blame on Mr. Ouimet whom I consider as an honest and conscientious man doing his duty as he has to carry heavy responsibilities, and who, I know, is devoting his time for the good of the people—but, as I already mentioned, Mr. Anderson, with the public interest in mind,

would you not consider it preferable for crown corporations, and amongst them the CBC, to call for public tenders by means of newspaper advertising, say not for any hasty purchase, as for example if such a Corporation would need a chair or some piece of furniture, but for all bulk purchases? I mean to do so in the same way as, in your experience, Mr. Anderson, this is done by all departments?

(*Text*)

Mr. HENDERSON: Mr. Pigeon, it is difficult to make a sweeping or generalized statement on this.

Crown corporations are set up to operate with the same freedom of action as the large private corporations are in our country, and you do find the procedure which Mr. Ouimet has outlined existing today. It always has existed that way in most of our crown corporations. The purchasing agent secures competitive prices. It is perfectly true that it is not as independent a basis as it would be if he advertised for tenders. I think you would find if they were purchasing substantially or in great quantities, involving a lot of money, doubtlessly they would put it out for tenders because of the responsibility attaching to a large purchase. But, for the average kind of buying they do not do that; instead, they have a purchasing department. This is presupposing that management is responsible and is able to contain and handle this procedure. That has proven to be the case in most of the big corporations of our country and it has proven to be the case in our major crown corporations. I think you will find it is in the case of the C.N.R. and you will find it in T.C.A. On the other hand, if they are buying very expensive equipment in large quantity you will see them calling for tenders.

Mr. PIGEON: Does the same thing apply in England?

Mr. HENDERSON: Yes. The departmental process generally down through the years has been as described, to call for tenders. You have the situation where the Department of Public Works or the Department of Transport are buying things by the dozen or by the gross. There was the case of incandescent lamps, which the Department of Public Works buy for the entire government, and there was this question of identical tenders, which I have mentioned in my report, where they obtained tenders which came in at identical prices. But, I think the question you raise is responsibly handled, if I may say so, from my experience with our crown corporations, and I do not see any problem here.

(*Translation*)

Mr. PIGEON: Mr. Ouimet, it must be quite difficult to choose one or several architects or engineers for a project to be performed for the CBC, since the holders of engineering degrees are competent persons. Then do you apply to the Engineering Association, or—

(*Text*)

The CHAIRMAN: Well, Mr. Pigeon, we have unanimous consent to revert to this one issue. I think you would have an opportunity to put your question when we are discussing the final subject, that of special survey, which outlines the organization, establishment, personnel, and so on.

I notice that Mr. Ryan is the last one who has a question on this item, and then we will move on to special survey.

Mr. RYAN: Mr. Chairman, may I return to the capital assets section at page 17. It is stated that the sum of $3,802,000 has been expended on consolidation projects in Toronto, Montreal and Ottawa. I wonder if we would have the figure for Toronto alone.

Mr. HENDERSON: I would have to ask Mr. Davies if he knows what portion of this $3,802,000 is in respect of Toronto.

Mr. DAVIES: I am sorry but I do not have the details of this.

Mr. RYAN: Perhaps we could get that on the record later.

Mr. DAVIES: Yes, I would be pleased to provide that information.

Mr. RYAN: Could we also have the amount paid for the 35 acres in Don Mills?

Mr. OUIMET: I can give you this information now. It is $635,000.

Mr. RYAN: Is that $635,000?

Mr. OUIMET: For 33 acres.

Mr. RYAN: That is $635,000 for 33 acres.

Mr. OUIMET: Yes.

Mr. RYAN: Mr. Ouimet, in your opinion, how soon should the C.B.C. proceed to build on either of these alternative sites in the metropolitan Toronto area? What would be the deadline.

Mr. OUIMET: As soon as possible.

Mr. RYAN: Well, could you relate it in terms of months or years.

Mr. OUIMET: In both cases now it is a question of doing further engineering work. We could not start building in Montreal before the deadline stipulated in the contract of October 1, 1965. And, in the case of Toronto, before calling for tenders we would have to have a fresh look at our plans which were shelved three years ago.

Mr. RYAN: That is, if you proceed at Don Mills?

Mr. OUIMET: Yes. But if we had to make new plans for downtown it would take a good year at least to make the plans, or perhaps a little more.

Mr. CARDIFF: Could you give us the amount paid for the 25 acres in Montreal?

Mr. OUIMET: It was $2 million plus 12 payments of $180,000 a year, but no taxes. So, you have to deduct what the taxes would have been.

Mr. RYAN: I suppose the Toronto Don Mills site was soil tested beforehand.

Mr. OUIMET: Yes.

Mr. RYAN: And, you are satisfied that you can erect a tower there?

Mr. OUIMET: Yes.

The CHAIRMAN: Gentlemen, we will now move on to special survey. We have some time left yet.

Mr. Henderson, would you mind dealing with this generally, after which I will call upon Mr. Ouimet to make a few comments, and then members may put questions. We are on page 21 of the 1963 report.

Mr. HENDERSON: As is stated here on page 21 in my report to the board of directors for the year ended March 31, 1960—and this was a report similar to this which, I might say, was tabled and printed in the evidence of the broadcasting committee on June 1, 1961—I drew attention to various weaknesses in the system of internal control and made recommendations designed to correct these weaknesses. At the same time we suggested to the board of directors that a useful purpose might be served by having the corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the audit office.

It will be recalled that this particular report was tabled during the hearings of the special committee on broadcasting held in 1961, and was the subject of discussion in that committee. In its report to the House of Commons on June 28, 1961, the committee recommended that, following a review of the report of the royal commission on government organization, consideration be given by the board of directors of the corporation to the advisability of commissioning management consultants to inquire further into the operation of the corporation.

In report 19, volume 4, of its reports, released on April 17, 1963, the royal commission on government organization duly reported on the results of its review of the Canadian Broadcasting Corporation.

The commissioners stated that, while they had not undertaken the detailed investigation and appraisal which the special committee on broadcasting may have contemplated, their report was proposing guidelines and criteria which, subject to government decisions on policy, should permit the corporation to adjust its internal organization and operations to management and performance needs, with the aid of such advice, from within the government or elsewhere, as it may consider necessary. This was the report that has been referred to earlier in the discussions in this committee today and last Thursday.

Several of the commissioners' comments, particularly those relating to financial administration, refer or deal with matters which had been the subject of critical comment in our 1960 report. However, as explained in our subsequent reports to the board, we found that a number of those matters have since been remedied, particularly those relating to the position of the chief financial officer, the formation of an effective internal auditing section and more effective stores control.

Notwithstanding this action on the part of the management in adopting our recommendations and suggestions, we felt that a useful purpose would be served if we reviewed the comments made by the royal commission on government organization in report 19 having regard to its critical appraisal of the corporation's operations, particularly in the area of internal financial control. We therefore discussed these with the chairman of the board, the president and the chief financial officer in a meeting held on June 19, 1963—that is, about a year ago—and received their assurance that appropriate remedial action would be taken after discussion of the points by these officers with the board of directors. The president also undertook to furnish us with a copy of any report which he may submit to the director of the bureau of government organization on the commissioners' findings in report 19.

I might add that Mr. Ouimet duly furnished me with copies of that report, or excerpts from that report, as they related to the financial matters with which I was concerned. He furnished them to me approximately a month or six weeks ago. The reason my officers and I discussed this matter with Mr. Ouimet and Mr. Dunsmore—the chairman of the board—and Mr. Davies a year ago was to satisfy ourselves respecting the position of the comptroller in his capacity as the principal financial officer of the corporation. You will appreciate that as the auditor of the corporation I must at all times be satisfied that its system of internal financial control, which is the direct responsibiliy of the chief financial officer, is functioning satisfactorily, and that that officer at all times is able to exercise effective and direct supervision over the accounting of revenues and disbursing of expenditures wherever they take place in the corporation. We therefore have a direct interest in how the accounting and financial operation in a company is organized and how it functions if we are to place the reliance upon it when we carry out only test auditing. This is a subject we have also covered in your consideration of the earlier comments in my report to the house.

I have already told you that Mr. Ouimet had agreed in 1961 to have the comptroller report to him directly rather than to the vice president in charge of administration, thereby giving the comptroller the status he requires to do his job effectively—a point, I might say, that was stressed by the Fowler royal commission in its report of 1957. Mr. Ouimet also adopted my recommendation that the comptroller should establish an effective internal auditing function under the comptroller's direct supervision. This was planned and established by my officers working in conjunction with an outside firm of chartered accountants engaged for this specific purpose. Again, such a function is of direct importance to us because of the reliance we must place on the effectiveness of the internal auditors' work programs and reports which are always a part of our studies during the course of our external auditing. In addition, the budgeting function—that is the preparation of the corporation's budget—was also transferred from the vice president of operations to the comptroller, and a systems and procedures unit operating at the management level was likewise placed under his jurisdiction.

The principal point left which has concerned my officers and me had to do with the authority given to the comptroller over the chief accountants in the corporation is regional centres, and this was the principle point of my discussion with Mr. Ouimet and Mr. Dunsmore a year ago. Under the decentralized accounting operations of the corporation, all of the revenues are collected under the supervision of the chief regional accountants, and all of the bills are paid by them at these regional centres. I therefore regarded it as a matter of prime importance to be very clear to whom these regional accountants reported at head office in Ottawa because these men carry a substantial responsibility, particularly in the large operational centres of Montreal and Toronto where the major spending of the corporation takes place.

I wanted it to be quite clear that these regional chief accountants were responsible for their work to the comptroller at head office in Ottawa so that there would be a clear line of responsibility in this regard right to the top. I raised this question with Mr. Ouimet and Mr. Dunsmore because my officers have observed that the regional chief accountants tended to regard their regional operating chiefs as the men to whom they were responsible rather than to the comptroller at head office, even though he may lay down the functional lines they would follow in their work. Mr. Ouimet and Mr. Dunsmore told me, at our meeting last year, that this was an organizational matter in process of clarification. I may say the president appreciated the importance I attached to having a line of responsibility direct to the comptroller at head office, and I received his assurance that this situation would be clarified at an early date. I understand this matter is still in abeyance however, and I would therefore like to ask the president if he could perhaps say something about where this matter stands at the present time and how it is proposed to settle it.

The CHAIRMAN: Gentlemen, I am going to ask Mr. Ouimet to make a statement with regard to the question posed by Mr. Henderson on this general aspect. You will then have the benefit of the views of the corporation as well as those of Mr. Henderson, and your questions may be directed to that.

Mr. OUIMET: Mr. Chairman, I understand from the Auditor General's statement that in general his recommendation—except for the very last one he has mentioned—had dealt with satisfactorily by the corporation.

With respect to the observations of the Glassco commission, I should tell the committee that we have set up within the corporation late last fall a study group to look into the organization of the corporation. I am using the word "organization" in the very broad sense of the structure, that is the

men and the interrelationship between the structure and the men. The study was started, as I have told you, late last fall, and it was estimated that it would take at least a year.

While specific action may involve further study, which may require a little longer, we expect that the major part of the study itself will be finished during the course of 1964. We are expecting a great deal from this study and from the men responsible for it because the men who have been given the responsibility were chosen very carefully. This study group consists of seven people, six of them being selected from our major production points to represent the regions and the head office. They were selected for their particular knowledge of our operations, of our four networks, the English radio and television networks, the French radio and television networks, as well as the regional operations and the head office administration.

Collectively they bring direct program, engineering, accounting, personnel, organization, management, and consulting experience to the study. To ensure a fresh outside viewpoint, a management consultant was added to the group, and he brings to the work of the group many years of management consulting experience.

As you know, the advisory committee on broadcasting which was set up under the chairmanship of Mr. Fowler has been given, among other assignments, the responsibility to assess and to report on the studies made by the corporation of its organization. This is another reason why we must try to complete our work before the end of the year as originally planned anyway. For the moment, it is too early for me to report any specific action that we propose to take.

We are still in the discussion stage, but we expect a great deal from the study, and the work seems to be in good hands. I might say to you that already we have found a number of areas in which there could be definite improvement.

Now, as to the specific question which was raised by the Auditor General, as to the location within the organization of the chief accountants of the two major divisions, in Toronto and in Montreal, this is part of the work that is proceeding at the moment. But I think we can assure him in saying that in all probability, unless somebody can bring good arguments to the contrary, the present line of reporting which now is not direct will be made direct without any intermediary between the chief accountant and the comptroller. I must say that I am talking now about the functional line of reporting.

Obviously these chief accountants have got as their first job, their first responsibility, the job or duty to provide to the management people of the area they serve all the documents that they need in order to arrive at proper decisions. Therefore, this is a case where there is a functional responsibility to the comptroller where all the procedures, methods, and all the skills, the policies, the standards established by the comptroller must be followed by these chief accountants. But their day to day work of course is to serve the management people in these divisions.

I do not think there is any conflict there between what I am saying and what the Auditor General was saying. So I think we have the situation well under control, and I think we are moving directly in the direction he has mentioned.

Mr. HALES: I notice that the Auditor General made special reference to more effective stores control. On page 18 he said that inventory of capital assets was taken in 1962 but the pricing of these assets and the comparison of physical count with accounting records remains to be completed at the end of 1963. So I take it that there was a physical inventory taken of capital assets, but they had not been priced by a year later. I wonder what explanation there would be for this.

Mr. HENDERSON: May I ask Mr. Davies to speak to this, because he knows more of the details than I do at the present time.

Mr. DAVIES: This was a matter of the magnitude of the task that was before us, and we have done this without the addition of extra staff. We have something like 110,000 items of inventory, and they are at about 95 different locations exclusive of the various buildings within those locations. We have other places such as the relay transmitters—I do not know how many there are, but I think there are over 100 of them, and of course they have additionally 7,500 items. The main task before us is to ensure, after having taken the inventory, that the movement of the assets within each area is controlled.

In the first inventory that we took we found a situation which gave us some cause for concern in that after we had got it mostly completed, the descriptions of the items, and the way that they had been listed did not lend themselves to control of the shifting or movement of these assets within the various places. So we have had to go back and redo some of these things. This would have to be established first.

In our view control of the assets by physical means, and being able to associate them with inventory items would be the first thing to be done. A so-called pricing or reconciling, if you wish, of these listings or inventories that they show in the detailed records of the corporation is of mere secondary importance. I do not mean secondary because it is unimportant, but it is a question of the relevance of what you have to get at first.

Mr. HALES: I take it from your explanation that the inventory was not taken correctly the first time, or within the terminology that you expressed.

Mr. DAVIES: It is a very difficult thing, sir. For instance, you have a piece of equipment, and you know how it is noted. But in comparison to the description used on your record cards and having regard to what the technicians call it, there may have to be some reconciliation. There was no possible way to find this out until we actually did some of it, and we have been working in conjunction with the engineers, and they have been doing this part of the time.

Mr. HALES: Had you never had an inventory before this time?

Mr. DAVIES: There had been an inventory taken some ten years ago before we started.

Mr. HALES: In other words, you have been operating for ten years without inventory control.

Mr. DAVIES: But there was inventory control on a book basis, but there had been a physical inventory taken in the days when it was much smaller, and then during the period that it had not been taken there was a great increase in the number of asset items.

Mr. HALES: I would say that this observation of the Auditor General, when he said that there should be more effective stores control, was certainly well prompted.

Mr. OUIMET: I think we agree with that observation.

Mr. HALES: But we are not making any headway to correct it, because we are a year behind.

Mr. DAVIES: I think a great deal of headway has been made.

Mr. HALES: I think the corporation should give us some explanation of what they propose to do to get this inventory under control, and say whether they are going to carry on a perpetual inventory, as it were.

Mr. DAVIES: With physical assets the perpetual inventory method is usually reserved for stores items. The physical assets we are speaking of are items of furniture, office equipment, studio equipment, lighting, and things of

that nature. It is our plan that as this becomes established we will be taking every year a certain class of these assets throughout the whole corporation so it will be on a continuing basis, in order to relate it back to the books.

Mr. HALES: If this committee should ask the corporation to produce an inventory, could you produce one?

Mr. DAVIES: Yes sir, we could, from the books that we now have, and from the asset items.

Mr. HALES: And this could be back checked with physical accounting?

Mr. DAVIES: To the extent that we have checked it, yes. There has not been full reconciliation of the locations. This will take some time.

Mr. RYAN: I wonder if I might ask if the corporation has insurance on these things?

Mr. DAVIES: We are fully insured, and with fire insurance we are under the fire replacement act of the government.

Mr. RYAN: Do you not have to supply an inventory to the insurance company at least every three years if not annually?

Mr. DAVIES: We are under the fire insurance act of the dominion government, and that has not been required.

Mr. HALES: I want to follow my line of questioning a little further and take it to an actual case. Suppose in your Toronto studio your book inventory shows that you have ten—take any item; you may name one.

Mr. OUIMET: Let us say ten cameras.

Mr. HALES: All right, ten cameras or ten tubes of a certain type. You can go to this Toronto place and take a physical inventory and there would be ten of these camera tubes to correspond to your book records.

Mr. DAVIES: This is in the area of stores. In respect of stores, you could go to a bin and there would be a card to indicate how much is in the bin and also a book record to indicate there would be ten; so, there is a dual control there.

Mr. HALES: But you cannot do it for furniture and the like?

Mr. DAVIES: I could not make a blanket statement that we could do it because I know there are areas where we have not done this yet, but I would say in areas where we have done this fully, the difference between what we have in the books and what we have found is not significant, specifically in one area after we finished it up. So, generally speaking, I would say we are not in bad shape so far. There are some big areas in respect of which we do not know yet.

Mr. HALES: In some areas your book account does not agree with the physical accounting?

Mr. DAVIES: No; where we have checked the book listing of the number of desks, for instance, when we have counted those desks, the variation has been very slight. In other words, this has been the result in areas where we have tied it down as, for instance, in Newfoundland.

Mr. TARDIF: I have a supplementary question. Do you keep a perpetual inventory for parts and things like that?

Mr. DAVIES: Yes, sir; we keep a continuous inventory. At any one time we know how many tubes, condensers, and so on, there would be in stores.

Mr. HARKNESS: In his report, the Auditor General referred to a recommendation made by the broadcasting committee in 1961 which is repeated by the Glassco commission. The recommendation is that consideration be given by the board of directors of the C.B.C. to the advisability of commissioning

management consultants to inquire further into the operations of the Canadian Broadcasing Corporation. Has anything along this line been done in order to assist the study group, of which you spoke, to complete its study?

Mr. OUIMET: Yes. I mentioned that the study group includes a management consultant who has been working with the group now for seven or eight months.

Mr. HARKNESS: That is one man?

Mr. OUIMET: It is one man, yes.

Mr. HALES: May we ask who it is?

Mr. OUIMET: Mr. Jack Shirley of Woods Gordon and Company; he is a partner.

Mr. HARKNESS: Do you think one man can do the job adequately?

Mr. OUIMET: It is not one man. There are seven men.

Mr. HARKNESS: I thought you said it was one man.

Mr. OUIMET: I just outlined that the study group was made up of seven men, six internal and one from outside.

Mr. HARKNESS: I am talking about the outside advice which consists of the advice of one man?

Mr. OUIMET: I think this is adequate. I believe what we need is knowledge of the broadcasting business plus knowledge and experience in the handling of studies of this kind which can be provided by the outside man.

Mr. HARKNESS: The chief purpose of this study, as recommended by the broadcasting committee and also by the Glassco commission, is not so much the matter of broadcasting per se, but rather the business methods and organization of the corporation. I would doubt whether you are getting the amount of advice and the amount of inquiry into those particular matters which perhaps would be required to produce the best results.

Mr. OUIMET: We very carefully thought over the various possibilities. Of course, we had before us the possibility of taking a team of consultants entirely from outside, or one entirely from inside. We thought the one we have chosen was the one most likely to provide the result we required. Frankly, I think we should reserve judgment until we know what measures will be taken by the corporation at the end of this study. It will be assessed not only by ourselves, but also by the advisory committee on broadcasting which has been given special terms of reference.

Mr. HARKNESS: I would suggest it is very much in the way of being what I might call token compliance with the recommendation of the 1961 committee on broadcasting.

Mr. OUIMET: I wish I did not have to disagree with you again, Mr. Harkness, but I do not think the word "token" applies to the situation.

Mr. HARKNESS: With regard to the financing of the corporation, the Glassco commission stated:

> Each year parliament is asked to vote the funds necessary to bridge the gap between corporate income and outgo. The scrutiny of these budgets is carried out by the staff of the treasury board, the outcome being usually an arbitrary reduction in the operating budget of three or four million dollars. No direction is given the corporation concerning the control of either revenue or expenditure.

When you get the arbitrary reduction of $3 million or $4 million in the budget, how do you meet that situation?

Mr. OUIMET: We have to completely realign the budget. Obviously if we have a budget prepared, it is based on certain projects which are supposed

to be carried out. I am speaking now about operational projects as well as capital; it also applies to capital. Then, the amount is changed and we have to realign the projects accordingly.

Mr. HARKNESS: This is the operating budget we are talking about, "reduction in the operating budget of three or four million dollars". This has nothing to do with capital.

Mr. OUIMET: All right; the answer is the same. We have to completely realign the budgets. We have to divide the cut according to the needs, and generally most areas of the corporation are affected.

Mr. HARKNESS: Is that the way in which you actually do it, or do you just not go ahead with projected extensions?

Mr. OUIMET: No, we still try to develop our extension program, but perhaps not to the same extent as if we had not had a cut. We try still to develop our extension program and at the same time, obviously, we have to take care of the built-ins, those things which are committed from the previous year. These must be given priority. I think every year we have extended our service at least to some degree.

Mr. HARKNESS: This has been your experience year after year, has it?

Mr. OUIMET: That we get what? A $3 or $4 million cut?

Mr. HARKNESS: Yes.

Mr. OUIMET: No, certain years have been more difficult than others. I think it was two years ago that we had a cut in total of several million dollars at the moment of austerity.

Mr. HARKNESS: That was on your capital budget, chiefly?

Mr. OUIMET: There was quite a bit on operation also.

Mr. HARKNESS: In connection with the $3 million or $4 million which they mention I would ask you, having had this experience, do you in actual fact put in a budget which you expect will be cut by $3 million or $4 million? In other words, is this amount not added to the figure on which you can get by?

Mr. OUIMET: Mr. Davies is anxious to answer this question.

Mr. DAVIES: I think probably, sir, the most significant way in which I can answer is by saying that the figure we put in for salaries, which represent something like 40 per cent of our budget, is something within $100,000 of our actual. This is indicative of the accuracy that we have with these figures. The discussions we always have with the officers of the treasury board—and have had for a number of years—before the submissions are of a co-operative nature, which makes me feel that there is certainly a confidence felt in the manner in which these budgets are prepared.

Mr. HARKNESS: I asked the question on the basis of personal experience, and I think on the basis of the experience of every minister. It has been the case in the three departments I have had—and I think it has been the same in every other department—that the budgetary requests one receives from the various branches of a department are always higher than one can possibly meet. I have always suspected that the people preparing the budget asked for so much, figuring they would get so much less. It is always one of the jobs of the minister to cut those down to what he knows he has.

Mr. TARDIF: This may be the exception to prove the rule.

Mr. HARKNESS: In this case there is no one to do this.

Mr. OUIMET: We are in a privileged position. We are new to all this. We were put on annual votes only five years ago, and we have not learned the bad tricks you are telling us about now!

Mr. FISHER: Why do you not consider it from a different angle? The fact that you have not spent your budget in a certain number of years would be indicative.

Mr. OUIMET: This is true. In some years we have turned back, let us say, $2 million on operation, and in another year we have turned back $160,000, and in yet another year, $700,000. This shows we are not trying to spend the very last cent of it. Usually what happens when there is a large cut is that we have to completely eliminate from the budget certain fairly large items. At the time of the austerity program, for example, we had to remove the FM operation and the emergency broadcasting operation, and we had to go into very extensive cuts all the way through the corporation.

Mr. HARKNESS: In the report it is stated that no direction is given to the corporation concerning control of revenue or income. Have you any comments you would like to make, Mr. Henderson?

Mr. HENDERSON: The observation there means to me that no direction is given by parliament. That is what they mean, is it not?

Mr. HARKNESS: No, they are talking about the treasury board. In other words, what they are really saying is that there is no control over either revenue or expenditure from anywhere other than from within the corporation itself.

Mr. HENDERSON: The treasury board's contact with a crown corporation such as this basically takes place at the time the corporation has to ask for the approval of its budget, in the way in which Mr. Davies and Mr. Ouimet have been describing. Having gone over their figures, and the officers of the corporation having appeared before the treasury board, and approval having been obtained and the final figures settled, I think I am correct in saying that the treasury board does very little else in terms of day to day surveillance or supervision for example, of the corporation's monthly figures by way of checking on how it is progressing. As you know, the comptroller of the treasury's jurisdiction does not extend to crown corporations; it only applies to the departments of the government. Having therefore obtained its approval, the corporation is on its own, and for that matter so is every other crown corporation under the present system, in effect.

I think what the Glassco people meant here was that the treasury board could be of some assistance to the corporation in expressing some views on the control of its revenue and expenditure. I would point out to you that elsewhere in the Glassco report, particularly under financial management which appears in volume 1, the commission touches on this very point I mention. Really, this is one of the factors behind their proposal for the establishment of the new office of president of the treasury board aimed at divesting the treasury board of a great deal of its detail so it can in fact devote more time to this very thing we are discussing here. I believe this to be a good recommendation and something that illustrates the real part the treasury board staff could play in assisting some of these crown corporations. They could call for interim financial statements each month and just look to see how their creatures are doing—because they, after all, are the bankers.

Mr. HARKNESS: I have many other questions I would like to ask but as it is ten minutes after ten perhaps I should desist and allow someone else to examine the witness.

(*Translation*)

The CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: I do not wish to delay the work of the committee, but I would have liked to ask one or two questions of Mr. Ouimet, and I had no chance of doing so. We talked about saving the CBC dollars, of the use of its

dollars and of the control over the dollars it spends. There is another matter which is not relevant to its funds, but about which I would like to enquire and obtain some information, and that is programming. I would not like Mr. Ouimet to consider this as a reproach or an overall criticism of all the programmes presented by the CBC, but, because I have seen many, I would like to find out what system you apply in order to control and analyse the morality of the programmes which you produce, because we remember the broadcasts which were presented, those which surprised or shocked the population in general, as clearly as we remember the production entitled: "La Belle de Céans", which was shown some time ago and which shocked the population . . .

(*Text*)

Mr. TARDIF: On a point of order, Mr. Chairman, I do not think that has anything to do with the examination we are making of expenditures.

Mr. RONDEAU: I know that, but I just wanted to have some information from Mr. Ouimet while he is here, because he is the man who can answer that.

The CHAIRMAN: On the point of order which is raised, I do not think we have any right to inquire whether there should be censorship and, if there is censorship, what form it should take. If you are just laying the foundation for a question on methods used in the corporation I think this is not unreasonable; but I do not think the committee is entitled to go into the matter of censorship and the methods of censorship employed.

On the question of organization, I think this is not an unreasonable question at this time and Mr. Ouimet may care to answer it on that basis only.

(*Translation*)

Mr. RONDEAU: It is precisely on that subject that I wish to ask a question. I would like to know what kind of control—or you may call it censorship—you exercise to determine if the morality rating of a broadcast is good or bad. Would you give us your opinion on this point, Mr. Ouimet?

Mr. OUIMET: Your question infers, Mr. Rondeau, that the morality of many programs is rather dubvious. We should find out if we agree on that statement. However, in a general way, we have a policy and standards which apply to every production, or which are applied by persons vested with direct responsibility. If we talk about the French networks, we have a general director for the French networks. He is responsible for everything which occurs in those networks; he has specialists in every field. One is in charge of children's broadcasts, others of religious broadcasts, theatrical broadcasts, variety broadcasts, and everyone tends to his own business under the supervision of his chief, as in any other organization.

There is nothing special in that organization; it is the same as in any other organization which you may find in an enterprise that controls the quality of its programmes or of its products.

Mr. RONDEAU: I would like to point out another recent case, but I do not want you to consider it as a general reproach. How does the CBC proceed to determine if a programme is acceptable? If there is some degree of censorship or checking . . .

Mr. OUIMET: Whether the English or the French network is involved, this is a matter of human judgment. One man or several men judge if a programme is acceptable or not; they judge according to the criteria which are known to them, because they are enacted by the CBC in a general way, and they are based upon the general philosophy of the CBC. Some complicated cases may be submitted to the general director instead of the director of programmes or broadcasts.

That is not always the case, but it is always a question which is decided by men. You may be interested in learning that a year and a half ago, we asked this question of the Canadian public, and that we asked for a sample which was selected scientifically throughout the country and which comprised French-speaking as well as English-speaking Canadians, people from the Maritimes and the Western provinces. We asked them their opinion about the programmes, if some shocked them or scandalized them. We endeavoured to find out exactly what they thought about this question of morality, and if I remember well, a small minority, maybe six or seven, did not like some broadcasts from that viewpoint.

Mr. RONDEAU: There is another point besides morality, something which occurred recently: for instance, the two broadcasts presented by the CBC on the assassins of Coffin. Before the meeting . . .

(*Text*)

The CHAIRMAN: I will have to stop you there, Mr. Rondeau, because we are now getting into a specific question. I think this question comes within the general prohibition that I felt I should lay down. I think Mr. Ouimet, yourself and anyone else is entitled to go into this general question regarding how this is organized and the general attitudes so far as the organization is concerned, but you are getting into issues regarding whether or not certain plays or programs are ones that should or should not be shown for one or more fundamental reasons. I think we are now going beyond our jurisdiction as a public accounts committee and perhaps getting into something which should be dealt with by a broadcasting committee. As I warned you at the beginning of our deliberations, this is something over which I feel we have no authority or jurisdiction. I feel the matter of broadcasting is something with which we as an accounting committee should not deal.

Are there any other questions?

(*Translation*)

Mr. RONDEAU: That was merely to make Mr. Ouimet feel more comfortable. I meant to illustrate what I mean when I ask what is the policy of the CBC towards its programmes. I understand that some facts may slip by the best organization in the world.

Mr. OUIMET: Evidently; "La Belle de Céans" slipped our attention.

(*Text*)

The CHAIRMAN: Mr. Fisher, you indicated you had some further questions to ask.

Mr. FISHER: You opened up this whole question of programming approval in a general way and then you said the specific question did not lead to anything in respect of which the public accounts committee should deal. There is one program of very recent origin which has been ruled out, yet does involve the financial aspect in view of the fact that there is an offer to purchase it in existence.

The CHAIRMAN: That probably will be an item for discussion by next year's public accounts committee, Mr. Fisher.

Mr. FISHER: Yes, and I hope to be around at that time.

I should like to ask Mr. Ouimet one further question. I understand there are certain people under charge in Montreal in respect of a criminal action in connection with some kind of misappropriation or mishandling by C.B.C. people of equipment or funds; is that correct?

Mr. OUIMET: As of this year that is correct.

Mr. FISHER: Was this fact discovered by accounting methods?

Mr. OUIMET: I believe this was discovered by accounting methods, yes. Mr. Davies may be able to give you more information in that regard.

Mr. FISHER: This has not come within the Auditor General's purview as yet?

Mr. HENDERSON: No.

Mr. DAVIES: This was something we came upon on our own, Mr. Fisher.

Mr. HENDERSON: The corporation detected this before it had gone too far.

Mr. OUIMET: This involves a question of alleged forgery.

The CHAIRMAN: Mr. Ouimet, perhaps we better not get into this too far because this is something you and the Auditor General will have to work out and will or will not be the subject of a paragraph in his future report.

Mr. FISHER: This situation is current and has nothing to do with the past?

Mr. DAVIES: That is right.

Mr. FISHER: That is fine, thank you.

The CHAIRMAN: Gentlemen, it is now 20 minutes past ten o'clock. We have had a very good opportunity of examining C.B.C. officials over the past two days at six meetings. I am assuming that no one else is indicating any great anxiety to ask further questions.

Mr. Southam, do you have a further question?

Mr. SOUTHAM: I should like to ask one general question in respect of finances.

We have been discussing the item headed special survey, appearing at pages 21 and 23. Mr. Henderson gave a very comprehensive report at the commencement of our consideration of this particular item and then added some supplementary remarks which I thought were pertinent. Following those remarks, Mr. Ouimet himself gave a report in relation to the particular area of internal financial control. My question is directed to Mr. Henderson. Are you satisfied now, having heard the report of Mr. Ouimet, that the results we look for as far as internal financial control is concerned will be forthcoming?

Mr. HENDERSON: I shall only be satisfied if, as and when the organization makes changes whereby the regional chief accountants report directly to Mr. Davies. You have my report in which I give my reasons in this regard. The big money in this corporation comes in and goes out in the two big cities, and I consider that the regional chief accountants there should report directly to Mr. Davies, and carry out his instructions. I recognize they have to live with the local people in Toronto and Montreal, but they should not be under them. Mr. Ouimet indicated that they still report to those men in Toronto and Montreal, and this to me violates the principles of internal control, which I regard as very important in my work. We place great reliance on the system and must do so as long as my work involves only a test check. If we have any misgivings about the adequacy of the system of internal control, you would say to me I should do three times the amount of test checking I am now doing. Therefore we watch the efficiency of this at all times, and it testifies to Mr. Davies organization that it was his office which detected this defalcation, to which Mr. Fisher referred a moment ago.

I would hope very much there will be an early decision by Mr. Ouimet and his associates regarding this fundamental point of organization. He has given an explanation in respect of just one of the matters on which this special study committee is working, and I am only asking for what is customarily found in most of the major corporations in Canada operating under similar circumstances. I hope you see my point.

Mr. SOUTHAM: I am very pleased, as I am sure other members of the committee are, to hear you re-emphasize this particular point. I think this would be quite a step forward.

Mr. HENDERSON: As you know, in my reports to the house I have dealt with the adequacy of internal financial control at some length, and the Glassco commission devoted a considerable amount of space to it. Treasury board at the present time is overhauling the situation as it exists in all the departments. We simply cannot make that too strong because it is one of our surest guarantees of the accuracy of our work in accounting for our revenues and expenditures. This is a tremendous business we have here—speaking of the government and the crown corporations as a whole—and we should be seeking to strengthen it wherever possible. As you know, I only have a very modest staff and I carry out all my work out on a test check basis. I cannot examine all the transactions. Now, I would like to feel we can place a reasonable reliance on the systems that are in effect. If we cannot I do not hesitate to say so. Here is one place where I feel some repair is required, and I have brought it forward again because I do not regard this situation at the present time as satisfactory.

Mr. SOUTHAM: Then the only other observation I have to make at this time in reference to Mr. Ouimet's statement is that I would suggest that rather than taking a year, if that was the proposed time, we should speed this process up so that it will prove to be in the best interest of everyone concerned and also help you, Mr. Henderson, in a more comprehensive review of the matter.

Mr. HENDERSON: I believe he has it high on his list of priorities and I am sure he will do his best to meet me on this remaining point. I must be perfectly fair and say that this is the remaining point so far as the criticisms I have had to make over the past several years are concerned. He has been good enough to meet me on the others. As I mentioned in my remarks, I am hoping we can complete them by this change I have asked for.

The CHAIRMAN: Have you a question, Mr. Ryan?

Mr. RYAN: Mr. Chairman, last Thursday in respect of film purchase and rentals I asked for the budget and actual figures for the fiscal years 1959, 1960 and 1961, and I wonder if they have been put into the record.

Mr. OUIMET: I am afraid, Mr. Ryan, that is one that slipped by. Could we provide the information through the Chairman of the committee?

The CHAIRMAN: Does the committee agree that this information will be added as an appendix to today's proceedings? It will be some time before the evidence is ready. Is that satisfactory?

Mr. RYAN: It is satisfactory to me.

Mr. FISHER: Mr. Chairman, Mr. Prittie and I are only on the committee for the C.B.C. part of it. We have had an undertaking from the president that the scope of the information in the annual report will be enlarged. However, I still feel it would be a good idea for the committee in its report to set out in certain detail what some of this initial information would be and I would appreciate if at the time you consider doing it you would get in touch with us or any other members who are just on the committee for this specific organization in order to allow us to put forward some of the areas in which we are interested.

The CHAIRMAN: I will undertake to do that, and I am sure between the clerk and me we will undertake to get in touch with the members who are serving on the committee for this particular examination and obtain in writing your views and theirs on this, which will be submitted to the main committee when making up our recommendations.

Mr. OUIMET: May I say something on this point. I know this is very important to you. But, there is also the other side of the coin.

While we are going to do everything we can to increase the amount of useful information that we will supply to you in our annual report or through some other form there are still types of information which would be detrimental to our operations if we made it public. So, therefore, I would have hoped that you would have given me a chance to develop what I think would serve your purpose and then you would judge from this rather than put me in the position where you are asking for definite information, at which time I will have to come back and say on such and such a thing I cannot do it because of this or that. I think I know what you want and I think you should give us the chance to try to meet your needs before you make a specific request of this type. I think this kind of information embracing all aspects of the corporation, not just the public accounts side but the policy side and everything, must be considered.

Mr. FISHER: I think you are too sensitive, Mr. Ouimet. We have had too many recommendations from other committees ignored by government departments and corporations to feel any qualms about putting more on the record, just because you feel this way about it. I am not saying this to be impolite but I feel that it is very important that we put our suggestions on the record, not to embarrass you at any future date but so that we know, and you know more concretely the areas in which we are interested, and if you feel differently about it and want to turn them down because of the competitive position we will know, instead of having to come up against the same thing in a year or two.

The CHAIRMAN: When we will be making our recommendations we will have Mr. Ouimet's views expressed now and during the course of the proceedings which the committee will take into consideration.

Gentlemen, before we adjourn there is one thing I want to remind you of; we are meeting again next Thursday, at which time Mr. Richard, the president of the Crown Assets Corporation, and Mr. Armstrong, the deputy minister of national defence, will be present, at which time Mr. Henderson will be filing the report which the committee asked him to prepare as a preparatory statement to this examination.

Before Mr. Ouimet leaves, may I thank you very much, sir, on behalf of the committee for your assiduous attendance, and also Mr. Davies and the other officials. You have been of great assistance to us and I hope we can be of equally good assistance so far as our report is concerned.

Mr. OUIMET: May I thank you for your kindness and the kindness of the members of the committee for their understanding of our problems.

The CHAIRMAN: The meeting is adjourned until 9.30 a.m. on Thursday.

Appendix 1

CANADIAN BROADCASTING CORPORATION
ANALYSIS OF PAYROLL
YEAR ENDED MARCH 31, 1963

(in $ 000's)

Radio—technical and program production	5,628
Television—program production	8,593
—technical production	7,454
—design and staging	5,564
Common to radio and television	
Program production services	4,370
Technical production services	933
Operational supervision and services	5,381
Selling	1,169
Management and central services	3,001
Engineering and development	1,837
Casual employees	133
	44,063

July 6, 1964.

Appendix 2

CANADIAN BROADCASTING CORPORATION

Operating Costs of Radio and Television Services in English and French Languages

Year Ended March 31,

(in $ thousands)

	1962			1963		
	French	English	Total	French	English	Total
Radio						
Expenditures net of depreciation	5,030	16,173	21,203	5,367	15,789	21,156
Gross advertising revenues	932	1,630	2,562	1,154	1,542	2,696
Television						
Expenditures net of depreciation	28,012	53,947	81,959	27,405	54,686	82,091
Gross advertising revenues	8,049	22,299	30,348	6,866	21,285	28,151
Radio and Television						
Expenditures net of depreciation	33,042	70,120	103,162	32,772	70,475	103,247
Gross advertising revenues	8,981	23,929	32,910	8,020	22,827	30,847

July 7th, 1964.

CANADIAN BROADCASTING CORPORATION

Approximate cost of a typical week's programs in the fall schedule

(in $000's)

Talks and public affairs	189
News	126
Sports	75
Variety (Panel, comedy, light music, etc)	288
Drama	117
Music	91
Specials (Festival, Camera Canada, etc.)	71
Children's and educational	238
Other	97
Series and feature films	221
	1,513

July 7th, 1964.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

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

THURSDAY, JULY 9, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and Mr. Louis Richard, President and General Manager, Crown Assets Disposal Corporation.

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

21178—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,
Grégoire,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,
Pilon,
Prittie,
Regan,
Ricard,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stewart,
Tucker,
Valade,
Wahn,
Whelan,
*Winch—50.

M. Slack,
Clerk of the Committee.

*Replaced Mr. Scott after the evening sitting of July 7.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, July 7, 1964.

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

Attest.

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

21178—1½

MINUTES OF PROCEEDINGS

THURSDAY, July 9, 1964
(18)

The Standing Committee on Public Accounts met this day at 10.10 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Francis, Hales, Harkness, Mandziuk, Prittie, Regan, Rondeau, Ryan, Smith, Southam, Stefanson, Tardif (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and *from Crown Assets Disposal Corporation*: Messrs. Louis Richard, President and General Manager; I. M. Mackinnon, Assistant General Manager, and L. M. Mondor, Comptroller; and Messrs. Smith, Hayes, Laroche, Millar and Hogan of the Auditor General's office.

The Chairman made a statement relating to the extent to which the Auditor General is entitled to rely upon the legal services of the Department of Justice. Mr. Baldwin also advised that the Committee will hear the views of the Deputy Minister of Justice at a later sitting.

Pursuant to an undertaking to the Committee on June 4, the Auditor General delivered a report on the sale of surplus equipment of the Department of National Defence by Crown Assets Disposal Corporation.

The Chairman then introduced Mr. Armstrong who stated the views of his department on the subject of surplus materials.

Mr. Richard was then introduced and he reviewed the nature of the surplus materials and the difficulties involved in their marketing.

Messrs. Armstrong, Richard and Henderson were examined and supplied additional information.

The questioning of the witnesses relating to the sale of surplus materials being concluded, the Chairman thanked Mr. Richard and his officials.

At 12.05 p.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

Members present: Messrs. Baldwin, Cardiff, Hales, Harkness, Prittie, Ryan (6).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and Messrs. Millar, Hogan and Laroche of the Auditor General's office.

At 4.10 p.m., there being no quorum present, the members dispersed.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 9, 1964

The CHAIRMAN: Gentlemen, I see a quorum and I call the meeting to order.

Before I open the subject of discussion this morning may I make one very brief statement? On my own initiative I discussed with Mr. Henderson a problem which has come before us in different ways; that is, the question of the extent to which Mr. Henderson as Auditor General is entitled to rely upon the legal services of the Department of Justice.

As you know, Mr. Henderson is the agent of parliament; he is not the agent of the government. Constitutionally and by statute the Minister of Justice and the attorney general are the advisers of the departments, not the crown. Usually there are not too many cases where there might be conflict, but from time to time I have observed that Mr. Henderson, when having to rely on legal advice, has had resort to the Minister of Justice. There may be occasions when there could be a conflict of interest.

With this in mind, I brought the matter up personally, on my own initiative, and discussed it with Mr. Henderson, who informed me that this has been of some concern to him in the past. Mr. Henderson has had some discussion with the deputy minister of justice, Mr. Driedger, and at a meeting we hope to have in the not too distant future we hope he will come along and have a brief discussion with us. It need not pre-empt our time for a long meeting, but he would be able just to discuss this very important point of to whom Mr. Henderson may resort to get advice when there is some conflict with regard to a view he, as Auditor General, takes of a statute and the view the department may take. We will have the opportunity of having the benefit of Mr. Driedger's views, and we will notify you when that meeting will be called.

Having said that, I now call to your attention the fact that this morning we will be dealing with a matter brought up some time ago in connection with Crown Assets Disposal Corporation and, in particular, the matters coming into the fiscal year ended March 31, 1963, and certain items which were declared surplus and which have been disposed of.

By agreement, Mr. Henderson has prepared a statement as to his investigation in this matter. You should all have copies of this statement. Then Mr. Richard, the president of the corporation, has come back with his officials prepared to answer questions and he also has a statement to make.

I will ask Mr. Henderson if he will deal with this matter from the basis of the statement. After the statement, I will call upon Mr. Richard and then there will be questions, as the members see fit.

Mr. Armstrong, the deputy minister of defence, is here and I will introduce him later. He will be free to make a statement and to answer any questions or to make any comments on matters which he thinks are of concern to him.

Mr. Henderson.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. I prepared my statement in a number of copies in order that it might be distributed to the members for purposes of this morning's discussion. They will thus have in front of them the tables of figures which are contained in that statement for ready reference.

I should like to tender my apologies to the committee, Mr. Chairman, for not presenting this statement to you in French. However, the fact is that my officers and I have been engaged, with those of Mr. Richard's corporation and Mr. Armstrong's department, under extensive pressure to prepare this information; it was only late yesterday that we were able to put down these conclusions for you. On checking with the translation department we found it was not possible for them to have it translated into French in time for this morning's meeting.

In a statement to the standing committee on public accounts last month, I pointed out that during the fiscal year ending March 31, 1963, the Department of National Defence had reported as surplus unused or useable materials having an original cost of approximately $39.5 million. The declarations with respect thereto numbered about 2,600, and together with others which pertained to scrap and material in need of repair and which were not priced, accounted for approximately 8,500 separate declarations made by the department during the year. Following a discussion I undertook to produce, in co-operation with the department and Crown Assets Disposal Corporation, a memorandum which, inter alia, would deal with the liquidation of the items involved in the declarations accounting for the amount of $39.5 million. In compiling the data embodied in this presentation I received full co-operation from both the corporation and the department. Mr. Elgin Armstrong, deputy minister of national defence, and Mr. Louis Richard, president of Crown Assets Disposal Corporation, are here today and both these gentlemen wish to speak to the committee following its study of the information I am now going to present to you.

At the outset it became evident that in order to meet the wishes of the committee and at the same time to keep the project within reasonable bounds of practicability, it would be necessary to take an approach to the problem not related precisely to the amount of $39.5 million referred to in the evidence. There were two basic reasons for this.

1. The items aggregating $39.5 million appeared on declarations which had been approved by the Department of National Defence in that year, but were not necessarily received by Crown Assets Disposal Corporation during the same period.

2. To review and extract pertinent information from over 2000 files, many of them involving declarations of items of slight value, and later to pass the data to the Department of National Defence for the insertion of additional information to be obtained from departmental files, would take several weeks.

I therefore concluded that to do the work as expeditiously as possible:

(*a*) the basic approach should be to those declarations involving new and useable items actually received by the corporation during the fiscal year 1962-63. The net effect of this procedure was to reduce the aggregate amount involved to about $35.6 million, represented by approximately 2300 declarations; and

(*b*) to deal only with those declarations involving amounts in excess of $25,000 because tests showed that a very substantial percentage of the total amount of about $35.6 million would in fact be covered. Through this means the work was concentrated on 212 declarations involving $28,956,581 or 81% of the total.

I trust that this approach will commend itself to the committee.

In connection with the surplus items under review, the Department of National Defence classifies the material in respect of which it shows costs in its declarations of surplus, as follows:

"AN"—New and unused equipment or material, in first class condition, in the same condition as would be furnished by the usual supplier to his customer.

"A"—New and unused equipment or material which a supplier would have to inspect or refinish or repackage before selling as new and unused.

"AT"—Items which otherwise would be designated as "AN" or "A", but are being reported surplus owing to having become "time expired" under existing regulations of reporting government departments or agencies.

"AU"—Serviceable items and material which have been used and do not require repairs, but which may have had repairs made and may be sold for still further use.

An analysis of the declarations which were the subject of the survey, on the foregoing basis, is as follows:

	Navy	Army	R.C.A.F.	Total
AN	$ 302,129	$ 573,422	$ 2,329,217	$ 3,204,768
A	1,868,362	2,618,782	5,907,915	10,395,059
AT	61,371	—	2,226,787	2,288,158
AU	4,052,671	713,555	8,302,370	13,068,596
	6,284,533	3,905,759	18,766,289	28,956,581

The amount of $28,956,581 may be further analysed by commodity classes, and by the three services, as follows:

	Navy	Army	R.C.A.F.	Total
Aircraft spare parts	$ 1,679,728		$ 7,654,041	$ 9,333,769
Electronic spare parts	141,183	$ 82,989	8,541,235	8,765,407
Harbour defence equipment	2,840,570			2,840,570
Vehicle spare parts		2,391,630		2,391,630
Aids to navigation	752,858			752,858
Ammunition and explosives	372,608		149,478	522,086
Armament spare parts	133,445	178,567	39,048	351,060
Nuts, bolts, screws, etc.		162,223		162,223
Ships spare parts	116,867			116,867
Air cameras parts and equipment			77,175	77,175
Miscellaneous	247,274	1,090,350	2,305,312	3,642,936
	6,284,533	3,905,759	18,766,289	28,956,581

The amount of $28,956,581 is further analysed by reasons for disposal, as follows:

	Navy	Army	R.C.A.F.	Total
Changes in operational requirements	$ 3,622,016	$ 490,048	$17,111,571	$21,223,635
Spares for equipment no longer in use	1,913,051	1,933,104	1,533,064	5,379,219
Excess to current requirements	277,447	495,661	18,748	791,856
Time expired (explosives, batteries, etc.)	372,608			372,608
Miscellaneous	99,411	986,946	102,906	1,189,263
	6,284,533	3,905,759	18,766,289	28,956,581

With regard to the amount realized by crown assets disposal corporation from its sale of surplus items, an analysis of the aggregate amount realized by the corporation in respect of the declarations costed at $28,956,581, by basis of sale, is as follows:

	Navy	Army	R.C.A.F.	Total
Tender	$ 107,592	$ 204,466	$ 174,121	$ 486,179
Negotiation after tender	38,617	67,736	58,292	164,645
Negotiation without tender	19,602	6,314	38,366	64,282
	165,811	278,516	270,779	715,106

The three bases of sale used and shown in the above table are described as follows:

The first basis is that of tender; the majority of sales are by this method. Usually done by circularization of prospective customers who are known to be interested in the materials being offered for sale. For this purpose the corporation maintains lists of prospective customers by class of material and equipment offered for sale, and these are the persons circularized.

The second basis is that of negotiation after tender. This method of sale is resorted to in an effort to obtain better recovery when tendering procedures have not produced satisfactory results. Usually it involves an approach to original tenderers in an effort to obtain higher offers.

The third basis is that of negotiation. Sales on this basis are made with priority purchasers, such as federal or provincial departments or agencies, municipal bodies, etc., with whom arrangements have been made to receive offers before notice is given to the public. A requirement is that such sales be negotiated at a fair market price.

Here I will give you a final summary of surplus items under review.

Reasons for Disposal	Original Cost	Amount Realized	Loss on Disposal
Changes in operational requirements	$21,223,635	$ 423,479	$20,800,156
Spares for equipment no longer in use ...	5,379,219	178,621	5,200,598
Excess to current requirements	791,856	64,890	726,966
Time expired (explosives, batteries, etc.)	372,608		372,608
Miscellaneous	1,189,263	48,116	1,141,147
	*28,956,581	715,106	28,241,475

*Includes: (1) Declarations relating to explosives, etc., disposed of, in entirety, by destruction ..... $ 401,778

(2) Items not processed by Crown Assets Disposal Corporation until 1963-64 .. 787,200

That is the extent of my statement, Mr. Chairman, at this time.

The CHAIRMAN: Thank you, Mr. Henderson. I am sure the committee is very grateful to you for the very comprehensive and detailed analysis you have made. Questions can be asked later on in regard to this statement.

I am now going to ask Mr. Armstrong if he has any comments to make on this. If you branch out into a general aspect, it is perfectly all right, Mr. Armstrong.

I do not think I need to introduce Mr. Armstrong to the members of the committee. He has been before this committee and others, and he is well known to you. I think he is particularly well qualified, by virtue of the various positions he has held with the department and, of course, now as deputy minister, to deal with this matter which concerns the committee.

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): Mr. Chairman and gentlemen, I have only a few general remarks that I would like to make in relation to the statement Mr. Henderson has just made.

First of all, the nature of the defence business generates a considerable volume of surpluses. This is because defence is a major user of stores and equipment which become surplus in one form or another when they have served their original purpose. There is a continuous process of technological improvement which results in surpluses of equipment and material that is replaced. There are also changes in operational concepts and military programs from time to time which give rise to surpluses. It is necessary to maintain war reserves which are likely to become surplus in whole or in part. When new and complicated equipments are introduced, logistics managers must assess the requirements for support where there may be little or no direct experience on which to base their calculations and judgments. Under these circumstances, it would be miraculous if both under and over provisioning did not result. As often it is not economical to maintain continuing sources of supply of specialized military items, it is frequently necessary to buy against considerable periods of time in the future, sometimes for the estimated life of the equipment, with all the uncertainties that are inherent in this. The department attempts to deal with this problem on two fronts:

1. By constant attention to its supply systems with a view to eliminating as many problems at their source as possible.
2. By continuous review of its inventories to dispose of surpluses where they have occurred and thereby reduce administrative and storage costs.

For example, on the first front, improvement in cataloguing systems, emphasis on off-the-shelf procurement where practicable, the use of standing supply contracts and the increased employment of electronic data processing equipment all lead to lower stockpiles in military depots and to reductions in quantities of material becoming surplus. A vigorous program of disposal of surpluses reduces storage costs. For example, in the last few years the R.C.A.F. have been able to terminate aircraft storage operations at Fingal, McLeod, Claresholm, Vulcan and MacDonald and declare these properties surplus.

It should be appreciated that the value of the surpluses listed in the statement given by Mr. Henderson is based on the original cost which by and large has little relationship to the market value at the time of disposal. In the summary table, $21,223,635 is shown as the original cost of items under the heading "Changes in Operational Requirements". This includes the following:

R.C.N.—World War II Harbour and Seaward Defence Equipment	$ 3,591,628
Army—World War II vehicle spares, heating equipment machine tools and eyeshades	$ 483,048
R.C.A.F.—Spares for Harvard, Mitchell, Sabre, CF-100, Canso and Lancaster aircraft	$ 4,459,748
—Orenda engine spares	$ 2,076,171
—World War II explosives	$ 499,163
—Fire control equipment for Mitchell, CF-100 and Sabre aircraft	$ 3,607,171
—Spares for heavy ground radars phased out of service	$ 3,725,394
	$18,442,373

The heading "Spares for Equipment No Longer in Use" totals $5,379,219. This includes:

R.C.N.—Airframe parts and accessories for Avenger and Banshee aircraft	$ 1,526,825
—World War II ammunition	$ 230,863
Army—Automotive spares largely World War II Types	$ 1,686,557
R.C.A.F.—World War II anti-friction bearings	$ 79,660
—World War II Generating sets	$ 59,500
—Electronic parts for heavy radars phased out	$ 884,940
	$ 4,468,345

The heading "Excess to Current Requirements" totals $791,856. This includes:

R.C.N.—Carburetors & aircraft engines for Avenger aircraft	$ 47,285
—World War II gunsighting equipment and telecommunications spares	$ 140,831
Army—Automotive spares—largely World War II	$ 181,313
—World War II nuts, bolts, screws, etc.	$ 162,223
R.C.A.F.—Aircraft electrical items—phase out of "Hornet" rifles	$ 16,106
	$ 547,758

The heading "Miscellaneous" totals $1,189,263. This includes:

Army—Plumbing and Heating—World War II balance of stocks from close out of Montreal depot	$ 109,522
—World War II electronic equipment and binoculars	$ 558,175
R.C.N.—Missile spares "Velvet Glove"	$ 100,000

The Velvet Glove was developed some years ago but it was not adopted. Those items total $767,697 of the $1,189,263. I merely mention these, Mr. Chairman, to illustrate to the committee that these items are, by their very nature, not likely in many cases to have a significant market value at the time they are disposed of.

Thank you, Mr. Chairman.

The CHAIRMAN: Thank you very much, Mr. Armstrong.

Mr. Richard has with him two officers, Mr. Mackinnon, the assistant general manager, and Mr. Mondor, the comptroller. I am going to ask Mr. Richard to introduce them, and when questions are asked some will be directed to these gentlemen who have special knowledge of certain matters, and other matters may be dealt with by Mr. Richard.

Mr. LOUIS RICHARD (*President and General Manager, Crown Assets Disposal Corporation*): Mr. Chairman, I just want to add a few remarks to the comments made by the Auditor General and to those made by Mr. Armstrong. I have prepared a short statement here which may repeat some of the things they have said, but I shall make my complete statement to the committee.

In addition to the comments made by the Auditor General on the surpluses reported to Crown Assets Disposal Corporation in the years 1962-63, and to the comments made by Mr. Armstrong, I would like to say in reference to the items categorized in our "A" condition codes, that the corporation feels some remarks should be made concerning the nature of the articles which are coded in this manner and the difficulties inherent in the marketing of them.

I would like to stress that much of the surplus which was analysed, amounting to approxiamtely $29 million, consists of military equipment and stores of one type or another manufactured and designed to military specifications, having little or no commercial application. Consequently, they cannot be sold as articles of use. Their value, therefore, is in the basic material content. This applies particularly to military aircraft, engines, instruments, including fire control systems, gun sighting equipment, training simulators, and so on, and parts for all these. It also applies to items of electronics which, in addition to being designed for a special purpose, are usually completely obsolete and will

not even fetch reasonable scrap prices because of their compounded contents. So the sale of a great deal of this military surplus has been made on the basis of the recovery of the value of the basic material contents and the salvage, and prices realized in most cases do not bear any reasonable relationship to the original costs.

The CHAIRMAN: Thank you, Mr. Richard.

Gentlemen, any comment or questions will now be in order. You can direct them to Mr. Armstrong, Mr. Richard or his officials, or to Mr. Henderson.

Mr. HALES: Will these statements appear as appendices to the day's proceedings?

The CHAIRMAN: They are included as part of the record by having been read.

Mr. PRITTIE: Did Mr. Henderson work out the percentage realized to original cost? Would it be two or three per cent?

Mr. HENDERSON: I have not worked it out but that is approximately what it would be, Mr. Prittie.

Mr. PRITTIE: I think one can accept the statement of Mr. Armstrong that these things do become obsolete so far as military requirements are concerned, and there are various reasons for that. However, concerning the recovery prices, I notice that Harvard aircraft parts were mentioned here several times, and it seems to me that this particular item is still in general use in the country in a great many places for that reason, probably the parts should fetch a better price than some of the other equipment which is being disposed of. I think I am right in saying that Harvards are quite generally used in many places in Canada; they are not really obsolete in that sense. These parts could be used on Harvard aircraft. This seems to be one item that should fetch a better price.

The CHAIRMAN: Mr. Prittie, are you directing your question to Mr. Armstrong.

Mr. PRITTIE: I think to Mr. Richard, since he is here speaking for his corporation, which is concerned in the actual sales. I am referring to an item which really is not obsolete so far as general use is concerned.

Mr. ARMSTRONG: Could I comment on this. My comment will be a general one. Frankly, I do not know how many Harvard aircraft are in use commercially in the country. Of course, the air force continues to use the Harvard. It has gone through a number of different marks and, presumably, some of these spares are in respect of Harvard aircraft manufactured during the war.

Of course, we do maintain spare parts for the ones we retain, and these would be other surpluses. I think probably you would find a rather odd assortment in terms of the types which might be required at any particular time, and you might not have a demand for this particular one. Commercially, I do not know what the demand is in the country. Perhaps Mr. Richard would like to comment on this.

Mr. RICHARD: I think the last remark of Mr. Armstrong is really to the point. The question is: "What demand is there for these parts?" There are still Harvards in use in this country but not in large quantity. We have had a few at various times. The demand for the planes is not what you might expect, and that applies, of course, to the stocks of spare parts which, I think, are plentiful.

Mr. HALES: Mr. Chairman, first of all, I think the committee would like to express its appreciation for the tremendous amount of work and research which the Auditor General's department must have put into this very important subject which I believe Mr. Winch originally brought to the attention of the committee.

I note that the research which the Auditor General has completed in respect of this subject refers to only 81 per cent of the over-all sales, but out of even 81 per cent the loss is $28,241,475. So, this is a matter of some magnitude and I think the committee is quite concerned about this tremendous loss and the very dismal picture which is presented to us in respect of this surplus equipment.

I appreciate what Mr. Armstrong has said in respect of the loss in military equipment. But, in order that the committee in future years can follow this more closely in its study I think we should ask the Auditor General what steps could be taken to have a running record kept of the disposal of this equipment so at the year end this information would be readily available to us.

As I stated, this study must have involved an awful lot of work, and in order to get around that I think perhaps Mr. Henderson could give the committee some idea where we could go from here in order that the situation might be improved in the future.

Mr. HENDERSON: Mr. Hales, you have raised a very important point and one to which I have been giving some thought.

I may say that we looked back over the volume of equipment which has been declared surplus by the Department of National Defence to Crown Assets Disposal Corporation for the past six years because if it were $39½ million for the year we are looking at now, 1962-63, and we find it producing a loss of this magnitude naturally I wondered what might have been the history over prior years. I find, in going back to 1957, that the average figure of surplus items declared by the Department of National Defence to Crown Assets Disposal Corporation has averaged about $26½ million a year. So, we have here a continuing problem of considerable magnitude.

The work entailed in following through these items is quite substantial and certainly is not something that I would wish to be charged with doing on any regular sort of basis. I suppose the most effective way of bringing these figures to attention is to make a complete disclosure each year, either in the public accounts of Canada, or in the form of some summary in my own report to the house perhaps, in the way I list non-productive expenses in accordance with the committee's direction, or by some other means. That brings up the question how should this be done. Thus far, the only suggestion I would like to make to the committee and to hear discussed—I would particularly like to hear the views of Mr. Armstrong and other deputy ministers who also would be involved—is this: Could the departments of the government declaring their material surplus be asked to prepare annual statements in which they would show not only the type of things that they have declared surplus but also their original cost and then obtain, through Mr. Richard's office or through whatever other sources through which they might dispose of their surplus, the amounts realized thereagainst. In other words, they would be responsible for the production of this statement setting out the end result of disposals of goods which, in fact, they had purchased through their parliamentary appropriations in the first instance. If something like this was done then it would be possible, in effect, to produce a consolidated picture for the government as a whole each fiscal year. This might prove informative and interesting to you and to the taxpayers of this country by disclosing the size of such disposals and the amounts realized.

I am sure that everyone has a full appreciation of what Mr. Armstrong says about the reasons for disposal. I have no hesitation in saying that I feel sure Crown Assets Disposal Corporation certainly has exercised its best offices in trying to get the best prices. But, there does seem to me to be a point of responsibility here, which should be placed on the departments which, in fact, were responsible for purchasing the material in the first instance, to at least

follow through and find out the amount which is realized. This could be the subject of a recommendation by the committee, Mr. Chairman, if the members share this view—and, of course, if such a proposition were feasible. Perhaps Mr. Armstrong would care to comment on this.

Mr. ARMSTRONG: In so far as the Department of National Defence is concerned, I am sure members of the committee appreciate that in the wording of the national defence vote this year the proceeds from the disposal of surplus equipment and material may be credited back to the vote. Therefore, there will be a record in the department of the receipts from those disposals. So, so far as the information is concerned, coming back to the department, I presume we would have a record of it.

There always is a bit of a problem here, which obviously was encountered in Mr. Henderson's examination, namely, that of timing in the sense of when the materials declared surplus are sold, and so, and putting it together on a time phased basis.

But, if the committee feels it is desirable to have those total figures, I think we would have them available in the future. However, that does not apply necessarily to other departments. This particular arrangement at the moment applies only to the Department of National Defence.

The CHAIRMAN: Would you proceed, Mr. Hales.

Mr. HALES: You mentioned something about cost and attention to purchases in your department. This seems to be the crux of the whole thing. We are buying stuff that is not used and not needed, and I think this is pinpointing the problem.

Could you advise the committee what steps you did take, say, within the last four or five years, to watch your purchases more closely in view of the fact you have had an average of 26½ million declared surplus back to 1957?

Mr. ARMSTRONG: Mr. Hales, I would agree that we do buy things that are not eventually used in the sense of actually consumed. But, I think there is a difference between buying things that are not used and not needed. There are circumstances under which we must buy items in the Department of National Defence against certain contingencies and if they do not occur—and, by and large we hope they do not—then the items are not used and they become surplus when that equipment is replaced.

In terms of the kind of steps we have taken to improve our supply systems, it is difficult to go into this in great detail. However, there have been quite a substantial number of improvements that have occurred over the last five years. These improvements are based partly on the experience of the earlier years. I mentioned the problem of buying spare parts when you bring a new aircraft, say, into the inventory and it is necessary to determine in advance before you have specific experience in the flying of that aircraft the spare engines and other things that are required and will be necessary if you are to be in a position to keep the aircraft flying. And, after all, this is an essential so far as we are concerned. But, as I say, the experience of the earlier years has been built into the systems that we now are using. I think there has been a substantial improvement in terms of the kind of back up that is purchased in these instances.

Now, having said that, I would say at the same time inevitably there are going to be some cases of buying too much and other cases of buying too little, but buying too little is perhaps even more dangerous than buying too much in our business. If you have a valuable airplane on the ground because you cannot supply it with an essential part it is a very substantial loss, as I think you will agree.

In respect of commercial vehicles, which we use substantially, we do not stock the parts any more; we get them off the shelf, through standing contracts, we have applied this procedure to a large number of items where it is practical and where you do not need a specialized military production line to supply the item. This has reduced stock levels and has helped us to avoid a position where ultimately we would end up with a surplus.

We have employed data processing computers for handling this very large volume of business, as you know, at the air materiel command by the R.C.A.F. They have introduced data processing equipment. The Canadian army have not gone that far yet but they have employed mechanical devices for handling their logistics. The navy also has done so. But, when we are able to bring the supply systems together I think we will have a volume in every case which would enable us to use the very latest and best equipment available to handle these operations.

Now, when you do this you still need first class supply managers. Although the equipment does produce information you still have to make judgments and decisions. We always have had to some degree a shortage of people in this area. But, we have trained people and we have sent them to special courses and so on, as a result of which this situation has improved considerably as the years have gone by.

There probably are many other things that I could explain but these are some that occurred to me offhand.

I might say, on the other side of the coin, that we are driving now more than we did in the past to get rid of surpluses because surpluses really cost money by way of storage, maintenance and preservation and all the other things involved. Our systems and procedures and disposal of surpluses have involved pretty careful examination in respect of how the item got into the inventory in the first place, why it became surplus, and so on. This is quite a logical process but it takes a lot of time, particularly when dealing with the many items in the statement I made. These items go back a long, long way; in many instances they go back to world war II. We are putting emphasis now, to the extent we can, on simplifying for the man in the field his ability to get an item declared surplus, get it up to headquarters for declaration and so on.

Of course, I would say we do refer any surplus that one service has for examination by others before it is finally declared surplus from the department as a whole.

Perhaps there is one other item I should mention. Each of the services has spent a great deal of effort in the last 10 years on developing cataloguing systems and these in themselves are helpful in this area. In the next few years we will be spending a good deal of time in bringing these cataloguing systems all together so that we will have a single cataloguing system for the department as a whole which, I think, will be a substantial improvement.

Mr. HALES: Under which heading does clothing appear? Is it "miscellaneous"?

Mr. ARMSTRONG: I do not know whether or not there are any clothing items in here. There might be some.

Mr. HALES: Would you give us the largest sale of surplus clothing under "miscellaneous" in this year under review?

Mr. H. E. HAYES (*Divisional Head, Auditor General's Department*): There is an item for the navy that I recollect offhand.

The CHAIRMAN: Could we have the name of the witness.

Mr. HAYES: Mr. Hayes.

Mr. HENDERSON: It may take a minute or two to look this up.

Mr. HAYES: The cost was $99,000. This clothing was acquired in world war II and it was obsolete. It consisted of seamen's jackets. The amount realized was $4,000. But, that was the only item.

Mr. HALES: How many seamen's jackets would that involve?

Mr. HAYES: We have no record of the quantity.

Mr. HALES: These cost $99,000 and they were sold for $4,000?

Mr. HAYES: Yes.

Mr. HALES: Mr. Armstrong, could you give us some idea why we would have this particular surplus?

Mr. ARMSTRONG: As was mentioned, that is a world war II item. Offhand, I could not tell you. I presume there were large quantities of this jumper left over from world war II.

Mr. HALES: Why would we keep them for 13 years?

Mr. ARMSTRONG: Well, that is a little surprising to me. I am not sure why we did.

Mr. PRITTIE: A supplementary question. Did the style or design change from what they are wearing now?

Mr. ARMSTRONG: Obviously, the design has changed. Normally, nowadays, when changing a design of clothing we work it out to the extent it is possible and use up the old style before the new style is introduced. But in this particular case of the world war II jumpers, I am not sure. I would have to go back and examine it in detail. I am sorry but, offhand, I cannot answer your question fully.

Mr. HALES: But you made the statement that you were trying to get rid of surpluses quickly and, therefore, not keep them around because it cost money to store these surpluses. But, this is not borne out in this statement, where the goods have been kept for 13 years.

Mr. ARMSTRONG: No. But, as I said, we are putting a great deal more emphasis on this today than we did a few years ago.

Mr. Hales, I might also say that in respect of all these items we always are faced with rather difficult decisions in the sense that in an emergency one could imagine, at any rate, that you could use almost anything, and it probably is right that you could and, in fact, if you did get into a war all these things are going to be short. Therefore, even though these things do not meet the styles of today, there is some reluctance sometimes to dispose of them. I just have mentioned a kind of contingency.

If I remember rightly, another thing that may account for this, at least to some degree, is that back perhaps seven or eight years ago stocks of clothing were maintained for mobilization purposes, and so on, and as the concepts and nature of war had changed somewhat we no longer maintained large mobilization stockpiles. This may have some bearing on this particular item.

Mr. HALES: I have one more question, the answer to which may take a little while to look up. In respect of the R.C.A.F. the amount under "miscellaneous" on page 4 is $2,305,000 roughly. I would like to know the top three items that appear in that figure under "miscellaneous" and what they were for.

The CHAIRMAN: While that is being looked up you may proceed, Mr. Crouse, followed by Mr. Smith and then Mr. Tardif, with others to follow after that.

Mr. CROUSE: Mr. Chairman, some of my questions have been asked and answered. However, I would like to direct a question to Mr. Henderson. Could some of the losses on surplus military equipment be curtailed if the amount and type of equipment available could be advertised more widely among Canadian taxpayers? I notice in your report—upon which I would like to commend

you—that for this purpose the corporation maintains lists of prospective customers by class of material and equipment offered for sale, and these are the persons circularized. Then you say that this usually involves an approach to original tenderers in an effort to obtain higher offers. If the first offer is not acceptable is it possible that there are others in Canada who might be interested in this equipment, persons other than those who are apparently circularized? I notice, referring back to an earlier part of your statement, that you mention electronics spare parts, vehicle spare parts, aids to navigation, and so on. These items might be of vital interest, for example, to large shipping companies who might want to buy some of this electronic equipment for use on ships, or they may be interested in aids to navigation, and they may not be aware that this equipment is available because they may not be on the list of those who are circularized. Could you explain in a little more detail the methods used for tendering on this used equipment?

Mr. HENDERSON: The answer to your question, Mr. Crouse, should probably be given by Mr. Richard because it is the responsibility of Crown Assets Disposal Corporation to place that advertising and to sell this surplus equipment. The methods that he would employ in circularizing and advertising and doing everything he can to get the best price are, I repeat, his responsibility. Could you therefore address the question to Mr. Richard?

The CHAIRMAN: Mr. Richard, can you answer that?

Mr. RICHARD: Over the years we have had inquiries from almost everybody in the various trades, and we have built up lists of prospective purchasers which we circularize each time we have a certain lot in the category involved. These lists are fairly voluminous; in some cases they run to over several hundred names. I think we have almost everybody in the country who is interested in any of these lines. We welcome inquiries at any time, and we will be pleased to add to the lists at any time names of people in these various trades who are interested in purchasing from Crown Assets Disposal Corporation.

Mr. CROUSE: Would you not agree, Mr. Richard, that it would cover a lot more Canadians if lists of available goods were publicly advertised in some of our large Canadian newspapers so that all Canadians would be aware of the surplus? This might result in receiving better bids for some of these surplus goods than you are now receiving. Would you not agree that this would be a better way of bringing it to the attention of more Canadians?

Mr. RICHARD: We do advertise in many large newspapers. Newspaper advertising is very expensive, and it would not be warranted where the possible recovery is not exceptionally large. The recovery involved must warrant spending money on advertising. We do advertise large items such as boats and aeroplanes and, of course, lands and buildings. For us to advertise, the items must be of sufficient importance to warrant spending money for the advertising.

Mr. CROUSE: Mr. Hales touched upon one item of some $90,000 of clothing which was sold for $4,000. Can you tell us if the notice of this surplus was sent only to a special list of people, or was this item publicly advertised?

Mr. RICHARD: I do not know offhand; I cannot say. However, I doubt that it would have been advertised. On the other hand, I think our lists are sufficiently large to include all dealers who might be interested.

Mr. HALES: I raise the point simply because $90,000 odd of clothing sold for $4,000 seems to be a very small realization.

Mr. RICHARD: Clothing that has been around for 20 odd years is not likely to fetch a very high price—and it was probably used clothing at that.

Mr. HALES: Do you feel your present methods of advertising surplus materials are satisfactory and that they cannot be improved upon?

Mr. RICHARD: Oh, everything can be improved upon. However, we think we are hitting the proper medium.

The CHAIRMAN: Mr. Tardif, you have a supplementary question?

Mr. TARDIF: The two or three firms which called me must have been exceptions that proved the rule in so far as the statement you have just made to the effect that you notify all the firms who are interested. Several firms called me and said they wanted to bid but were refused permission to do this, even if they supplied to the department a banker's statement to the effect that they were able to pay. When I called your department they said at that time that they had enough people on their list and did not want to add to it. This does not appear to me to be the best way to obtain the best possible price.

I have another question before you answer the first one. I do not share your opinion that advertising material for sale is not a method which would lead to obtaining a better price. I do not know how you base your decision for doing this. I was wondering, when you do advertise, whether you establish a reserve price on the material you are going to offer for sale and, if you do not establish a reserve price, how you explain that you negotiate again with the tenderer so that you can have a better price. This is not an ethical method accepted by the tender system. In the trade, actually, it is considered to be and is called peddling. I think it is a very bad example for the dominion government to do any peddling. I wonder if you have any explanation of that.

Mr. RICHARD: First of all, have we a reserve price? We do not call it a reserve price as such, but we do know that having sold goods of that nature before and having been able to obtain a certain price, the results of a particular offering may be too low compared with past experience or with goods of a similar nature, and therefore we do not accept the highest price given if it is not sufficient.

Mr. TARDIF: Then that means you have a reserve price.

Mr. RICHARD: Yes.

Mr. TARDIF: You establish a reserve price before you ask for tenders?

Mr. RICHARD: We do not accept any price given to us.

Mr. TARDIF: I was not asking if you accept any price; I was asking whether you establish a reserve price before you ask for prices.

Mr. RICHARD: No.

Mr. TARDIF: You do not establish a reserve price?

Mr. RICHARD: No. We do establish one when we see what is the result of the bidding. It is the same thing. We determine whether this price is satisfactory in the light of our experience of past offerings. Surely we are not to accept any price given to us if it is too low.

Mr. TARDIF: I would not want you to give anyone the impression that this is what I suggest; what I suggested by my question was that you should establish a reserve price before you put the merchandise on sale rather than establishing a reserve price while you are in the process of dealing with someone who wishes to purchase surplus material.

Mr. RICHARD: We certainly have a darned good idea what it is going to fetch.

Mr. TARDIF: You may have a very good idea, but to me that looks most irregular.

The CHAIRMAN: Mr. Smith.

Mr. TARDIF: Mr. Richard did not finish answering my questions. He did not answer the first question I asked. Perhaps I should have separated them.

When a person establishes ability to pay, why is he not allowed to tender?

Mr. RICHARD: Ability to pay has nothing to do with it. We ask the high tenderer to pay cash immediately, and if he is unable to pay we go to the second bidder or ask for new bids. Therefore his ability to pay has nothing to do with it.

Mr. TARDIF: How do you know whether the man you have refused permission to bid would not be the highest bidder?

Mr. RICHARD: We do not refuse permission to bid to anyone who is in the trade. First of all, I should say that we do not retail merchandise; therefore we will not offer goods of, say, plumbing and heating equipment, to a grocer or something of that nature. We do not retail goods either; we will not accept any bid from an individual on certain types of merchandise which we have in quantity because it would be too expensive to sell piecemeal like that. However, anyone who is in the trade is welcome to bid.

Mr. TARDIF: I would not like to say that Mr. Richard is evading the question because I do not think he is, but suppose the fellow is a grocer and has sufficient money to buy the total lot and wishes to bid at a higher price than someone in the trade, would you refuse the bid?

Mr. RICHARD: We will not invite him to bid on something that is not in his line.

Mr. TARDIF: The people complaining to me were not complaining about not being invited; they were complaining about not being accepted. I do not say a grocer was getting plumbing equipment—

Mr. RICHARD: If you know of cases of that kind I would like to hear about them.

Mr. TARDIF: I have not the information here but I personally called your department and that was the answer I received.

You did not answer my question about it being a good or bad practice to peddle the bid.

Mr. RICHARD: I think the Auditor General has said that this is only occasionally the case, or something like that. However, that happens where the offers received are indeed much too low.

Mr. TARDIF: I have another question which I would like to put to you just for curiosity, and then I will give someone else a chance. How do nuts and bolts and screws become obsolete?

The CHAIRMAN: Perhaps we should let Mr. Smith put some questions here, and that will give Mr. Richard an opportunity to think over that question.

Mr. TARDIF: Then will he also think about how plumbing fixtures become obsolete. Is it a case of the new type of toilets that do not rest on the floor making the old type obsolete?

Mr. ARMSTRONG: I should attempt to answer that question because it seems to be directed to the Department of National Defence.

When you ask how nuts, bolts and screws become obsolete I suppose my answer should be that in a sense they do not become necessarily obsolete. However, I can conceive of a situation in which you might have a type of bolt used for certain types of equipment that become obsolete when the equipment goes out, and which may not be suitable for other equipment; and therefore one would dispose of them.

With regard to the plumbing and heating, this was the story of a depot in Montreal. Following the Currie report back in 1951-52 we brought together the engineering supplies and put them in one depot, based on the recommendation of that report, in order to get better control of them. Subsequently, as they were used up there were some plumbing and heating items left over. These

items were purchased during world war II and were all examined. There were bits and pieces, couplings and other sorts of things, and as we had no economical use for them they were declared surplus. Whether or not you consider them obsolete I suppose is a matter of definition.

Mr. SMITH: I have a question for Mr. Richard. On page 6 of Mr. Henderson's statement are these words:

> Sales on this basis are made with priority purchasers, such as federal or provincial departments or agencies, municipal bodies, and so on.

If I could apply this to real estate, of which quite an amount has been declared surplus in view of certain changes being made in the Department of National Defence, would Mr. Richard explain the system that is used for the disposal of surplus real property and relate this to the priorities that are suggested on page 6 of Mr. Henderson's statement.

Mr. PRITTIE: There is not any real property in this list.

Mr. RICHARD: No, there is not. But, in the case where a property is referred to us by the Department of National Defence as surplus I should say, first of all, that it generally has a note on it of some people who already are interested in it. This may include a provincial government, a municipal government or some other organization enjoying a priority under this classification. In that event, if any of these are mentioned, we immediately communicate with them and will negotiate with them a fair market price, based generally on an expert evaluation that we would obtain from outside. In that sense we do not offer it to the public.

Mr. HARKNESS: Mr. Richard, would you speak a little louder please.

Mr. RICHARD: In that sense we do not offer it to the public. Does that answer your question?

Mr. SMITH: Suppose a provincial authority, a municipal authority and some other public or semi-public body had an interest in a particular piece of property, do you have a system of priorities upon which you work?

Mr. RICHARD: Oh, yes. The higher class of government will have the first preference. Preference will be given first to departments of federal government; if none of them are interested, then the provincial governments will have the next priority and, if they are not interested, the municipal authorities have the next priority, and so on.

The CHAIRMAN: Have you a question Mr. Southam?

Mr. SOUTHAM: Yes, Mr. Chairman. However, several of the questions that I was going to pose have been put and answered.

I would like to associate myself with the comments of Mr. Hales and extend my appreciation to the officials who have appeared before us this morning for the excellent job they have done in getting this fine summary together so that we could review it at this meeting. I realize that it necessitated a considerable amount of concentrated work in a very short period of time.

I would like to follow through and support what Mr. Henderson has said, that we should adopt a policy of having a summary or something fairly well itemized, perhaps similar to what we have here or a little more explicit, which could be put before the committee. I think this would serve a very good purpose. The reason we have these gentlemen here this morning is that there has been a certain amount of scepticism. There is possibly an unhealthy attitude on the part of some of our taxpayers that this is not exposed enough in order for us, their representatives, to ascertain what is going on. I, as a member of parliament, do not like to see these criticisms. I think it would be in the best interest of everyone concerned if we had a more detailed statement in this connection. I have noted the amount realized in respect of the original cost. We

have here an amount of $28,956,581 as the original cost and the amount realized is roughly, $715,106 which is 4 per cent or, in other words, a loss of about 96 per cent. This would seem to me to be a little out of proportion.

I do realize, after the discussion which has gone on, that there is a lot of stuff that would be obsolete or almost so. However, reverting to this item of plumbing and heating in "miscellaneous" I think it would take quite a long time before these items would become obsolete. In these cases I think we should aim at a recoverable amount of, say, 10 per cent or something beyond that, rather than being content to have it stay at 4 per cent. I think if an annual statement of this type was submitted year by year we gradually would increase the realizable net disposal figure. As I have stated, I would like to support Mr. Henderson's suggestion in this regard.

The CHAIRMAN: Thank you, Mr. Southam. Mr. Harkness follows, followed by Mr. Prittie and Mr. Francis.

Mr. HARKNESS: Mr. Armstrong, roughly two thirds of this amount of $28 million concerned R.C.A.F. equipment. I presume the great bulk of that is attributable to planes which now have gone out of service.

Mr. ARMSTRONG: Yes. Certainly the bulk is attributable to planes that have gone out of service.

Also, as you will recall, there were heavy radars that went out on the Pine Tree line, which accounted for something like $4 or $5 million of it. But, the bulk is quite clearly due to airplanes and the supporting parts which have gone out of service.

Mr. HARKNESS: The Auditor General gave us a figure of an average of $26½ million from 1957 to 1961. Would it also be true that the great bulk of that was R.C.A.F. equipment and was attributable to planes which had gone out of service?

Mr. ARMSTRONG: I would guess that that is so. Although I feel fairly certain this would be the case, I would not like to be definite on this without really going back and looking at it.

Mr. HARKNESS: And, as has been pointed out, these R.C.A.F. planes have gone out of service and the spares for them, have an extremely limited sales value because they mostly have to be sold for scrap, which to a very large extent would explain the fact that there is such a low recovery value.

Mr. ARMSTRONG: I think unquestionably that is so.

Mr. Richard just has pointed out to me, in respect of the plumbing equipment, that the recovery was 18.1 per cent.

Mr. HARKNESS: Does this particular figure for 1962-63 include the CF-100 planes which were scrapped during that period, and the spares that went with them.

Mr. ARMSTRONG: Yes, it includes the CF-100, the Sabres, Mitchells, Lancasters, Cansos, as well as a few Harvards.

Mr. HARKNESS: Would the CF-100 planes and spares disposed of during that period constitute a material percentage of the $18 million?

Mr. ARMSTRONG: Let me make one point clear; this does not include whole airplanes but includes engines, spare parts, fire control equipment and so on, which does constitute a substantial proportion of the total.

Fire control equipment for the Mitchells, CF-100's and Sabre aircraft, which was included in this list, amounted to $3,607,000, original cost; the spare parts for the Mitchells, Sabres, CF-100's, Cansos and Lancasters amounted to $4,459,000, original cost; the Orenda engines that were included amounted to $2 million, so quite obviously this does represent the bulk of the total.

Mr. HARKNESS: Have you any estimate of how much of the roughly $130 million in the period 1957 to 1961, plus this $28 million, would be attributable to second world war purchases?

Mr. ARMSTRONG: I could not make a guess on it. I would have to look it up. It would be quite a job to go back and examine it in detail.

Mr. HARKNESS: I think you would have some rough idea. Would it constitute a quarter or a half?

Mr. ARMSTRONG: I would feel it would constitute certainly a quarter and probably more than that.

You will recall that a great deal of the world war II equipment that we held after the war was transferred as mutual aid.

Mr. HARKNESS: Yes.

Mr. ARMSTRONG: And, various packages of spares and so on were allocated for that purpose.

The next surplus included various items of equipment which were not acceptable by NATO countries for mutual aid or they did not need them. These were declared surplus and, unquestionably, constituted a very considerable proportion of this.

Mr. HARKNESS: Well, the point I was getting at is that the large size of this figure is attributable to world war II purchases and subsequent technological advances which made the equipment used at that time no longer usable, as a result of which you perhaps have a considerably larger figure than you would expect owing to these factors.

Mr. ARMSTRONG: Yes, I would think that is true. I think these figures probably are larger than the continuing ones. But, perhaps when you get the statement from year to year it will prove I am wrong. We always have technological improvements and alterations which result in some surpluses. However, I would expect these would tend to go down as time goes by, except for one other factor which I should mention. We are talking about original costs as they pertain to world war II and the airplane today costs so much more money perhaps the dollar figures will not go down. But, I do not know.

Mr. HARKNESS: I have one other question. Is the size of the disposal in 1962-63 in the amount of $39½ million, as compared to the average for the period 1957 to 1961, due to a considerable extent to the recommendations of the Glassco commission that a good deal of the material which was still being held was costing far too much to hold in warehousing, and so on, more than was justifiable and, therefore, the department should get rid of it.

Mr. ARMSTRONG: That is true. I think you yourself are aware that after the Glassco commission came out with their recommendations we put considerable emphasis on getting rid of surpluses because of the economics of holding items. The department has made some changes in their methods and have put a drive on to get rid of as much of this surplus material as we can. This probably will account for these figures not only being higher in this particular year but in going up, I think, for a year or two because of just simply getting rid of things that we feel we should get rid of on economic grounds.

Mr. HARKNESS: Because of warehousing costs?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Mr. Prittie is next, followed by Mr. Francis, after which I will ask for the reply to Mr. Hales questions.

Mr. PRITTIE: I have one question to direct to Mr. Richard and two questions to direct to Mr. Armstrong.

In respect of the sale of aircraft parts and engines—and I am thinking particularly of Harvards and possibly Cansos which are types which can be used—is your list restricted to Canadian purchasers? The reason I ask the question is that there are other parts of the world where this equipment is used for a longer period of time than in Canada.

Mr. RICHARD: Oh, yes, there is a great number of American purchasers on our lists. There are hundreds of them.

Mr. PRITTIE: And, would these be people who might market these items elsewhere, say in Latin America and other parts of the world?

Mr. RICHARD: Oh, yes. We do not solicit in the United States but we do accept inquiries from American firms and will give them an opportunity to make offers.

Mr. PRITTIE: You do not advertise in the aircraft trade journals for example?

Mr. RICHARD: Yes, in Canada at times, but not in the United States. It would not be quite cricket for the Canadian government to offer surpluses in the United States. I believe there are certain laws which are rather stringent in the United States against surpluses even from their own country as well as from other countries.

Mr. PRITTIE: Do you get inquiries from the United States from people who market aircraft engines?

Mr. RICHARD: Yes, we do sell to them, too.

Mr. PRITTIE: Mr. Armstrong, the figure for the year under review has been mentioned as a fairly high one. Would you be able to say if most of the world war II equipment has now been disposed of?

Mr. ARMSTRONG: There is no question that most of it has been disposed of but I am sure there is still some on hand that will eventually be disposed of. However, certainly the vast bulk of it has been disposed of.

Mr. PRITTIE: Some reference was made to the future and to likely surpluses in the future. Can you think of any major piece of equipment in the R.C.A.F. at the present time which would be in this category in the next two or three years—a particular type of aircraft, electronic equipment in large quantities which will be no longer required by the service or any major line of aircraft?

Mr. ARMSTRONG: We will have surplus Harvard aircraft as the Tudors are introduced. The Harvards are now the basic trainers, and when the Tudor comes into service those Harvards will become surplus. I would expect some others. For example, I would expect some of the T-33's would undoubtedly become surplus. We will probably have additional CF-100's and Sabres that will become surplus in the future, but just exactly when I would not like to say. Obviously, they will be becoming surplus over the next few years.

Mr. PRITTIE: Are you able to sell complete aircraft? Are you able to sell T-33's and CF-100's complete? Who wants to buy this type of aircraft?

Mr. ARMSTRONG: As you probably know, we have given away some T-33's as mutual aid, and it is possible that some countries would like to buy the T-33's. I would not like to say offhand which ones would be interested, but it is conceivable that there will be a market for it.

Mr. PRITTIE: Is there any equipment in the Canadian army that is likely to be in this large scale surplus position in the next couple of years?

Mr. ARMSTRONG: I canot think of anything offhand that we will be declaring on a large scale. Undoubtedly there will be equipment declared as it is replaced.

The CHAIRMAN: Mr. Francis, and then Mr. Hales.

May I suggest, gentlemen, that every opportunity be given to complete the examination of Mr. Richard so that we can finish that this morning and go to matters of the Department of National Defence this afternoon.

Mr. FRANCIS: I have a question that I would like to direct to the Auditor General. Under the final summary of surplus items under review there is one item that puzzled me, and that is time expired explosives and batteries the original cost of which was $372,000 and yet nothing was realized. It seems to me strange that there could not be some realization on batteries.

Mr. HENDERSON: I think that is a question possibly for Mr. Armstrong or Mr. Richard. That is the categorization given for the reason of disposal, and I suppose they did not figure they had very much resale value.

Mr. FRANCIS: I would direct that to whoever can answer it.

The CHAIRMAN: Mr. Armstrong?

Mr. ARMSTRONG: So far as the explosives are concerned, as you can see they are time expired. So far as batteries are concerned, I do not know the answer. I assume that the battery being time expired would not be of any value; it would have to be remade to make it useful.

Mr. HARKNESS: A lot of these would be dry batteries.

Mr. HENDERSON: Yes, some would be dry batteries.

The CHAIRMAN: Are you able to shed any light on this, Mr. Richard?

Mr. RICHARD: Not without referring to the list and seeing what constitutes this amount of $372,000.

Mr. HAYES: This amount is a general categorization. There is no amount for batteries or anything like that. This is a general categorization with which we start.

The CHAIRMAN: Have we answered now to the questions Mr. Hales asked?

Mr. HENDERSON: I will ask Mr. Smith if he will give those answers.

Mr. SMITH: The request related to the table, at the top of page 4 of the statement, specifically to the R.C.A.F. item opposite the miscellaneous category. The declarations involving the six largest amounts in descending order were as follows: the first one involved gunsights computer, special tools, test equipment for armament systems, fire control systems, and target-towing equipment. The amount involved in the original cost was $341,548, and the amount realized was $757. The second item involved generators, ground handling equipment and so on, and aircraft spares and equipment. The amount involved in the original declaration was $296,653 and the amount realized on disposal was $19,081. The third item involved aircraft system trainers. The original cost was $280,763 and the amount realized was $974. The fourth item deals with Velvet Glove missile spares, and so on, and guided missile tools and test equipment. The original cost was $156,500 and the amount realized was $11,960. The fifth item concerns electronics, guided missile test equipment, Browning machine guns and miscellaneous. The original cost was $141,582; the amount realized was $414. It should be pointed out in connection with this particular item that some of the Browning machine guns were destroyed. Time did not permit our identifying the cost of the destroyed machine guns. The sixth item deals with electronic and ground handling equipment acquired at a cost of $132,471, and the amount realized was $252.

Mr. FRANCIS: I am willing to recognize, Mr. Chairman, that one cannot dispose of Browning machine guns to the highest bidder!

Mr. HALES: I think, Mr. Chairman, that bears out the tremendous loss suffered on resale of this equipment; and we come back to our original problem, which was brought to our attention by Mr. Armstrong, that owing to the great technological changes that take place we are stuck, and that is about it.

Mr. Armstrong said that in the next few years the loss on surplus sales should go down. If Canada were to renegotiate and withdraw from the use of nuclear weapons, in what position would we find ourselves in regard to the resale of surplus equipment? Granted, the nuclear arms do not belong to Canada, but we have to supply the equipment on which they are used.

The CHAIRMAN: That is part of the general discussion and I will let Mr. Armstrong answer that, but I think it might be leading us into a difficult problem.

Mr. ARMSTRONG: It is hypothetical.

The CHAIRMAN: Mr. Armstrong can try to answer this in a general way.

Mr. ARMSTRONG: So far as nuclear weapons are concerned, of course the aircraft themselves are capable of carrying conventional weapons. The question is whether one declares them surplus if one does not have nuclear weapons; presumably one does not. There is a missile used in the Voodoo aircraft that has a nuclear weapon as a warhead. Those missiles are not usable unless one has a nuclear warhead. On the strike aircraft, of course, there are nuclear bombs. There are also special buildings to handle the new weapons—hangars and so on—but these are not things which involve extensive declaration of surplus. The valuable thing is the nuclear weapon itself, which we do not own.

The CHAIRMAN: I see Mr. Richard becoming quite alarmed at the thought of having to dispose of nuclear weapons in the next two or three years! I think we had better leave this topic.

Mr. REGAN: Mr. Richard, I would like to ask you what is the policy with regard to regional disposal of equipment. As I understand it, you have a number of offices across the country. I have heard some complaints from dealers in the trade—the junk trade and other trades—in the Halifax area that tenders for disposal of equipment in that area go to Hercules and such firms in the Toronto area, whereas they never get tenders on anything in any area other than the maritime region. Is that correct?

Mr. RICHARD: Not quite. We do not refuse anyone who wants to buy in any part of the country. Our field officers have lists of their own, but they may add names. The Halifax office may add the names of Vancouver or Calgary dealers who want to buy in the maritimes, and the Halifax dealers are welcome to buy in Calgary or in Vancouver or anywhere in the country. The only thing is to get the communications working and let us know they are anxious to do so.

Mr. REGAN: Then, in that event, they should contact the office in the other region? Is that correct?

Mr. RICHARD: That would be the best way, yes.

Mr. REGAN: I would like to turn to another aspect of this matter. I must say that I feel there is great advantage to your organization in not making equipment available to people who are not in the trade, contrary to the earlier discussion. For one thing, as I understand it, sometimes you might wish to dispose of so much equipment in the construction trade that, if it was disposed of other than through the trade, if for example it was disposed of to a grocer who wanted to flood the market with it, it would upset the general market in two or three provinces for some time. Therefore it is in the general economic interest not to disturb general channels of trade by disposing of it through other than junk dealers or the regular trade. Is that part of your consideration?

Mr. RICHARD: The policy we have followed since the early days of War Assets Corporation is not to disturb the markets for the various Canadian trades.

Mr. REGAN: Well now, I find a disturbing trend in the maritime region, (a), to give a tender to anyone who wants it even though they are not a registered junk dealer and, (b), to put out tenders in such small lots that the paper work involved must surely amount to more than the recovery. For instance, in the Halifax office you have had tenders for such things as two chairs, a piece of hose, one dozen bolts and a small heater for a truck. This apparently is a relatively recent trend and, in my opinion, an unfortunate one. The junk dealers find it very undesirable to have to travel to Gagetown, for instance, to look at one small item, whereas if there were a number of items there at the same time it would be less costly from their point of view. It is to your interest to have efficient junk dealers in a position to take over almost any sort of item and give you a relatively good price for it and, in view of what I have said, I think this is a very undesirable development which has taken place. Is it national policy to break this equipment down into small lots, as happened in the case I mentioned, or does it merely happen occasionally?

Mr. RICHARD: We do try to bunch several declarations together and endeavour to offer a reasonable lot to purchasers. But, of course, we have to deal with surpluses as they come along and we try to clear these surpluses out of the military depots as quickly as we can. It is a case of whether it is more advantageous to do it one way rather than another.

Mr. TARDIF: Surely that would not come under the heading of selling wholesale, would it?

Mr. RICHARD: We sell to wholesalers. We sell what we have given to us.

Mr. REGAN: To follow that up, when you say you sell wholesale I might mention that recently you sold a forklift from Gagetown directly to a lumber company, not to an equipment company or to a junk dealer; in turn, this lumber company now has it advertised for sale. Does that fit into your general policy of selling wholesale?

Mr. RICHARD: I would like to know more about that particular case.

Mr. REGAN: Perhaps we can discuss it later.

Mr. Richard, I think there has been a tendency to put out lots that are too small to be economically handled either from the point of view of the junk dealer or from the point of view of the amount of paper work involved in the Halifax area, and I would be gratified if you would look into that matter.

Mr. RICHARD: You have a point. That is something we are watching constantly. Sometimes it does get out of hand. But, we try to group together as much as we can. As I said, it does get out of hand sometimes.

Mr. REGAN: I will reserve my further questions for Mr. Armstrong.

The CHAIRMAN: Mr. Cameron is next, followed by Mr. Mandziuk, and then I would hope we could adjourn for lunch.

Mr. CAMERON (*High Park*): You stated you were not in the retail business.

Mr. RICHARD: That is right.

Mr. CAMERON (*High Park*): Therefore, you do not employ any salesmen?

Mr. RICHARD: What do you mean by that?

Mr. CAMERON (*High Park*): I have in mind in respect of some of the articles not only in the categories we are dealing with but others that you may have an idea that so and so would be a good customer for these articles. In cases like this do you not have salesmen go out, make the necessary approaches, and advise them that you have a lot of good used furniture, for instance, and would like them to see it and buy it.

Mr. RICHARD: Yes, we do.

Mr. CAMERON (*High Park*): Then, you have salesmen in that respect?

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): You never gave us a complete statement of policy. There must be a lot of other goods other than military with which you deal?

Mr. RICHARD: Oh, yes.

Mr. CAMERON (*High Park*): Is there a difference between your policy in regard to military equipment and these other items?

Mr. RICHARD: No; it is the same.

Mr. CAMERON (*High Park*): You have been using the word "scrap" quite a bit.

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): Does that not imply that if it is sold as scrap it is going to be reduced to some other form of metal which will be taken in by a steel factory or some such industry to be processed into some other metal?

Mr. RICHARD: What we mean by that is that the best recovery we can get is the value of the metal content or the basic materials contained in the articles, which usually is referred to as the scrap value or scrap price. In the majority of cases it does go into the melting pots and will find its way to the mills.

Mr. CAMERON (*High Park*): Have you any policy of restriction in respect of where it must go?

Mr. RICHARD: No.

Mr. CAMERON (*High Park*): So that someone could buy some of this electronic equipment, for example, and use it for any other commercial purpose or, in fact, any purpose for which it is usable?

Mr. RICHARD: That is the trouble; it has no commercial application.

Mr. CAMERON (*High Park*): I beg your pardon.

Mr. RICHARD: It has no commercial application in most cases.

Mr. CAMERON (*High Park*): It may not but I want to find out what your policy is.

Mr. RICHARD: When it has we are able to get a price for it.

Mr. CAMERON (*High Park*): Then you do not restrict it to scrap. They can use it for any purpose they want?

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): I imagine from what you said that plumbing fixtures were sold as scrap?

Mr. RICHARD: No.

Mr. CAMERON (*High Park*): They were sold to be used over again?

Mr. RICHARD: But, we might get only a scrap price for it.

Mr. CAMERON (*High Park*): If it is usable and can be used again—and I am thinking of plumbing equipment—why should you accept a scrap price for it?

Mr. RICHARD: Because we cannot get anything else.

Mr. CAMERON (*High Park*): That is my point. What efforts are you making to try and get a better price for it?

Mr. RICHARD: Plumbing and heating equipment are a commodity on which we get a fair return.

Mr. CAMERON (*High Park*): What different approach have you in respect of plumbing and heating equipment as opposed to the other types of equipment you are selling?

Mr. RICHARD: I do not know what you mean.

Mr. CAMERON (*High Park*): Do you make a greater effort? Do you say that this is something that you are not going to just throw on the scrap pile. If a junk dealer comes along do you ask him to take a look at all this beautiful equipment, and if he is going to go out and sell it do you ask him to give you a better price for it?

Mr. RICHARD: We do it beforehand.

Mr. CAMERON (*High Park*): You do not endeavour to seek out a better market for it?

Mr. RICHARD: Oh, yes. We have all the dealers in the country on our list and we know when they will be interested enough in a certain article to give us a fair price or, on the other hand, we know when it is going to fetch only a recovery price.

Mr. CAMERON (*High Park*): Have you any policy in respect of equipment which is supposed to have a military value and which could be used by some other country for military purposes?

The CHAIRMAN: Order, gentlemen.

Mr. RICHARD: No, we do not offer to foreign governments. They may solicit.

Mr. CAMERON (*High Park*): I am not referring to that specifically. But, in respect of the junk dealer, or whoever the buyer is that comes along, you have no control over him after he has bought the item?

Mr. RICHARD: No.

Mr. CAMERON (*High Park*): So, he could sell it to any country he wanted to, subject to whatever the laws of Canada might be in that regard?

Mr. RICHARD: Right.

Mr. CAMERON (*High Park*): But you would have no control over it; it has passed out of your control.

Mr. RICHARD: That is right.

Mr. TARDIF: I have a supplementary question. You said that in respect of some of these materials that are not actually obsolete you get a fair price. I note that your return on plumbing equipment was 18 per cent of the original price. Do you call that a fair price?

Mr. RICHARD: Yes.

Mr. TARDIF: What do you call an unfair price?

Mr. RICHARD: Scrap price.

Mr. TARDIF: Which is below 18 per cent?

Mr. RICHARD: 18 per cent is a good price for plumbing and heating equipment that has been around 15 years or so. You see, it may be rusted.

Mr. CAMERON (*High Park*): Over the whole picture of the total $28,956,581 and the total return of the year in question of $715,000, the percentage of return is between 2 per cent and 3 per cent, is it not?

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): This may be quite understandable but it is certainly a tremendous difference.

Mr. RICHARD: Well, you must keep in mind that a great deal of this has to be sold for the value of the components alone; in other words, for the value of the basic material. An airplane that costs $250,000 to $500,000 has only about 10 to 20 tons of metal in it, and that will never bring any more than $500.

Mr. CAMERON (*High Park*): Could you give the committee any idea how much it cost your agency during the year to realize this $715,000 which you received?

Mr. RICHARD: Do you mean how much it cost to sell it?

Mr. CAMERON (*High Park*): Yes.

Mr. RICHARD: Perhaps I can give you another set of figures and say that we have disposed of in the past year materials which have brought $11,200,000, which has cost us $625,000 in administration expenses.

Mr. CAMERON (*High Park*): And the same proportion should apply in this particular breakdown?

Mr. RICHARD: It should.

The CHAIRMAN: Mr. Crouse.

Mr. CROUSE: I have a supplementary question. A moment ago Mr. Richard said, in answer to a question that he knew when to contact the different dealers in respect of disposal of plumbing equipment. Would you tell us how you know when these people are interested in buying plumbing equipment? How do you know when the opportune time is? You said you knew when to contact them.

Mr. RICHARD: What I did say is that we had lists of purchasers who are interested in materials of the kind to be offered and we invite offers from them. We know their main interests, what type of goods they are interested in, and we have a fairly good idea what they are going to offer us for a certain type of goods.

Mr. MANDZIUK: Mr. Richard how many regional offices have you throughout Canada?

Mr. RICHARD: We have an office in Halifax; we have an office in Ottawa here which handles the Ottawa and Montreal region, and we have one in Toronto, Calgary and Vancouver.

Mr. MANDZIUK: Do these regional offices operate independently of your office here?

Mr. RICHARD: Independently?

Mr. MANDZIUK: Yes.

Mr. RICHARD: Oh, no. All reports of surpluses are funneled to Ottawa and we distribute them to our field offices, which call for offers, and then they are referred to us here.

Mr. MANDZIUK: Then the final decision in respect of acceptance of an offer or otherwise rests with your office?

Mr. RICHARD: Right.

Mr. MANDZIUK: How many people are employed by the corporation? I do not imagine you have that immediately but could you give us a rough estimate?

Mr. RICHARD: One hundred.

Mr. MANDZIUK: Are you overstaffed or understaffed?

Mr. RICHARD: Oh, we are not overstaffed by any means.

Mr. MANDZIUK: What exactly is required in the way of paper work or the various steps which your regional office would take, whether it was a small or large item? For example, are there various steps which entail considerable work and expense which hardly would warrant you advertising small quantities, to which reference has been made? What are the various steps you take until the item actually is sold?

Mr. RICHARD: Well, all of them are listed on these offer forms which we send to prospective buyers, when they are asked to bid. And, the same procedure applies to all sizes of lots. We ask for bids. We attempt to dispose of reports of surpluses as they come in.

Mr. MANDZIUK: Are these forms or lists sent to the whole dominion?

Mr. RICHARD: Oh, no. They are sent to people in the district plus others who are on the local lists. As I explained a moment ago, anyone in Halifax

who wants to bid on Calgary surpluses will get invitations for offers from Calgary.

Mr. MANDZIUK: In other words, all those on the list get notice of what surplus you have for sale?

Mr. RICHARD: Yes.

Mr. MANDZIUK: I had other questions but they have already been asked and answered.

The CHAIRMAN: There is one other question I have. I was looking up the legislation which appears in chapter 260 of the revised statutes, and I see that section 5 places the original responsibility in the hands of the minister; that is, the minister may do all the things which you actually do. Then, I noted in section 8, unlike most crown corporations which have specific authority, that the minister may authorize the corporation to exercise or perform any or all of the functions or duties of the minister which are specifically set out in section 5, and then, subject to specific or general instructions from the minister, the corporation may do such and such. In this particular case do you act as a crown corporation, and has the minister vested in Crown Assets Disposal Corporation all of the functions which, by section 5, are originally given to the minister? In other words, do you act as his agent in a complete way or is the minister free to exercise control from time to time?

Mr. RICHARD: I would say that the minister is quite free to exercise all the powers that have been given to him. On the other hand, he has also delegated these powers as contemplated under section 8 of the act and we hold a written delegation of the powers of the minister.

The CHAIRMAN: Thank you.

Gentlemen, you have been very good in staying here this length of time. I hope Mr. Richard and his officials will not need to return. However, we will carry on this afternoon and we have sent out in the notices a number of paragraphs from the 1962 and 1963 Auditor General's report, with which the Department of National Defence is concerned. We do not get too much of a chance to have Mr. Armstrong with us because he is concerned with the defence committee. He will be available this afternoon and evening. I hope we can come back at the times named and finish the matters with which Mr. Armstrong is concerned.

I wish to thank Mr. Richard and his officials for giving us information which the committee requested.

We will meet at 3:30 or thereabouts this afternoon.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

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

TUESDAY, JULY 14, 1964

WITNESSES:

Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. E. A. Driedger, Deputy Minister, Department of Justice; Mr. A. M. Henderson, Auditor General; and Mr. B. A. Millar, of the Auditor General's office.

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

21180—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

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

M. Slack,
Clerk of the Committee.

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[1] Replaced Mr. McNulty on Monday, July 13.
[2] Replaced Mr. Basford on Monday, July 13.

ORDER OF REFERENCE

HOUSE OF COMMONS,
MONDAY, July 13, 1964.

Ordered,—That the names of Messrs. Legault and Leblanc be substituted for those of Messrs. Basford and McNulty respectively on the Standing Committee on Public Accounts.

Attest.

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

21180—1½

MINUTES OF PROCEEDINGS

TUESDAY, July 14, 1964.
(19)

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

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Fisher, Francis, Frenette, Gendron, Grafftey, Hales, Lessard (*Saint-Henri*), Loiselle, Mandziuk, O'Keefe, Nowlan, Pilon, Prittie, Rinfret, Ryan, Southam, Stefanson, Tardif, Tucker, Wahn, Winch (26).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. E. A. Driedger, Deputy Minister, Department of Justice; and Messrs. Millar, Laroche and Hogan of the Auditor General's Office.

The report of the Subcommittee on Agenda and Procedure was presented by the Chairman, dealing, *inter alia,* with the recommendation that a subcommittee be appointed to further inquire into the purchases of the Department of National Defence and declared surplus to Crown Assets Disposal Corporation. (*See Evidence*).

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

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

The Chairman advised that the Deputy Minister of Justice would appear later this morning.

Mr. Baldwin announced the cancellation of the scheduled appearance on July 30 of the Deputy Minister of National Revenue, Mr. Sim.

The Chairman tabled an up-dated document prepared by the staff of the Treasury Board, dated June 1964, entitled, "Provision in Estimates for Grants, Subsidies and Special Payments", copies of which were distributed to the members.

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

The Chairman, after introducing Mr. Armstrong, called Mr. Henderson.

On paragraph 64 of his 1963 Report, Mr. Henderson reviewed lease termination payments. Mr. Armstrong commented on his department's follow-up procedure on previous recommendations of this committee, supplied additional information and was questioned thereon.

On paragraph 78 of the 1962 Report, *Renovation of remote transmitter station,* Halifax, after discussion, this paragraph was referred to the Steering subcommittee for further consideration.

Mr. Armstrong retired temporarily and Mr. Driedger was called.

The Chairman introduced Mr. Driedger and invited him to state his views on the Auditor General's status on the matter of seeking legal advice.

Mr. Driedger made a statement dealing with the status of the Auditor General seeking legal advice, explained the position of the Justice Department in this connection, and was examined thereon together with Mr. Henderson.

The examination of Mr. Driedger being concluded, the Chairman thanked him and he was permitted to retire.

Mr. Armstrong having been recalled, the Auditor General and Mr. Armstrong commented on paragraph 79 of the 1962 Report and were examined thereon.

The questioning of Messrs. Armstrong and Henderson still continuing, at 11.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(20)

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

Members present: Messrs. Berger, Cameron (*High Park*), Cardiff, Choquette, Crouse, Fane, Francis, Frenette, Gendron, Hales, Leblanc, Legault, O'Keefe, Pilon, Regan, Rinfret, Ryan, Southam, Tardif, Tucker, Wahn, Winch (22).

In attendance: Same as at morning sitting with the exception of Mr. Driedger.

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

Mr. Armstrong supplied two answers requested at the morning sitting relating to Paragraph 78 of the 1962 Report.

The Vice-Chairman welcomed two new members of the Committee, Messrs. Legault and Leblanc.

Messrs. Henderson and Armstrong commented on paragraph 81, *Financial Assistance to the Town of Oromocto,* and were examined thereon.

On paragraph 82 of the 1962 Report, and paragraph 66 of the 1963 Report, *Unauthorized use of Crown-owned vehicles,* Messrs. Henderson and Armstrong commented thereon, and were further examined.

On paragraph 115 of the 1962 Report, *Non-productive payments,* Messrs. Henderson and Armstrong commented on payments relating to the Department of National Defence and were examined thereon.

The examination of the witnesses still continuing, at 5.55 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(21)

The Committee resumed at 8.20 p.m. The Vice-Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Berger, Cardiff, Choquette, Crouse, Fane, Francis, Frenette, Gendron, Hales, Legault, Rondeau, Ryan, Southam, Tardif, Wahn, Winch (16).

In attendance: Same as at afternoon sitting.

Messrs. Henderson and Armstrong commented on paragraphs 64, 65, 67, 68, 69 and 70 of the 1963 Report and were examined thereon, assisted by Mr. Millar.

On paragraph 64, Mr. Armstrong tabled a copy of regulations related to movement of mobile trailer homes. The Committee agreed that this document be printed as an Appendix to the Minutes and Proceeding and Evidence of this day. (*See Appendix*).

Mr. Henderson commented on the non-productive payment list, in his 1963 Report; Messrs. Armstrong and Henderson were further examined thereon.

The examination of Mr. Armstrong being concluded, the Vice-Chairman thanked the witness on behalf of the Committee.

At 10.35 p.m., the Committee adjourned until 9.30 a.m. on Thursday, July 16, 1964.

Attest.

M. Slack,
Clerk of the Committee.

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

EVIDENCE

TUESDAY, July 14, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. Mr. Henderson will be here in a minute or so. In the meantime, there are one or two matters which I would like to bring to your attention.

Your subcommittee on agenda and procedure had a meeting yesterday. This is the report we are presenting to you for your consideration. First, an interim report will be presented to the main committee as soon as available in English and French, dealing with matters considered up to and including June 30, 1964.

Second, an additional interim report covering the Canadian Broadcasting Corporation will be presented to the main committee for consideration before the end of July. Since we had held six meetings in two days which were exclusively devoted to the C.B.C., your subcommittee felt this is a particular matter which should be placed in a watertight compartment and dealt with by the committee by itself. Therefore, there will be a separate report and we hope it will be available some time before the end of the month.

We also anticipate an additional interim report covering all matters considered for the period June 30 to July 31 will be presented to the main committee for consideration.

If we are successful in this, we will then have considered and reported on all the matters with which we have dealt up until the end of the month. In the time remaining to us in the fall, we would be free to complete a fully study of the Auditor General's report for 1962 and 1963, and, for the first time in several years, would be right up to date with our work.

The fourth matter has to do with the consideration we gave to the matter of the Crown Assets Disposal Corporation and the memorandum filed by Mr. Henderson which was considered by the committee, and following which we had discussion with Mr. Armstrong and the president of Crown Assets Disposal Corporation, Mr. Richard. Your subcommittee has a resolution to bring before you for your consideration with regard to the future disposition of this particular matter. The resolution is as follows:

> That a subcommittee of five members be appointed to further inquire into the matter of purchases made by the Department of National Defence and declared surplus to Crown Assets Disposal Corporation as disclosed in the memorandum of the Auditor General tabled in the committee on July 9, 1964, and to report its findings and recommendations to the main committee.

As you know, we have received authority from the house to appoint subcommittees which subcommittees will be entitled to make inquiries and call for persons and papers to the same extent as the main committee. Our proposal is that you establish a subcommittee to complete a further inquiry into this particular matter.

These are the recommendations of the subcommittee on agenda and procedure, and I would like to hear discussion on these matters, and if you approve of them I would appreciate having a motion to that effect.

Mr. WINCH: I would like to move that the committee accept the recommendations of the steering committee.

Mr. CARDIFF: I second the motion.

The CHAIRMAN: Is there any discussion?

Mr. RYAN: What is the date of the report?

The CHAIRMAN: July 9, 1964, is the date which appears on the memorandum. I am not sure whether or not it is the date on which it was tabled in the committee.

It has been moved and seconded that the report of the subcommittee be accepted. All in favour?

Motion agreed to.

The CHAIRMAN: There is one more matter before I ask Mr. Armstrong and Mr. Henderson to discuss with you the current matters. Mr. Driedger, the deputy minister of justice, very kindly has consented to appear here this morning to deal with a matter I brought up last week having to do with the status of the Auditor General in so far as seeking legal advice is concerned. Mr. Driedger said it would not be possible for him to appear at the beginning of the meeting. However, as I thought our meeting would last for some time, he said he would be here some time in the morning at which time he will give us the benefit of his views.

The meeting scheduled for July 30 at which Mr. Sim, the deputy minister of national revenue, was to be present, has had to be cancelled. Mr. Sim already had made commitments to be absent from the city at that time. Consequently, he said it would be possible for one of the assistant deputies to be here, but he was quite concerned with the issues involved, and felt it was necessary he be here. He appreciated the importance of this committee's deliberations, and would like to be present. Accordingly, we will not be having a meeting on July 30. Probably then, or before that time, we will have completed our in camera meetings of the matters which have been before us.

Finally, I am reminded that we have before us now the summary of grants, subsidies and special payments which were disclosed at a previous meeting by the treasury board officials. This carries a summary of all these payments up to the fiscal year 1964-65, which the committee requested. These were found useful last year and, therefore, it was agreed that these be tabled again. This document is available now and will be distributed.

Gentlemen, today we have with us again Mr. Armstrong, the deputy minister of national defence. There are a number of items which are referred to in the notices which have been sent out to you. Mr. Armstrong and Mr. Henderson will discuss those items and will be available for questioning by the members. I will ask Mr. Henderson to initiate the discussion. Would you turn, first of all, to the 1962 report starting at paragraph 74 where there are a number of items.

Mr. A. M. HENDERSON (*Auditor General*): If I may, Mr. Chairman, I would suggest the members might care to turn to the 1963 report, paragraph 64, which covers national defence administrative regulations and practices.

> 64. *National Defence administrative regulations and practices.* During the year under review, as in previous years, instances were observed where the application of administrative regulations relating to the armed forces had resulted in needless or uneconomical expenditure, or were otherwise unsatisfactory from the audit point of view. In accordance with past practice, all such instances have continued to be drawn to the attention of the department, and the services concerned have taken appropriate action to obtain amendment of the regulations or otherwise correct the situation, except in the following cases where action has not yet been taken or is still in progress:
>
> 1. Rehabilitation Leave For Former Members of British and Other Commonwealth Forces.—The regulations permit the inclusion of

service in British or other commonwealth forces for the purpose of calculating entitlement to rehabilitation leave on discharge, provided the entire service is uninterrupted. In this connection, two instances were noted where officers who had transferred from the British to the Canadian forces were released with slightly more than ten years service in the latter and, under the regulations, each became entitled to rehabilitation leave (based on 37 years combined service) of 7½ months valued at approximately $5,000. On questioning this, we were informed that the services have proposed that in any such case in the future the period of rehabilitation leave, on which entitlement is based, should be reduced by the period of termination leave granted on completion of the previous service.

2. Release From Service Through Purchase.—National defence regulations prescribe the conditions under which "other ranks" may obtain their release from service by purchase, the purchase money so received being regarded as partly compensating the Crown for its costs in enrolling and training personnel, and then releasing them within short periods of time. In the audit it has been observed that while the air force and the navy apply the purchase regulation and, in fact, recovered over $100,000 in the last three years, the army suspended its application in 1950, and has since allowed personnel to be released "on request" without payment of purchase money. Inasmuch as the reasons given for requesting release are in many instances the same in all three services (for example, "to return to school" and "to accept civilian employment") it is not clear why the army policy varies from that of the other two services. We were informed that the army's practice is currently under review.

3. Removal Expenses—Mobile Homes.—The regulations relating to the shipment of furniture and effects of servicemen were drafted some years ago when the usual method of shipping was by rail or road van. Since then, mobile homes have come into common use and the movement of furniture and effects in these homes is being regulated by supplementary service orders which provide that when a serviceman owning such a home is transferred from one unit to another he may have his home and contents hauled by a commercial towing firm at a cost not exceeding that which would be incurred were the contents moved in the normal manner by rail or road van, whichever may be the more economical. A test-examination of accounts during the year disclosed a number of instances where, through the submission of fraudulent receipts and the concealing of inadmissible costs, servicemen had been substantially overpaid, principally because of ineffective procedures used in verifying the net weight of the contents, haulage rates, etc. Although, as a result of the disclosures, new instructions are being issued to deal with the situation, it would seem appropriate that the regulations also be amended to include directions specifically dealing with the movement of mobile homes and their contents.

4. Rehabilitation Leave—Misconduct And Inefficiency Releases.—The regulations provide for rehabilitation leave to personnel on release on the basis of thirty days for each completed five years of continuous service and seven days for each completed year of continuous service under five years. These benefits, however, may not be granted if the reason for the release is misconduct, inefficiency or voluntary. In the audit it was noted that members released from the services, under the regulations governing compulsory retirement

to promote economy and efficiency, for reasons such as "not advantageously employable in present rank", and "considered unsuitable for reasons other than misconduct, etc.", who are subsequently determined by the service pension board for superannuation purposes as being released for "misconduct" or "inefficiency", have been granted normal rehabilitation leave allowances. In the opinion of the Audit Office, the reason for release as determined by the service pension board on which pension benefits are based should also be used to determine entitlement or otherwise to rehabilitation leave.

5. Lease Termination Payments.—Comments regarding regulations governing the reimbursement of servicemen for lease termination payments were made in the 1960 report (paragraph 56) where it was noted that such outlays were being made up to a maximum of three months' rent. After considering the matter at some length and having in mind that approximately $500,000 was being spent annually by the department, as well as noting the use by the Royal Canadian Mounted Police of a lease form providing for only a 30-day termination clause, the standing committee on public accounts recommended in its fifth report 1961 (paragraph 52) that the maximum period be reduced in future to the equivalent of one month's rent.

   After considering the recommendations of the public accounts committee an amendment was made to the regulations during the year which, while providing for discretionary powers to be exercised by administrative officers in dealing with individual cases, did not, however, reduce the maximum period from three months to one. The general practice has continued to be to make reimbursement on the basis of the permissible maximum of three months' rent, and the outlay for lease termination payments during the fiscal year 1962-63 amounted to $670,000.

6. Medical Examination Of Militia Recruits For The National Survival Training Program.—During the perod from November 1961 to May 1962 the army undertook a special militia training program which involved recruiting some 90,000 men in four separate courses of six weeks duration each. Medical examinations of recruits were required on enrolment and also on completion of each course. To carry out the exceptionally large number of examinations quickly, civilian medical practioners were employed either (*a*) at a rate of $18 per half day or (*b*) on a basis of $5 per enrolment examination and $2 per releasing examination, in accordance with existing regulations.

   It was noted that in some instances, where the second of these methods of remuneration was used, the doctors had been paid fees averaging $170 a day, in total, including amount as high as $300 to $400 for specific days. After investigating these apparently excessive amounts, the department concluded that present regulations regarding medical fees, while satisfactory under normal conditions, are not satisfactory under circumstances similar to those encountered under the special militia training program, and decided that special financial arrangements should be made at the outset to deal with the medical examination of large numbers of personnel within a short period.

7. Excessive Payment Of Foreign Service Allowances.—Regulations applicable to the armed forces provide that an officer going on a

training course of less than six months duration is not entitled to move his family at government expense nor is he entitled to foreign service married allowance. In the audit a case came to attention where an officer was posted on a five months' training course to Norfolk, Virginia, and, for the reason that immediately following the course he was expected to be posted to Washington, D.C., he was allowed to move his family to the latter city at the commencement of the course. To regularize payment of moving costs and foreign service allowances, the original order posting him to Norfolk was amended retroactively to provide for a posting to Washington for three years and transfer from there to Norfolk, on temporary duty, for the duration of the training course. This entitled the officer to foreign service married allowances, applicable to Washington, during the five months' period of the training course. The financial result of this change was that the cost to the Crown was increased by some $2,400 over the cost which would have been incurred in the normal way had the dependents remained in Canada until the officer had completed the course. We were informed by the department that it was felt to be in the interest of the service that the officer, during the period of the course, was able to be with his family on weekends.

8. Clothing Credit Allowance.—Under the regulations servicemen are entitled to clothing allowance of $7 monthly to enable them to obtain the necessary military clothing required to "keep up" their kit while in the service. The benefits cease on date of release. The department was asked to comment on the fact that servicemen have entitlement to these allowances during periods of rehabilitation leave, when presumably they are not on duty and therefore not required to replace worn out or lost kit. While the amounts of individual allowances credited to the servicemen during their rehabilitation leave period are normally not large, the aggregate is substantial (about $60,000 annually) because of the number of personnel released each year. It is also noted that the Royal Canadian Mounted Police regulations do not extend entitlement to such clothing allowances after the commencement of rehabilitation leave. We were informed that the matter is currently under review by the department.

The CHAIRMAN: Very good.

Mr. HENDERSON: I refer to paragraph 64 in the 1963 report appearing at page 35. The members will automatically deal then with item 5 "Lease Termination Payments", which appears on the page over, page 36, and which in effect was the subject of my comment in the 1962 report to which you have just referred.

In the 1962 report I commented separately in paragraph 74 in respect of lease termination payments and brought the matter up to date, as I have just mentioned, in paragraph 64 at pages 35 and 36.

The eight cases cited in paragraph 64 of the 1963 report indicate those where, in my opinion, some action is overdue and about which you may wish to question Mr. Armstrong this morning.

One of these cases with which you are especially familiar is the one I just mentioned, being No. 5 on page 36, dealing with lease termination payments. That is the one to which I referred earlier as being in paragraph 74 of the 1962 report. You will recollect we discussed this in the committee on June 2 of this year. The evidence in that regard appears at page 47 of the Minutes of Proceedings and Evidence. Mr. Winch, Mr. Southam and I believe Mr. Hales at that time wished to know why the Department of National Defence had not followed up the committee's recommendations last December, that something

be done to eliminate or otherwise improve this practice. As Mr. Winch pointed out at that time, the public accounts committee has made this recommendation since 1960.

The CHAIRMAN: Would you like to make a comment in that regard, Mr. Armstrong?

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): Mr. Chairman, the department, of course, has followed up the recommendations of the public accounts committee, which were to the effect that the present regulation which permits up to three months payments of rent on termination be reduced to one month. Following that recommendation we did examine the detailed accounts for a period and determined from that examination that the average rent termination payment at that time was $110, which represents roughtly, on the average, one month's rent.

We followed that up in the following year, 1962-63, at which time the average payment was $115. There was a difference of $5 between the two periods.

We also examined this problem in respect of the Royal Canadian Mounted Police and their practices. As the Auditor General has pointed out to you, they endeavour to get a termination clause of one month in their leases. There are some differences in terms of the extent of the problem itself between the Department of National Defence and the Royal Canadian Mounted Police.

The mounted police have approximately 180 commissioned officers and 7,000 men. One third of their officers are accommodated in publicly owned accommodations. Another one third are housed in quarters that are rented by the Royal Canadian Mounted Police, and in that case the lease is between the crown and the lessor. Those leases do in fact include a clause which would permit termination with one month's notice. The remaining one third do find their own housing accommodation.

Of the 7,000 men there are approximately 4,000 who are married and do, by and large, find their own accommodations. There are about ten per cent of them I believe living in government owned quarters.

The mounted police have about 700 detachments across the country, and the number of people in each of these detachments is relatively small. They do find it possible, because of the size of the problem, by and large, to ensure that when a man is being moved to arrange that his lease will expire about the time he moves. They do insist or direct that the men obtain, if possible, a termination clause of one month, and if he does not obtain that clause he must report the fact to headquarters. If a case does arise where in respect of which they feel that there would be justification for paying more than a month they go to treasury board and seek authority for it.

In respect of the Department of National Defence, the problem, of course, by reason of size and by reason of the fact that we do have more postings, that are somewhat unpredictable when one has to move very quickly for various types of commitments, is much more difficult to arrange or keep in controllable order. We have just over 81,000 married people in Canadian forces and we have approximately 30,000 married quarters. We have somewhat in excess of 51,000 people who find their own accommodation and are living out. In total we have about 20,000 moves per year, which is a very large number of moves.

The problem comes down really, in our considerations, to the fact that if we insist, or if we attempt to insist, on one month termination we must depend on the man's ability, of course, to get this clause inserted in his lease. This certainly would be possible in some cases.

Our directions do of course direct the man to do his best to get this kind of an arrangement, but if he is not successful in getting that arrangement,—and

he would not be in many cases—then he is liable to pay more than one month. He may be liable to pay the full amount of the unexpired lease. Normally, he would be able to get out of it for something less than that.

In the Canadian forces, in terms of the conditions of service for married men, the problem of moves is a particularly critical one for the families. It means that they have to upset their homes and move from one place to another. While we reimburse the cost of these moves, and so on, I think we all know from our own experience of moves that it is not only somewhat inconvenient but it usually costs money, in addition to the reimbursement that we would provide. We have considered, under these circumstances, that we should not impose the one month limitation which would, under present circumstances at any rate, involve an additional liability in many cases on the individuals concerned. As I say, on the average the payments that are made do come out to about what would roughly be a month's rent, or $115 currently. It is for these reasons that we have not done this. We have introduced in the regulations some changes; we have put out administrative directions to give guidance to commanding officers to assist their men in making these arrangements. We have included in the regulations something we did not have before, an executive authority that under certain circumstances the three months need not be paid even though the man may have incurred the cost. One of the cases which the Auditor General mentioned is a case which we should probably not accept where a man sublets his property to another serviceman coming in and conceded three months' rent to him and we covered the three months' rent from the crown. We think that is unwise and we have introduced a provision in the regulations which would not permit that. With all of these moves and the number of occasions when this happens I do realize that there are going to be individual cases that do not look very satisfactory. Some cases occur when a man, entering into a lease, for instance, is then advised a few days later that he is being posted elsewhere. This does happen occasionally, and obviously it does not look very good, but I am afraid that, to some degree, some of these are unavoidable.

Mr. TARDIF: Mr. Chairman, I do not know whether I am in order in saying this but there are two things I would like to say if possible. I do not know whether members of the committee agree with me. One of them is that I think the witness should speak a little louder. I am not addressing in particular to this witness, I mean any witness should speak loudly. It makes it very difficult to follow if he does not do so.

Another thing which I would like to say would save time and would probably have permitted this committee to finish the 1963 report in 1963, and that is that the witness should answer questions in a concentrated form. The present witness gave us all the rules that apply to all exceptions that prove the rule. The answer to this question was that the Department of National Defence does not agree with the recommendation made by the Auditor General that the advice of termination of a lease should be limited to one month. This could have been said in fewer minutes than were used. I am a little afraid that if we continue like this we will still be working on the 1963 report by the end of 1964, and surely that is not what you are looking for, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Tardif.

Mr. HALES: In view of Mr. Armstrong's statement that they found that the average worked out to about a month, why did your department not follow our recommendation as laid down by the committee last year? We suggested one month's termination of lease. You made a study and you found out that the average was about a month, so why did you not put this into your regulations?

Mr. ARMSTRONG: The fact that the average worked out to a month does not mean of course that a considerable number of individuals would have

a claim for more than one month. Those are the cases that we are able to cover where we have a three months' clause. If we did not, these men would have to pay that out of their own pockets.

Mr. HALES: Why not put this in reverse and have the exception handled by the authorities?

Mr. ARMSTRONG: I am not too sure what you mean by the reverse.

Mr. HALES: Put into your regulations a one month release clause, and then any cases which have to be over and above that month must come before a board or before some other authority.

Mr. ARMSTRONG: That of course is possible. However, it would be administratively difficult to handle if every one of these cases was brought down to a central headquarters for a decision.

Mr. HALES: Do you not agree that as long as this is in the regulations there are opportunities to take advantage of it? If it were the other way around, it might be better.

Mr. ARMSTRONG: To some degree I think that what you say is true. Whether a man has to pay more on termination of a lease depends on his lease. If he is to be protected we must ask ourselves whether he is in a position to get that clause in his lease. That is not a standard clause, as you know, and it does mean finding a landlord who will accept a one month termination clause. We do find that there are areas where our men are getting one month now, where the rental situation is easing.

Mr. HALES: I have one more question. In the 1962 report, on page 29, under the same heading, "Reimbursement to servicemen for lease termination payments" there is a paragraph which brings a specific case to our attention. It says that the department was questioned regarding the propriety of the payment, and the matter is still under consideration. I would like to know how that was handled, and what the final outcome was.

Mr. ARMSTRONG: This is the one that I referred to. In that case the man was reimbursed $325.

Mr. WINCH: Mr. Chairman, Mr. Hales has, very nicely, asked my first questions, so I will not have to repeat it.

My second question is as follows. I would like to ask whether my thinking is correct. Let us say that in about 99 cases out of 100 if you post a man away from a station you are also posting someone back into that station and that person will look for a place to live. Therefore, in all probability there is a place which has just been vacated. Under those circumstances, if my thinking is correct, why should a landlord collect two months' rent twice, which is actually what is happening?

Mr. ARMSTRONG: When you ask whether your thinking is correct, it may be correct in many cases when the landlord leases that particular accommodation to another serviceman. This unquestionably happens, there is no doubt about it. Why he should collect two months' rent depends on the circumstances. He may not collect two months' rent, or he may collect more than that. What we want to do is to protect the serviceman in those cases where he has to pay up to three months' rent. We are not anxious to pay the three months. We want to pay the least we can, but we do not feel we should have a regulation that will impose on the serviceman a payment of this kind that he really cannot avoid under certain circumstances.

Mr. RYAN: Mr. Chairman, Mr. Hales asked a question I wanted to ask. I would like to say I still feel very strongly that it should be one month's notice. Where the landlord insists that he must have longer notice, the lease should

then be produced before a commanding officer or some appointed officer for stamped approval. In all other cases no more than one month's rent should be paid on a lease.

The CHAIRMAN: That is a statement of your view on it, is it not?

Mr. RYAN: Yes.

Mr. SOUTHAM: Mr. Chairman, as has been pointed out, Mr. Hales struck the keynote of this problem by suggesting that this policy of three months' lease should be changed to one month. This would put the onus of the leasing on the individual serviceman. If this were done it would encourage the individual serviceman to do a little more shopping around to find accommodation. In my experience in the city of Ottawa in the last five years there is a tendency on the part of the landlord to consider shorter term leases. I think that this whole situation of accommodation is becoming easier, as has been pointed out here. The R.C.M.P. have this principle. It could certainly also be applied to servicemen. I am inclined to go along with the Auditor General's suggestion that it could be tightened up.

Mr. CAMERON (*High Park*): I was going to ask Mr. Armstrong whether personnel negotiate their own leases.

Mr. ARMSTRONG: Yes, they negotiate their own leases.

Mr. CAMERON (*High Park*): Without any assistance or any advice from the department?

Mr. ARMSTRONG: Of course they can consult their commanding officers in this respect, but we do not attempt to provide any negotiating service for leases.

Mr. CAMERON (*High Park*): You have never gone to the trouble of preparing a stereotype clause to suggest to the serviceman that when he negotiates a lease he should ask the prospective landlord if he agrees to it because in effect military personnel are subject to the call of duty and they have to move and therefore after one month's notice a lease can be terminated?

Mr. ARMSTRONG: We have issued directions—it is not precisely a standard type clause—with the type of wording that the man should attempt to seek in respect of termination of his lease. This includes an effort to get his lease on one month's notice, if possible or as short a termination clause as possible.

Mr. CAMERON (*High Park*): Do you think that might be an idea worth while considering?

Mr. ARMSTRONG: Yes; in a sense we have done this. Perhaps we could look at it a little more specifically in terms of a clause.

Mr. CAMERON (*High Park*): Could the deputy minister of justice draft a clause for you along those lines?

Mr. ARMSTRONG: Oh, yes; there is no problem in getting a suitable clause, but there is a problem in getting it accepted by the landlord.

Mr. CAMERON (*High Park*): Do you not think that if they were told that in most cases the maximum they would be allowed on termination of a lease would be one month there would be much greater determination to try to tell the landlord, "You have to salvage what you can out of this"?

Mr. ARMSTRONG: It would be, maybe, some incentive. I do not know that I have put my point across, that these men by and large are N.C.O.'s, and so on; the bulk of these people are not officers. They are in a relatively low income bracket. The problem of getting accommodation in many cases is a difficult one. In terms of general conditions of service under which they work, this is a very critical area for the man and his family. We have been hesitant and we have considered the possibility of actually providing a lease. We have considered the possibility of putting in one month. Our real hesitation in this is that it tends

to limit the man's ability to get the most suitable and economical accommodation that he can because he is restricted to landlords who will accept that clause.

Mr. CAMERON (*High Park*): Is it a fair statement to make that the department regards it as an administrative headache to handle it in any other way and for that reason are shying away from it?

Mr. ARMSTRONG: It is administratively somewhat difficult and perhaps not very effective if you provide a regulation that requires one month's notice and then do not apply it, if you accept all the exceptions.

Mr. CAMERON (*High Park*): Mr. Winch had a suggestion about transferring personnel, one person going to another station and another person coming into that station. Let us say that John Jones is going from station "B" and Jack Smith is coming to station "B". Then you could put Jack Smith in John Jones' accommodation. That would be part of the administrative heading.

Mr. ARMSTRONG: It is just not workable. The only way one can really do this is in fact to rent accommodation. If the department rented enough accommodation, then we could handle it.

Mr. CAMERON (*High Park*): Would it be a saving for the government if you did that?

Mr. ARMSTRONG: No, I think it would be more expensive.

Mr. NOWLAN: I was going to ask Mr. Armstrong if this is not a regional problem. For instance, in the city of Halifax I do not think it would be possible to get anyone to sign a lease with a 30 day termination notice.

Mr. ARMSTRONG: Halifax has been a very difficult area, as you yourself know, Mr. Nowlan. I would say this would be one area where it would be difficult to get one month's termination.

Mr. NOWLAN: I suggest it would be impossible unless the landlord could charge more rent.

Mr. WAHN: I am sure members of this committee do not wish to impose any hardship on the servicemen themselves. The questions which have been directed to Mr. Armstrong this morning were whether it is not possible for the local units of the department to give the servicemen more help, particularly in certain areas where accommodation is available, to get reasonable leases which would avoid undue expense to the department. I do not think any one of us is suggesting that the whole burden should be borne by the individual serviceman, but each unit has an adjutant; they have administrative officers, and the unit itself should be able to give the individual serviceman some assistance in meeting this particular problem.

Mr. ARMSTRONG: Every unit, of course, does this. If you go into a unit you find the adjutant in the orderly room has posted a list with the accommodation available. They do their best to help people. We do not provide a departmental rental service whereby we ourselves in the department would go out, seek and get accommodation, but the local units do spend a good deal of energy in helping people get accommodation.

Mr. WAHN: How do you calculate this average of $115? Is that the average paid to a landlord, or is it the average for each move, or the cost for each move?

Mr. ARMSTRONG: This was taken for a period of six months. The first average was taken for the period from April 1, 1961 to September 30, 1961, taking all lease terminations.

Mr. WAHN: As it is an average of lease terminations it does not include any cases where servicemen moved out of your own accommodation. It is not a general average?

Mr. ARMSTRONG: No, only lease terminations.

Mr. PILON: I do think that the witness answered part of my questions, but would the department not consider the appointment of a billet officer in large cities?

Mr. ARMSTRONG: If we were to get into this business my expectation is that it would cost us more money than the system we are using now. What we do now is that the individual is responsible for getting his accommodation. He gets assistance from his station or from his unit in terms of the assistance that they can provide. We as the department do not go out and rent accommodation, which is in effect what happens if you get a billet officer. We have some arrangements, mind you; we have entered into some agreements whereby we have had housing constructed that is then rented to servicemen. That is the case here at Uplands where, as you probably know, there are over 300 housing units that have been built and are administered by the station. We provide mortgage money to assist in that construction. We have other arrangements of that kind, but in spite of all this we still have 50,000 people who have to look after themselves.

The CHAIRMAN: Thank you, gentlemen.

We will move on to the next item.

Mr. HENDERSON: I would suggest we might now return to the 1962 report and clean up the three or four items there. I am sorry we have to jump around.

The first item is paragraph 78 appearing on page 31, renovation of remote transmitter station, Halifax. This paragraph deals with the renovation of a station in Halifax. You will see it is outlined here how the contract awarded for renovation of the station was amended to an amount more than double its original cost.

This matter was brought up before the public accounts committee on June 4 of this year, at which time we had a brief discussion about it in which Mr. Winch, Mr. Tardif and Mr. Ryan participated. We held it over pending Mr. Armstrong's appearance.

The CHAIRMAN: Has anyone a question? Mr. Hales?

Mr. WINCH: I might ask the reason.

Mr. TARDIF: The original question was, if soundings were taken before this was built, there is no apparent good reason that so much rock was found after the contract was given which was sufficient to double the price?

The CHAIRMAN: You will follow Mr. Hales, Mr. Tardif.

Mr. HALES: My question is who was responsible for the site test drawings?

Mr. ARMSTRONG: Mr. Hales, I do not have with me the actual name of the engineering firm. The site survey work was done by an engineering firm. I do not have the name with me, if that is what you want. The survey that was taken was similar to those which had proven satisfactory with regard to other installations of the same nature. It turned out that the particular survey which was used did not disclose the rock conditions which existed here.

Mr. HALES: We realize that, but we would like to know who made the test drawings, who drafted this up, or under what conditions the man was given the job to do this. What were the terms of reference, and on what basis was he paid? If he did not give the correct drawings, was he to be paid, or not paid?

Mr. ARMSTRONG: He had to do the job on the plan for the site survey. However, if we were to discover the conditions which actually existed, it would have been necessary to do a great deal more boring. In this regard, our engineers say that to have done enough borings in the survey to disclose these conditions, would have cost a great deal more. Now, the survey that was done is one that is similar to others for similar installations which have proven satis-

factory. It did not prove satisfactory in this case in disclosing the actual conditions; but to have done a different survey, my engineers inform me, would not have reduced the total cost.

Mr. HALES: It would appear there is not much use having drawings made if you do not do a complete job and end up paying double the cost in any event. You might have spent a little more money and have had a good survey made to start with.

Mr. ARMSTRONG: This depends; as I say, the survey made had proven to be satisfactory in similar installations. If a boring had been made for each mast and each anchor point, we would have found out exactly what existed in the rock formations there, but it would have cost a lot more money. That is the situation.

Mr. HALES: Has this happened on other occasions, and have you made a new approach to this problem so that it will not happen again?

Mr. ARMSTRONG: We have not made a new approach to the problem so that it will not happen again; I am sure it will happen again. However, we had a site survey made by a reputable engineering firm on a plan which had worked satifactorily up to this point. It did not work in this case. I think, undoubtedly, we will run into other cases where the particular site survey will not work. I would not like to say we will never run into it again.

Mr. TARDIF: Personally, I am a little surprised that a thorough survey would cost as much as double the original contract. I am wondering whether the removal of the stone and earth in this particular job was done at unit prices?

Mr. ARMSTRONG: I do not know whether or not I have that specific information. I would say it certainly would be done at unit prices.

Mr. TARDIF: If it is done at unit prices, it eliminates the problem of the contractor proving that this was necessary.

Mr. ARMSTRONG: Well, it means, if it is done at unit prices, you would pay according to the excavation.

Mr. TARDIF: Yes. I am sure the engineers who did that are not with the department any longer.

Mr. ARMSTRONG: This was not done by departmental engineers. It was done by an egineering firm appointed by the department. What our own engineers said was that if the test borings had been taken at each mast—they were taken on a standard pattern at similar installations—and at each anchor point, the extra cost of the survey work, at least, would have equalled the extra construction cost in this larger figure, and in the final analysis we would not have come out at a lower price.

Mr. TARDIF: This might be so, but I am going to be hard to convince.

Mr. WINCH: The extra engineering would have cost a quarter of a million dollars.

Mr. ARMSTRONG: That is not what they say. They say, with the combination of the extra engineering and perhaps some reduction in the quarter of a million dollars if they had had all the necessary information in advance, the total cost would have come out at approximately the same thing.

Mr. TARDIF: I did not receive an answer to my question with regard to whether or not there were unit prices.

Mr. HENDERSON: I have here the authority of treasury to amend the contract. This is where the extra amount was authorized to bring the total cost up to $497,000. This recites the circumstances much as are stated in the note in my report. It was necessary to revise the whole job beginning with construction of 20 guy anchor bases and relocation of the antenna. There was a set price for constructing the antenna masts and the guy anchors. Then, it sets out the tower

bases at unit prices, and the guy anchors—so many units—at so much money. The contractor allows the claim for the foundation based on the original design, and we arrive at the final amount of money to be paid to bring it up to the amount of $497,000.

Mr. TARDIF: Which means, thise was all done after the original contract was given. All the changes were made after the original contract was given?

Mr. ARMSTRONG: Yes.

Mr. HENDERSON: The original contract was a firm price contract for the figure stated in the note which is $229,330.

Mr. TARDIF: I wonder, Mr. Chairman, whether Mr. Armstrong considers the engineering work on this project was properly done if it necessitated changing the specifications to the point of doubling the price of the contract. Mr. Armstrong said this may happen again. I would suggest that precautions should be taken to see that it does not happen again, at least not too often.

Mr. ARMSTRONG: You can rest assured we will take care and caution to avoid it. When you say the engineering work was not done properly, I think one has to remember in a circumstance like this, it was not what one would want, and the survey that was made in the final analysis really was not adequate to this particular site.

Mr. TARDIF: I am not a professional engineer and I know it may be difficult to figure out how much rock there is; but it is not difficult to put a rod in the ground and find out where the rock is, and apparently in this case they did not even know that.

Mr. GRAFFTEY: If a complete boring had been made which showed this rock formation, would a partial or a complete relocation have been considered? That question was asked, but more specifically I would like to know under what general circumstances it would have been considered. Was it necessary to place the installation in a specific area? Could relocation have been considered?

Mr. ARMSTRONG: The placement of any antenna of this nature requires a specific area. I am sorry I cannot say specifically that this had to be the site.

Mr. RYAN: Mr. Chairman, this would appear to be the renovation of an existing remote transmitter station, and the fact that it existed would lead one to believe there had been soil testings made when the station originally was built. In the situation where the site test drawings indicated the bedrock to be from two to 14 feet below the surface, it would seem to imply that this was based on the original soil tests and not on further soil tests made for the outlying installations that were subsequently found to be necessary. Is this the situation?

Mr. ARMSTRONG: No; that is not the situation. A survey was made by an engineering firm.

Mr. RYAN: How could they make such a mistake in their soil testing?

Mr. ARMSTRONG: The plan for the survey, as I said, was similar to a plan which had been used at other, similar installations. The survey which we had proved satisfactory for this type of operation.

Mr. RYAN: Who would make these soil tests?

Mr. ARMSTRONG: They were made by the engineering firm. I do not have the name. Perhaps Mr. Henderson has it?

Mr. HENDERSON: No, we do not have it at the moment.

Mr. RYAN: Should they not be held responsible for their error?

Mr. ARMSTRONG: They did not make an error. They made a survey in accordance with the plan which was laid out for them, but the plan itself was not adequate to give you all the information.

Mr. WINCH: Who did make the original plan? Was it your engineers?

Mr. ARMSTRONG: It would be approved by our engineers, yes.

Mr. RYAN: If some testing was made, surely it would have revealed at some point that the rock was 18 feet or 25 feet below the surface.

Mr. ARMSTRONG: What I am saying to you is that this is information which my engineer gives to me, that this type of survey had proven satisfactory in a great majority of similar installations. But if test borings had been taken at each mast and anchor point, they would have disclosed the formation below each one, with the function of additional cost of survey, plus the cost of doing the job which we would have to do in any event, but which would not have reduced this price really. It would have come out to about the same thing.

Mr. RYAN: I think it is a pretty poor way to go about it. I think that when we are trying to correct things like this, we should be told actually how many new soil test borings were made before the contractors left.

Mr. ARMSTRONG: I do not have that information, but I could get it for you.

Mr. WAHN: I would like to ask Mr. Armstrong whether any thorough examination was made by the department in the light of the report made by the Auditor General in regard to this specific occurrence which is rather unusual, I mean the doubling of the initial cost. Mr. Armstrong mentioned that he received reports from his engineers, and I gather he has accepted those reports.

What this committee is interested in is determining whether in fact somebody had made a mistake. Of course, we all know that mistakes are bound to happen when you are doing a great deal of work. But what we are concerned with here is to minimize the number of mistakes. Obviously mistakes will not be minimized if any explanation is accepted by the department when somebody runs into something like this. Has he actually satisfied himself that there were no mistakes made, and that this was a sensible way in which to proceed? That is what we are trying to find out.

Did you make an investigation, or did some responsible person in the department make a thorough investigation to find out? When this overrun occurred, did you think it was a mistake on the part of the original engineering firm, or did you just accept the responsible assurance made by your engineers?

Mr. ARMSTRONG: In every Auditor General's report we have made an examination as thoroughly as we can. I have an assistant deputy minister who is the engineer in charge, as far as I am concerned, of the construction business. If I receive an Auditor General's report of this character, I give it to him to examine, and to go into it with the service engineer and others who have been involved. He has examined this and I have gone over the story with him. He has been satisfied and I am satisfied that, having regard to all the circumstances that exist here, the actions that were taken were reasonable actions in the circumstances. That is why I say to you that I do not think we will ever avoid some situations of this kind. There will be situations arising from time to time in the future in which our engineering surveys do not prove to be really adequate in the final analysis. I am afraid that is likely to happen again to some degree. We will certainly do our best to avoid it, but I do not think that anyone finds that these situations do not occur in the construction business.

Mr. TARDIF: What was the name of the engineering firm which did this job?

Mr. ARMSTRONG: I do not have the name with me.

The CHAIRMAN: Probably Mr. Armstrong can obtain that information and forward it along with the other information he is going to obtain.

Mr. TARDIF: Will you also give the name of the contractors?

Mr. HENDERSON: The contractors were the Common Construction Company of Montreal.

Mr. SOUTHAM: May I ask a supplementary question, Mr. Chairman?

Were other tenders bid for this particular contract? If so, what were the amounts and did they have access to private engineering assessments, or did they take the department's advice along this line?

I ask that because I agree with other members of this committeen in that this is a startling error on somebody's part, an error which increased the original from $229,000 to over half a million dollars—$516,556, I cannot agree with the suggestion that it is probable that this could happen again; I think it is an indication that it should not happen again. We should tighten up our precautions so that this type of thing will not happen again.

Mr. HENDERSON: Would you like me to mention the tenders received?

The CHAIRMAN: Yes, please do, Mr. Henderson.

Mr. HENDERSON: This is according to the advice to the treasury board at the time the original contract was up. I do not know if you wish me to mention names, Mr. Chairman.

Mr. CAMERON (*High Park*): Of course.

The CHAIRMAN: They would be available on answer to a question.

Mr. HENDERSON: There is a tabulation, and I will give you the name, the firm price, contingencies, fixed rates and then the total.

Mr. FRANCIS: Was the tender not called on a unit price?

Mr. HENDERSON: The ones I have here are on a firm price basis.

Tenders were invited from all firms considered to be in a position to provide the services required, and seven firms submitted tenders.

Mr. FRANCIS: On the basis of estimated quantities, presumably.

Mr. HENDERSON: This is for the installation and renovation at the transmitter site. This is for the whole job.

Mr. TARDIF: In accordance with the original specification submitted?

Mr. FRANCIS: The specification would have estimates of quantities; it would have to have that.

Mr. HENDERSON: The people who submitted tenders were E. P. Electric products Co. Limited of Montreal, $129,992; Common Construction Company of Montreal, whose revised figure was $249,079; Canadian General Electric Company of Toronto, $365,944; Canadian Aviation and Electronics Limited of Winnipeg, $378,000; National Telecommunications Supply Limited, $502,739; E.M.I. Cossor Electronics Limited, $559,604.

Mr. WINCH: Two firms almost on the beam.

Mr. GRAFFTEY: Were all these companies supplied with the boring finds about which we were talking?

Mr. HENDERSON: I believe that would be so.

Mr. GRAFFTEY: That would be in the specification?

Mr. HENDERSON: E.P. Electric Products Limited had the lowest over-all price, but after investigation they found their tender was unrealistic and withdrew their specification. Common Construction Company, who finally got the job, submitted the next lowest quotation and based their price on completing construction before freeze-up. The construction was to take place during the winter months and the proposed contractor revised his price upwards to the figure I gave you. The increased cost for this type of winter construction is standard for many firms in this area and has been confirmed as being in force for many years by the electric commission of the city of Montreal. The revised price was still the lowest and was recommended for acceptance.

Mr. TARDIF: Of course there is a deposit with the bids on these contracts. Was the deposit in respect of the lowest tender confiscated or was it returned?

Mr. HENDERSON: I do not have that information here but we would expect it to have been returned.

Mr. TARDIF: I would suggest that this happened at this time, but there is a possibility, when there is a great deal of difference between the lowest and second lowest tender that the contractors have reached an agreement between themselves. If the deposit with the bid is not returned this makes it more difficult for an agreement to be reached.

The CHAIRMAN: Probably that information can be obtained and furnished to you as well.

Mr. Winch indicated he had a question.

Mr. WINCH: Yes, I have one short question.

In a case like this where the department has to pay over double the fixed contract price, what allowance if any is made as profit to the company in view of the fact that the company has to do double the amount of work?

Mr. ARMSTRONG: Mr. Winch, this is a matter for Defence Construction Limited to decide. As you know, we do not have anything to do with the contractual arrangements in the Department of National Defence. Mr. Henderson may be able to find that information in the documents he has.

Mr. HENDERSON: It will take a few moments to look up that information.

The CHAIRMAN: While that information is being looked up could you ask your question, Mr. Cameron?

Mr. CAMERON (*High Park*): I should like to ask Mr. Armstrong whether he has placed the responsibility for this situation. In other words, who made these borings? Perhaps the fault lies with the engineer who prepared the site map. Certainly you cannot blame the situation on the contractor because he has based his contract on the information supplied to him.

Mr. ARMSTRONG: I do not think you can blame the situation on the contractor, as you say. In so far as the engineering survey itself is concerned, as I said earlier, it was based on a design that had been applicable and found to be satisfactory.

Mr. CAMERON (*High Park*): This would involve a calculated risk, would it not?

Mr. ARMSTRONG: In a sense I suppose that is so, and you do a site survey based on that plan. However, perhaps in fact it may turn out on occasion not to have been an adequate one.

The CHAIRMAN: Would you put the microphone a little closer to you Mr. Cameron, we are having trouble picking you up?

Mr. CAMERON (*High Park*): What I deduce from the evidence so far is that the test engineers took a survey and based their findings on the hypothesis that the rock formation was more or less of uniform character, and they would not find these pockets where apparently the antennae had to be anchored to rock and, therefore, their report was erroneous and the information passed on to the contractor was erroneous. Do you not think that rather than accepting this as the best way of doing it, because of a number of situations like this that have developed, creating problems, the people involved should state that certain areas are those areas where the essential strength of the construction lies, and make their tests at those points? I think either the instructions to the engineer were inadequate or their work was not properly performed.

Mr. ARMSTRONG: I think this involves a matter of engineering judgment. Obviously, based on the survey that you have made and the borings you take, you make a judgment regarding the conditions that will be found when the work is done. The greater number of borings you take the more sure you will

be, of course, that you are right in your judgment. In respect of this case this certainly did not turn out to be sufficient.

Mr. CAMERON (*High Park*): On that basis the department had to bear the loss.

Mr. ARMSTRONG: Mind you, when you say the department had to bear the loss, if you discover in advance the rock conditions you still have to pay unless you are able to find another site. The department would still have to pay for the work involved.

Mr. CAMERON (*High Park*): That may be how it eventually would work out but there is no evidence of that, and if the contractor had known exactly what he had to face he might have given a different bid, but it might not have cost double the original estimate or bid.

Mr. ARMSTRONG: That is possible, and I agree with you, of course, but as the Auditor General has pointed out in this particular instance, there were some other factors involved.

Mr. CAMERON (*High Park*): Have you any idea how many borings were made?

Mr. ARMSTRONG: I do not know the actual number but I could get that information for you.

Mr. HENDERSON: The actual number of borings is 12.

Mr. TARDIF: How big a site was involved?

Mr. ARMSTRONG: I do not know the actual area, but I think it probably would be located on about an acre of land. That is a guess. I will have to find out exactly for you.

The CHAIRMAN: Mr. Henderson now has the answer to the question asked by Mr. Winch.

Mr. HENDERSON: I wanted to give an answer to the question asked by Mr. Winch by referring to our working papers. It seems clear that the contractor was working on a very narrow margin here, and as work proceeded he realized that he was headed for trouble. It was a firm price contract but our notes indicate that his margin of profit was of the order of five per cent. He was allowed a similar percentage for his general administrative expenses, and he was allowed something for overhead, so that his profit, according to our notes, was five per cent.

Mr. WINCH: May I ask one more question? I must admit I am rather amazed at some of the information given by Mr. Armstrong. I am not a construction engineer, but ever since I was 17 years of age all my work has been on construction, and for the life of me I never have heard of any general engineering survey approach spread over. If you are going to put up a building on Wellington street, the situation may be entirely different to that which exists with regard to building here on the hill. There is almost solid rock on the hill, whereas there may be no rock at all on Wellington street. Before any construction job is commenced, there is an engineering survey showing how far they have to go down. I have never heard of a general engineering survey; engineering has to be on the exact site. I would like you to explain further about this general engineering survey used in more than one area.

Mr. ARMSTRONG: I do not say it is a general engineering survey. We did not have a survey which had been applicable to a number of sites; I said there was a survey made on this site by an engineering firm and the type of survey that was taken at that site was similar to a type of survey used in other similar installations at other sites which had proven to be satisfactory. However, there was a survey made on that site.

Mr. WINCH: Mr. Armstrong, you are proving my case. You had to have rock anchorage for this particular type of installation. It is quite obvious that somebody did not ascertain on the site how far down they had to go in order to get the rock anchor.

Mr. ARMSTRONG: I think it is perfectly clear that the survey taken was not adequate; that is quite obvious from the information before us. What I do say, however, is that our own engineers said that if an adequate survey had been made at each one of the anchor points, the cost of that survey, associated with the rock which in the final analysis had to be excavated, in their judgment would not have resulted in an over-all reduction in cost.

Mr. WINCH: I will grant that, but what I, and I believe many of the other members of the committee are interested in is what is the use of an engineering survey if you do not obtain the information you require for the installation? It is just as clear as that.

The CHAIRMAN: Mr. Ryan is next, and then Mr. Grafftey.

Mr. RYAN: Mr. Armstrong, I think we should have the number of new foundations which were necessary under the contract; that is, the number needed to go down to bedrock for these antenna masts and guy anchors. Can you give us the number?

Mr. ARMSTRONG: The plan provided for rod depth tests for 12 positions equally distributed over the area.

Mr. RYAN: They were not at the actual site where the anchors were to be.

Mr. ARMSTRONG: At the site of construction.

Mr. RYAN: They were done equally over the area of an acre, or so, and not at the actual positions where the guy anchors or masts were to be placed.

Mr. ARMSTRONG: No. Soundings were not taken at each position. They took 12 borings.

Mr. RYAN: They were very general.

Mr. ARMSTRONG: They took the information from those 12 borings and interpreted that in estimating the information for the whole site.

Mr. RYAN: Could you give us the number of new foundations that were required under the contract?

Mr. ARMSTRONG: I am not sure that I have that information here.

Mr. HALES: Mr. Chairman, I do not know whether or not we wish to pursue this any further. If we do, then I think we should have a special meeting at which we would have before us the officials who can answer all these numerous questions. I think our first decision should be whether or not we wish to pursue this further. If we do, then perhaps we should have before us the officer of government who issued the contract to do the survey, the engineer of the Department of Defence Production who requested the survey, and then we should have information with regard to how many tests there were, and so on. I believe this is a decision which the committee will have to make now.

The CHAIRMAN: Is it your suggestion that the matter be left to the steering committee, and that the steering committee would make a report back based on the evidence and the statements disclosed so far? Is that in order?

Mr. HALES: Yes.

Mr. ARMSTRONG: I have the information. There were 134 anchors and 41 mast bases, for a total of 175.

The CHAIRMAN: Mr. Armstrong has been kind enough to agree to step down for a moment. Mr. Driedger, the deputy minister of justice, is here, and there are

a number of items which will engage his attention. Mr. Henderson might take a short recess while we ask Mr. Driedger to come up to the head table.

Mr. WINCH: Mr. Chairman, may I ask how long you intend to sit? There is a meeting of the defence committee at 11 o'clock.

The CHAIRMAN: I am hoping we might carry on with Mr. Driedger, and then having done that, we can decide what we wish to do about continuing with the evidence of Mr. Armstrong.

Now, gentlemen, I think I should introduce to you Mr. Driedger, the deputy minister of justice. Mr. Driedger has appeared before other committees and most of us are acquainted with him. He has very kindly consented to appear here this morning in respect of a matter which your Chairman raised last week, which involves the position of the Auditor General who is an agent of parliament. On the basis of my understanding, the Minister of Justice is the adviser to the government and, from time to time in the past, there have been very friendly discussions between the Department of Justice and the Auditor General, including advice from the department. However, it has been apparent that situations may arise—looking at it from a professional viewpoint—where it may be very difficult and embarrassing for the Auditor General to receive legal advice from the constitutional adviser to the crown, particularly when this is in respect of another department of government, and when opinions already have been given to the department concerned. With this in mind, I brought up this matter and subsequently telephoned Mr. Driedger who agreed to appear here this morning.

I am going to ask Mr. Driedger to be good enough to give us his views on this issue. This simply may be a tempest in a teapot. Mr. Henderson, did you wish to say a few words first?

Mr. HENDERSON: First, may I say to members of the committee that your Chairman was kind enough to say to me and Mr. Driedger that he himself wished to raise this problem with us. Therefore, I am indebted to him as I will be to you for your comments. However, I would not like to leave any impression in the mind of any member of the committee that the relations between Mr. Driedger and myself have been anything but friendly throughout my tenure of office as Auditor General. In fact, I have come to rely on opinions of himself and his officials very considerably, as my predecessors have done ever since the audit office was established some 80 years ago. I thought I should like to say that, sir, because while Mr. Driedger and I talk about these things from time to time I think, as he will tell you himself, his views on the subject stem from sources totally unrelated to me.

The CHAIRMAN: Would you proceed now, Mr. Driedger.

Mr. E. A. DRIEDGER (*Deputy Minister and Deputy Attorney General, Department of Justice*): Thank you, Mr. Chairman.

Perhaps I might begin by indicating what my position is as I see it.

Under the Department of Justice Act the Minister of Justice is the official legal adviser of the Governor General and the legal member of Her Majesty's Privy Council for Canada.

In his capacity as Attorney General of Canada he is required to advise the heads of the several departments of the government upon all matters of law connected with such departments. These advisory functions normally are exercised through the deputy minister of justice who is also the deputy attorney general of Canada and ordinarily legal opinions to government departments are given by him. However, there are situations where it is more appropriate that the deputy should give his advice to his minister, leaving it to him to advise his colleagues.

The Auditor General is not a member of the executive and is not the head of a department of government within the meaning of the Department of Justice Act. Strictly speaking, therefore, it is not the function or duty of the minister or his deputy to advise the Auditor General directly on legal matters. However, my predecessors and I always have tried to be helpful whenever we could, and there have been occasions when they and I have expressed legal opinions to the Auditor General on matters referred to us by him, no doubt there will be occasions in the future when it will be possible so to assist the Auditor General, at his request.

It is not possible for me to take on the role of legal adviser to the Auditor General for the following reasons. First, many, if not most, of the cases in which the Auditor General might wish to be advised involve the legal aspects of transactions within a government department. Obviously I could not be the legal adviser to both parties because that would involve me in a conflict of duty. And, since I am bound by the statute and by my position to be the legal adviser of government departments, I cannot at the same time also advise the Auditor General on matters that are or might be at issue between them. Secondly, the relationship between me and the government departments must necessarily be one of complete confidence. That relationship could not be maintained if in respect of a matter that has been or might be referred to me by a government department I undertook to advise the Auditor General.

The CHAIRMAN: Thank you very much, Mr. Driedger. Your statement has been very helpful, very frank and quite complete.

Gentlemen, have any of you questions to direct to either Mr. Driedger or Mr. Henderson in respect of this particular statement?

Mr. WINCH: Yes, Mr. Chairman. I should like to ask Mr. Henderson whether upon occasion he does find that he requires legal advice in order to resolve, at least in the minds of the departmental heads, a problem they have come up against?

Mr. HENDERSON: Yes, sir.

Mr. WINCH: If so, outside the general co-operation you have, exactly how have you dealt with such a situation in the past?

Mr. HENDERSON: In the past I have outlined my problem by letter, followed up by a discussion with Mr. Driedger. That has been my practice and the practice of my predecessors, and Mr. Driedger has been good enough to render his considered opinion in respect of the questions I have asked. I have felt it necessary to do that because we encounter a number of situations in the course of our work in respect of which we feel a legal opinion is vital.

You are familiar I think with one of the cases in particular, which we shall be discussing in this committee again in one or two weeks, which relates to the situation surrounding the Canada Council. My officers and I questioned the manner in which the council was proposing to distribute the profits and interest of its university capital grants fund, which is a substantial figure, as you will recall. After studying the matter very closely we felt that legal opinion regarding the validity of these transactions should be obtained. Accordingly, I addressed the problem to Mr. Driedger and he was good enough to give it very close study and to advise me. It was important that I do that, as I think you will agree, in complete fairness not only to my own position but to that of the officers of the Canada Council. You may recall we discussed this when the officers were before this committee last December.

Again I have questions arising in connection with the interpretations that departments place on various sections of their statutes and regulations in respect of which we want to have a separate opinion. In fact, I regard the obtaining of such opinion as quite important in presenting the facts to you

either through the medium of my reports to the House of Commons or to this committee. You are entitled to ask me whether in respect of a comment I am making on some given situation I had obtained a legal opinion. I am not a lawyer, and like all auditors carrying out this type of work, I must have recourse to legal help when I need it. I think it is important that I have that recourse because it would be surely presumptuous on my part to present some of these facts to you without benefit of such advice. That is the way I see it, and I may say that is the way my predecessors in office have seen it.

The CHAIRMAN: Do you have a question, Mr. Grafftey?

Mr. GRAFFTEY: Mr. Henderson, having heard your remarks can we assume that at the present time in your office there is no official with formal legal training, and if that is the case, and as a result of the circumstances that have been described to us today, do you think it advisable that your office be provided with a full time counsel? Is the volume of work in your feeling sufficient to justify a full time counsel attached permanently to your office, or do you feel the solution to the problem lies in the creation of a vote substantial enough to enable you to seek outside legal opinions in respect of these matters?

Mr. HENDERSON: I do not believe that the volume of work I would have to refer to a legal officer would justify his full time employment on my staff, Mr. Grafftey. This problem involves more the situation of requiring someone, shall we say, on a retainer basis, or someone circumstanced, as Mr. Driedger and his associates are, to whom we can refer specific cases.

Mr. GRAFFTEY: Have you come to the conclusion in your thinking, Mr. Henderson, that it is not desirable to consult lawyers working either for the Department of Justice or another government department?

Mr. HENDERSON: The point that Mr. Driedger has made has been the subject of a number of discussions between us.

Mr. GRAFFTEY: That is right.

Mr. HENDERSON: I fully appreciate and find myself in agreement with the point of view that Mr. Driedger has advanced. This is something I foresaw myself a number of years ago and in fact discussed with the minister of finance of the day, in respect of which it seemed to me I could be putting Mr. Driedger in a rather difficult position.

Mr. GRAFFTEY: This situation involves the same dangerous principle of a lawyer advising both sides to a dispute; is that right?

Mr. HENDERSON: I thought so, sir.

Mr. GRAFFTEY: Yes.

Mr. FRANCIS: Mr. Chairman, I should like to pose as briefly as possible that same type of question.

Mr. Driedger was very careful in giving a precise statement, but what specific recommendations does he make to cope with this situation? How does Mr. Driedger feel the Auditor General should obtain a legal opinion in the circumstances which arise?

Mr. DRIEDGER: Frankly, Mr. Francis, I do not have any suggestion to make to you. This is a problem in respect of which I do not know the solution. As I believe Mr. Henderson suggested to one member of this committee, it might be possible for Mr. Henderson to make an arrangement with some lawyer not working for the government, whom he could consult from time to time. However, I can see that that solution might present some further problems.

Mr. GRAFFTEY: Would the lawyer involved necessarily have to be specified? I think every legal firm in the country, or every lawyer, does a certain amount of

work for the government. I am referring to private law firms. Do you think it would be necessary to specify that Mr. Henderson and his officials must consult individuals who are absolutely not doing any work for the government? I think obviously a lawyer would not accept a case in respect of which he would be advising both sides.

The CHAIRMAN: We hope that is the case.

Mr. Francis was pursuing his questions.

Mr. FRANCIS: I should like to ask Mr. Driedger this question. Can you see anything wrong in the idea of the Department of Justice setting up a small section, not identified with the normal requests for opinions made by government departments, to look after this type of inquiry? I appreciate the fact there is a problem, but somehow we have to arrive at a solution. It seems to me the Auditor General has a perfectly legitimate point in suggesting that he requires legal advice under certain circumstances but that the volume of work probably would not justify the development of a legal section entirely within his control, and because of many reasons including that connected with the career development of officers, the Department of Justice is normally the place where legal talent will seek employment in the government service. Do you envisage anything wrong in the suggestion that you set up a section in your department which would not normally have a line of duty identified with departmental administration, but which might be available to advise the Auditor General and others in a position similar to that in which the Auditor General finds himself?

The CHAIRMAN: Are you thinking of members of parliament as well, Mr. Francis?

Mr. FRANCIS: No, I was not going that far, Mr. Chairman, but I should like to hear Mr. Driedger's answer to this question.

Mr. DRIEDGER: Two thoughts occur to me. The first is, whoever the civil servant or public servant is, he must be responsible to some minister. If you have a civil servant within the Department of Justice he must necessarily be responsible to the minister.

Mr. FRANCIS: There is nothing wrong in that regard.

Mr. DRIEDGER: The functions of the minister are clearly set out in the Department of Justice Act. His duties and functions are clearly set out.

Mr. FRANCIS: Perhaps an amendment to the act would answer that problem.

Mr. DRIEDGER: Secondly, I doubt very much whether there would be enough business from the Auditor General either to attract any lawyers or keep them busy.

Mr. WINCH: Perhaps Mr. Francis would recommend Dick Bell, on a retainer basis.

The CHAIRMAN: Have you completed your questions, Mr. Francis.

Mr. FRANCIS: No. Mr. Driedger has indicated he does not think there is sufficient work generated by the Auditor General's office to warrant the creation of a section such as that to which I referred. He feels that the Department of Justice Act places certain limitations on the functions of the Minister of Justice in his oblgation wth regard to public service. Do you consider it possible to amend the Department of Justice Act in such a way that it would permit the development of this kind of section? I think if Mr. Driedger reflected upon this suggestion a little he would find there might be some section of the department that could look after the sort of requests that are forthcoming, solving the problem, because the Auditor General does have a problem, we do have

a problem, and the government of Canada has a problem. It has to be worked out somehow and I am trying to press Mr. Driedger to give us his specific recommendations.

Mr. DRIEDGER: Mr. Francis, at the moment I cannot give you any recommendations because I really have not tried to work out a solution.

The CHAIRMAN: I did not mean to interrupt you, Mr. Francis. I have on my list the names of Mr. Ryan and then Mr. Wahn.

Mr. RYAN: Mr. Chairman, I wonder whether it would be possible for Mr. Driedger's department to continue to give advice to the Auditor General in view of the fact his department is the legal department of the government and is in the best possible position to advise in respect of many minor matters which do not necessarily involve a conflict of interests. I think the Department of Justice should consult with Mr. Henderson and his officers in many given respects. Mr. Henderson could certainly in a minute or two, find an answer to many of the minor problems with which he is faced by calling upon the Department of Justice, in respect of which he might otherwise find it necessary to go to the trouble and expense of employing counsel. It seems to me that only in cases where the Department of Justice resists the giving of advice should he necessarily consult independent counsel.

Mr. DRIEDGER: I should like to reply first of all by endorsing what Mr. Henderson has said. I think I can say our relationship has been very good and there is no reason why he should not call me on a variety of matters to give him some assistance. We have always done that and I hope we will continue to be able to do it. The position I am taking is that I cannot assume the role or position of a general legal adviser to the Auditor General, but of course there are many matters in respect of which I might be able to be of assistance to him.

Mr. RYAN: Apparently he does not have that many real problems which arise where there is a conflct involved. Is it not feasible for you or your officers to simply state to Mr. Henderson that such a case is one in which you do not feel your department should give an opinion, and ask him to seek an opinion elsewhere? Could that relationship continue or evolve if it is not in existence?

Mr. DRIEDGER: That is exactly what we have been doing.

Mr. FRANCIS: Where is "elsewhere"?

Mr. RYAN: "Elsewhere", perhaps not under these circumstances, or perhaps even under these circumstances, should be that place where an independent legal opinion can be obtained when there is a serious question involved.

Mr. WINCH: I do not wish to interrupt but just to follow up that particular point, could you tell us now in respect of the past several years how often you have been in the position of having to inform Mr. Henderson that you could not advise him because of a conflict?

Mr. DRIEDGER: There may have been one or two such occasions, although I am not sure. I think perhaps the position has been that the Auditor General has recognized that he really could not ask me for an opinion without putting me in a position where I would be involved in a conflict of duty and has refrained from doing so.

Mr. WINCH: I see.

Mr. DRIEDGER: I think perhaps that is closer to the situation.

Mr. HENDERSON: That is correct.

Mr. WAHN: Mr. Chairman, I think all members of the committee will agree that the statement made by Mr. Driedger is entirely reasonable, but I should like to ask him this question. This situation has come to light and there has been some indication that there may be a change in the actual practice of Mr. Driedger and his officers giving advice quite freely to the Auditor General. Is

there any suggestion being made that there will in future be any change whatsoever in the practice that has prevailed in the past?

Mr. DRIEDGER: Perhaps not, but going back over the years there have not been very many occasions when the present Auditor General or his predecessor have sought a formal legal opinion from our department. On most of these occasions they have been given such an opinion, although in some cases they have not.

Mr. WAHN: The practice will then continue, is that right?

My next question is this. Reference has been made to a possible conflict of duty in the event an opinion was given to the Auditor General. However, by statute the duty of the Minister of Justice and his deputy is to advise the department, and there could be no conflict of duty if such were done with the consent of the department involved. For example, there are many instances in respect of which many law firms are asked to give an opinion, and with the consent of a client that opinion is made available to another party. There is not considered to be a conflict of duty in this case.

Mr. DRIEDGER: Of course, if a department asked me to give an opinion in respect of a matter under discussion between that department and the Auditor General I would give it.

Mr. WAHN: I am taking the suggestion a little further. If the department gave you consent you would feel entirely free to give an opinion to the Auditor General; is that right?

Mr. DRIEDGER: Yes, sir.

Mr. WAHN: There would be no conflict of duty under those circumstances.

Mr. DRIEDGER: If that situation developed the usual procedure would be for the department itself to ask for the opinion.

Mr. WAHN: Yes, but in either case the conflict of duty principle, as I understand it, would not be involved because, as has always been my understanding of the practice of law, with the consent of the client a lawyer is entirely free to give a legal opinion to a party who may even have a conflict of interests.

This situation creates another question in my mind. Sometimes during meetings of this committee I have had the feeling that the witnesses who have come before the committee have been rather defensive in relation to statements made by the Auditor General. This may result because of the idea that the Auditor General is regarded as a sleuth of the House of Commons and sleuths are unfortunately sometimes not too popular. Nevertheless, the purpose of the Auditor General and the purpose of this committee are to attempt to make the operation of these departments more efficient, and I am afraid we will not be very successful if the individual departments adopt an arm's length attitude vis-à-vis the Auditor General and resist the suggestions made by him.

I have very definitely had the impression, after listening to many of the witnesses, that they tend to resist suggestions made by the Auditor General, and indeed by this committee. I have almost had the impression that they were at times attempting to cover up, and I hope that language is not too strong.

It seems to me there should be no conflict of interest surely between a government department and the Auditor General, particularly in view of the fact suggestions made by the Auditor General and by this committee are designed to make the operations of a department of government more efficient.

What I am suggesting, Mr. Chairman, is that I think it would be a most unusual circumstance in which a department would refuse to give consent to the deputy attorney general to give a legal opinion to the Auditor General I should like to hear Mr. Driedger's comments in that regard if it is not wrong to ask him.

Mr. DRIEDGER: As I mentioned earlier, I think perhaps the normal procedure in those circumstances would be for the department concerned simply to ask us or me for an opinion. We would have to get our terms of reference from that department. We would have to obtain the documents, material and information from that department and discuss the situation with the officials. I think that is the proper way to do this. If those officials said I was free to give advice to the Auditor General in respect of the matter in question and in respect of which they were concerned I would still have to go back to the department itself to obtain the necessary information and documents and to interview the officials of that department. So for all practical purposes I would simply be advising the government department at the request of their officials.

Mr. WAHN: The point I have in mind is whether it would be possible, in respect of a case where the Auditor General wanted a legal opinion, for him to request that legal opinion from the deputy attorney general, in which case the deputy attorney general would seek the consent of the department concerned and, if that consent were forthcoming, render an opinion to that department with perhaps a copy going to the Auditor General?

If the department refused, then obviously the Auditor General should have some method of obtaining an appropriate legal opinion by retaining outside counsel.

Mr. DRIEDGER: Frankly, I would prefer that the initiative should come from a government department rather than from me to give a legal opinion on a matter involving a department.

Mr. RYAN: That puts Mr. Henderson in the position of having to ask the department for an opinion.

Mr. GRAFFTEY: At this stage in our discussion it seems that we have arrived at some general consensus. We have an agent of parliament, namely the Auditor General. As a member of parliament, personally I would like to take this opportunity of thanking you for bringing up this most important subject. The Anditor General, the agent of parliament, as I see it, has to seek independent legal advice; he has to seek this advice from advisers who are neither working for the government nor advising the government. I am astounded that Mr. Francis feels that an employee of the Department of Justice would neither be working for nor advising the government.

Mr. FRANCIS: I never said that.

The CHAIRMAN: You might ask your questions, Mr. Grafftey, and then we will have discussion.

Mr. GRAFFTEY: We all have had experience with regard to the Unemployment Insurance Commission where the officers there will advise claimants for claims concerning their rights. We all have seen a conflict of interest there. I just bring this in as an analogy. At the same time I thank Mr. Henderson for bringing this problem before us. He is seeking independent legal advice from legal advisers who are employed neither by the Department of Justice nor any other department. This should be very obvious to us. As members of parliament receiving this information from our agent, namely the Auditor General, I think it is our duty right now to make sure that this problem is rectified.

I would like to ask Mr. Henderson whether this problem would be rectified if there were a vote of funds substantial enough to enable him to seek independent legal advice from sources outside the government on the many problems in respect of which he has to consult. I think it is as obvious as that.

The CHAIRMAN: Mr. Fisher.

Mr. FISHER: Not having heard what Mr. Driedger had to say, it is presumptuous of me to make any comment. It seems to me that Mr. Wahn is pretty close to putting his finger on something. We are at the stage of the whole question of tension, if you like, or the pull between the government in its administrative sense, and parliament in its scrutinizing sense. I would like to suggest that we certainly can see a great deal of change in the last five years in the scope of the work of this committee, and the work of the Auditor General. Obviously, he has been putting on muscle, as has this committee.

Mr. Wahn commented that he noticed a certain defensiveness. I also have noticed that defensiveness, and I have been glad to see it. It seems to me we may be touching on one of the most fundamental points of parliamentary government here; that is, the relationship of the executive to parliament. We may be touching on one of the directions that I, personally, believe parliament has to go; that is, it has to take upon itself, through committees such as this, greater powers in order to work as a real scrutinizer of the executive procedures and the administrative principles of the executive.

In this rather small matter of legal counsel for the Auditor General's department, it seems to me we are taking one more step along the road to give parliament, the House of Commons, or its microcosm—this committee—the kind of ability which will enable it to do a better job. I think all of us should look to see whether it is not coming pretty close to being a fact that this committee and the Auditor General, as an arm of the House of Commons, is about to move into an area where it will be continually, by its very nature, in a position of tension, putting government agencies on the defensive, and, if necessary, putting government ministers on the defensive. It seems to me this raises something which is very fundamental concerning cabinet government and ministerial responsibility.

My argument is that the committee should move on and that the committee and the Auditor General should be encouraged to move on in this particular direction, because I think it is the only way we can balance the situation where it has been more and more difficult for the committee to be a real watchdog. I am trying to set out what I think is a developing change in our system of government, and I would like to establish that in theory this is an admirable change. When the Commons gives its agency something to do, it is beginning to give it the power to do it and do it well. I do not know whether or not anyone has put this situation in this kind of context, but this is the way I see it. I would welcome a comment from the Auditor General. I know this has been put rather vaguely, but the way I see the development, I see something like this necessarily taking place.

The CHAIRMAN: Thank you, Mr. Fisher.

Mr. HENDERSON: Mr. Fisher, I think you have chosen your words well, and I much appreciate the concept you have put forward because I have been carrying out my job in the way that I feel it should be carried out and in the way I feel you would want me to carry it out. My officers and I have sought to bring just as enlightened an approach to our work as is possible.

It is very helpful indeed to have discussions such as this. So far as the legal view is concerned, and the matter we are discussing, I think Mr. Driedger has stated his case very clearly. I told you I was in agreement with the position in which he had found himself.

With reference to what Mr. Wahn said. I might mention here that at the present time while we do ask Mr. Driedger for clarification and for interpretation on routine matters, actually I have withheld asking him for any direct opinions now for some little time. I have several cases in abeyance, and I do not know quite where to direct them, because he feels he no longer should

continue to give me formal opinions for the reasons he has cited. I do not know where I should go, but I do know that wherever I do go to obtain my formal legal opinions in the future, it must be to somebody who is wholly and completely acceptable to parliament. That, if I may say so, is the basic question.

Mr. FRANCIS: Would the Auditor General consider going to the parliamentary counsel for an opinion under such circumstances?

Mr. HENDERSON: I am in the hands of the committee on that, Mr. Chairman. I merely want to check my findings with competent legal counsel.

The CHAIRMAN: I think I broke in on Mr. Fisher. I am sorry, Mr. Fisher, if you have some further questions.

Mr. FISHER: I would just like to ask a very general question of the Auditor General. This is perhaps an embarrassing question, but in respect of this question of defensiveness raised by Mr. Wahn have you noted this kind of defensiveness on the part of government agencies which you examined and report?

Mr. HENDERSON: I would not describe it as defensiveness.

The CHAIRMAN: Would you like to consult counsel first, before answering, Mr. Henderson?

Mr. HENDERSON: I certainly have noticed a great deal of alertness. One of the things to which I always feel considerable attention must be given, particularly by auditors, is to the old fashioned business of seeking to get on with people. I think the importance of getting on with people in my work here is even more important, because you do not get very far with your auditing work if the people who are subjected to the auditing are not co-operative in terms of explaining the full facts surrounding their operations and answering all your questions. Uniformly throughout the civil service I have been pleased with the willingness to co-operate and work with us. My officers and I value very highly their contribution to our work. It makes our work easier, we can accomplish more and such differences of opinion as we may have are honest differences of opinion with the facts laid out on the table. It is only natural, therefore that when they appear before this committee they have, shall we say, done their homework more clearly; they know in advance the points we are going to bring up and that I think, as you have so aptly put it; has contributed to much better discussion and much better reports by this committee to the house. At least I would like to think so, and I believe that is what you think.

Mr. FISHER: In his statement did Mr. Driedger go into the question of ministerial responsibility as it relates to this committee and the Auditor General?

The CHAIRMAN: Mr. Driedger dealt generally with the provisions of the Department of Justice Act under which his minister and himself work. I will let him answer.

Mr. DRIEDGER: I would say that the Minister of Justice is the official legal adviser to the Governor General and in his capacity as attorney general of Canada he is required to give advice on legal matters to the government departments. Normally that function is exercised through his deputy minister, although there are occasions obviously when it is more appropriate for the deputy minister to tender his views to his own minister.

Mr. FISHER: Do you see any danger between the responsibility of the Minister of Justice and the Auditor General having a completely free hand subject to his relationship with this committee in getting legal counsel?

Mr. DRIEDGER: I see no objection to that, no.

The CHAIRMAN: Mr. Francis, was your question answered?

Mr. FRANCIS: I wondered whether Mr. Henderson could go to the legal adviser to parliament?

Mr. DRIEDGER: He, of course, is on the staff of parliament; he is an employee of the House of Commons and his duties I think are decided by the standing orders. Therefore, I would think that would be a matter for parliament.

Mr. CAMERON (*High Park*): What do you think about the advisability of this?

Mr. DRIEDGER: I do not think I should make any comment.

Mr. SOUTHAM: Mr. Ollivier is responsible to parliament as are his law officers. Could we make the recommendation that Mr. Ollivier or an assistant assigned to his office be appointed for this purpose so that Mr. Henderson would have recourse to these law officers. This is a natural area of liaison which we could recommend to parliament.

The CHAIRMAN: This is one of the various alternatives. Others have been made and the committee can discuss these.

Mr. FISHER: Several years ago a controversy developed involving the C.B.C. and the role of Mr. Dunsmore. I am not thinking of personnel, but in this instance this was brought up by the Auditor General and there were legal opinions obtained. As I understand it, the C.B.C. obtained a legal opinion from outside the Department of Justice for almost parallel reasons. It sat on its legal opinion; at least, so far as I know, it did not advance it to parliament. Like the Auditor General, the C.B.C. is an agency that does not report to a minister; it reports through a minister to parliament. I would like to suggest to the committee that here is an example of a government agency, reporting to parliament and not to the minister, outside the Department of Justice. The interesting thing is that as I understand it the advice was contrary to the advice which apparently the government had from the Department of Justice.

Mr. HENDERSON: This happened in the case of the Canada Council which we were discussing earlier.

The CHAIRMAN: When the Supreme Court of Canada divides on the basis of five to four, there is ample room for lesser members of the bar to split on questions of opinion.

Gentlemen, we have had a very good discussion on this and I am sure we are most appreciative. As Mr. Fisher said, and as pointed out by all the members, this is very important with reference to what is involved here. I think it will be very useful to us when we come to the point of making our report and recommendations. We appreciate Mr. Driedger appearing here. Thank you very much for your attendance here. I am sure that what you have had to say will help us very much in the decision which we reach.

Mr. CAMERON (*High Park*): Before you leave that, Mr. Henderson might give us what in his opinion is a solution of the problem.

Mr. HENDERSON: In a very few words I can answer Mr. Cameron simply by saying, as Mr. Driedger says that this has been a subject of discussion between us and it is you chairman who has raised the matter before Mr. Driedger and I have found a solution.

Mr. CAMERON (*High Park*): Perhaps you could think about a solution.

Mr. HENDERSON: I am doing that, sir.

The CHAIRMAN: Gentlemen, we will have the benefit of Mr. Henderson's views before we write a report, which will deal with this particular matter.

Now, gentlemen, we stood Mr. Armstrong up last week when members were absent on other duties. We could not find a quorum for Mr. Armstrong. We have eight or nine items still and it is obvious we will have to come back this afternoon.

Is it your wish to carry on now for a while with Mr. Armstrong and then come back this afternoon? What are your views in this respect? I think Mr. Armstrong is entitled to consideration from us because he came last week and stood around for the afternoon while we were unable to find enough members to question him.

Mr. CAMERON (*High Park*): I would suggest that we carry on until 12 o'clock.

The CHAIRMAN: Yes, we will do that and then adjourn until 3.30 this afternoon.

Now, Mr. Henderson, the next item I think you have is paragraph 79.

Mr. HENDERSON: Mr. Chairman, we are still on the 1962 report and are dealing now with paragraph 79 at page 31, benefit paid under the Canadian Forces Superannuation Act to a "divorced" wife.

The paragraph outlines the circumstances under which an air force officer died of natural causes while serving in the United States, and shortly before his death his wife had obtained a divorce in that country and had remarried. But, the divorce was not recognized as legal in Canada and the woman, as the widow of the deceased officer, was paid a cash termination allowance of $3,428 and, in addition, the supplementary death benefit of $5,000.

From a legal point of view, these payments are not questioned but they appear to be unrealistic in that they were made to a person who was no longer, in the accepted sense, the wife of the serviceman at the time of his death.

The Canadian Force Superannuation Act only permits executive discretion in withholding an award from a widow if it appears that for a number of years immediately prior to the serviceman's death she had been living apart from him. And, I go on to suggest that the Department of National Defence might give consideration to amending the act to provide for the enlargement of the executive discretion to deal with unusual cases such as that referred to here.

I believe the department has had this matter under advisement and perhaps Mr. Armstrong would care to comment upon it at this time.

Mr. ARMSTRONG: Mr. Chairman, we have had this under consideration and, quite frankly, at this point we have not come to any conclusion in respect of how this matter should be dealt with. Under the law, this woman, in fact, was the legal widow and one would have to provide, if she were not to receive the benefit, for some discretionary power in the executive to disentitle her in these particular circumstances. In point of fact, if the committee is interested in this particular case, this woman, in fact, was named as a beneficiary under the will of the man himself, and she would have received the supplementary death benefit in any case because it is paid into his estate and would have been paid to her. However, that just happens in this case; there would be from time to time other cases where, owing to a divorce in the United States or under some other jurisdiction which is not recognized in Canada, a women would be the legal widow and entitled to a benefit even though she was divorced and perhaps remarried in some cases.

The CHAIRMAN: I have Mr. Southam, followed by Mr. Ryan.

Mr. SOUTHAM: As a matter of information I was wondering how many cases you normally would have of situations such as this or similar cases during the period of a year? Would there be very many such cases or is this the exception?

Mr. ARMSTRONG: Well, I think you certainly would have to say it is the exception. The Judge Advocate General is present and perhaps he could give you an idea of how many such cases would happen in a year.

Brigadier W. J. LAWSON (*Judge Advocate General of the Canadian Forces*): Mr. Chairman, I cannot recall any other cases of this particular nature.

Mr. SOUTHAM: The paragraph goes on to state that the act only permits executive discretion in withholding an award from a widow if it appears that for a number of years immediately prior to the serviceman's death she had been living apart from him. Is there an argument here in respect of whether or not the executive has used the proper discretion or do you suggest that these powers are too tight and there should be an amendment to the act? Would the Auditor General like to suggest what the solution to this would be.

Mr. ARMSTRONG: I do not think we had any executive discretion in this case; we had to pay this.

Mr. SOUTHAM: It was a matter of the legal interpretation of the law as it stands now.

Mr. ARMSTRONG: Yes.

Mr. SOUTHAM: In light of the evidence which has been given this morning, it would seem rather unusual that where a person actually was divorced and married another man she should come under these benefits. But, you say this is the interpretation of the law as it now stands.

What would be Mr. Henderson's view in respect of consideration being given to the amendment of the act to provide for enlargement of these powers?

Mr. HENDERSON: The point I would like to put forward is that if the act in its present form permits this type of settlement perhaps the executive should be given a wider discretion and be allowed to apply its own judgment.

Mr. SOUTHAM: Would the enlargement of the executive's discretion here result in any other problems such as, for instance, bringing too many cases under their supervision and the coming forward of other matters which might be questionable.

Mr. HENDERSON: We think so because the only executive discretion the act permits is "if it appears for a number of years immediately prior to the serviceman's death she had been living apart from him". In this case he had only been in the service for five years and his wife obtained a divorce only shortly before his death so, presumably, they felt they could not exercise executive discretion in that case.

Mr. ARMSTRONG: In this case the wife obtained a divorce in the United States on July 29, 1960 and the man, in fact, died on August 21, 1960. There was no evidence that he and his wife had been separated or living apart, as required in the law, for a number of years. In fact, the evidence indicated that they had been apart only something less than two months up to this time, and under the circumstances the discretion that does exist in the law which refers to separation for a number of years did not apply.

Mr. SOUTHAM: My aim, of course, is to try and help our Auditor General in this respect so that the committee will be satisfied that he is doing his job.

Mr. HENDERSON: Would it not appear to you, Mr. Southam, that the executive in its wisdom, should have had discretion to have cancelled out this particular settlement?

Mr. SOUTHAM: I think so, I think this is a situation we would not want to have repeated too often or, even, again. If it does not appear right in the legal sense, and it does not appear right to me, I think there should be some amendment to the act along those lines.

Mr. HENDERSON: That is my point.

The CHAIRMAN: Would you proceed, Mr. Ryan.

Mr. RYAN: I am addressing my question to Mr. Armstrong and to Mr. Henderson. In your opinion, would it not be better to amend the act rather than increase the discretionary powers? As I say would it not be better to amend the act by providing where a wife is living apart from her husband under such circumstances as to disentitle her to alimony or maintenance, then she cannot take it under such circumstances. The case in hand, apart from the additional factor, that the will would have given her this in any event by way of the estate, one which should disentitle her to alimony even though she did live apart for only two months. If this were a maintenance case she would have been disallowed in that respect.

The CHAIRMAN: Before leaving this matter, could we have the regulation read in this respect. I do not believe it is very lengthy.

Mr. ARMSTRONG: No.

The CHAIRMAN: Would you read it to us so that it will be on the record, should we want to consider the question of any amendment. In this way we will know precisely what the regulation is at the present time.

Mr. RYAN: There might be a problem in respect of the laws as they pertain in the province of Quebec. I am unable to speak in that respect and perhaps we should have some advice in respect of the civil law as it pertains there.

Mr. ARMSTRONG: This is the regulation as it stands at the present time:

> If, upon the death of a contributor, it appears to the treasury board that the widow of the contributor had, for a number of years immediately prior to his death, been living apart from him under circumstances that would have disentitled her to an order for separate maintenance under the laws of the province in which the contributor was ordinarily resident, and if the treasury board so directs, having regard to the surrounding circumstances, including the welfare of any children involved, she shall be deemed, for the purposes of this act, to have predeceased the contributor.

Now, to get the discretion that would deal with this case we would have to have removed from this act the words "a number of years".

The CHAIRMAN: Yes, there would have to be removed the words "a number of years".

Could we move on, gentlemen?

Mr. CAMERON (*High Park*): You said that she might take it under the will. Does she not take it as the widow?

Mr. ARMSTRONG: I was speaking of the supplementary benefit, which was the major benefit. It is payable to the estate if he does not have a widow.

Mr. CAMERON (*High Park*): But, it is payable to the widow.

Mr. ARMSTRONG: It is payable to the widow but if there is not a widow it is payable to the estate. She was the beneficiary in this case so she would have received the $5,000 under the estate.

Mr. CAMERON (*High Park*): I am speaking of the cash termination allowance.

Mr. ARMSTRONG: There would be a difference in this. The cash termination allowance is payable to a widow. If there was no widow the estate would receive a return of the contribution.

Mr. CAMERON (*High Park*): Assume there was a widow; the deceased could not will it away from the widow?

Mr. ARMSTRONG: No.

The CHAIRMAN: Gentlemen, it is five minutes to twelve. We have had a very good meeting this morning and I suggest we adjourn until 3.30 this afternoon, unless the orders of the day are much longer than they should be.

AFTERNOON SITTING

Tuesday, July 14, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. I would as the meeting to come to order.

Mr. Armstrong now has answers to some of the questions which were put to him this morning. I will invite him to give those answers to the committee now.

Mr. ARMSTRONG: There were two questions on item 78 that I was unable to answer this morning. One was the name of the firm that made the site survey. The firm was C. A. Fowler Limited in Halifax. I would just add that the site survey that was used for that contract was the one that was made in May of 1956 for the original installation.

The second question was whether or not we could, had we known what would be the ultimate cost of the renovation, have chosen another site. Another site, of course, might be possible, but we already had an investment in this site in excess of a quarter of a million dollars and it would not have paid us to move even had we known at the outset that the cost of this renovation would come up to the actual figure. Therefore, the answer to your question is that we would not have moved in any case because of our original investment in that site.

The VICE-CHAIRMAN: Mr. Winch.

Mr. WINCH: Mr. Chairman, I think we have considered this for long enough but I would like to ask, through you, if Mr. Armstrong would be prepared at a later date to submit a report to this committee on the engineering procedures involved in the construction.

The VICE-CHAIRMAN: Very good.

Mr. WINCH: Will Mr. Armstrong do that?

Mr. ARMSTRONG: I will be very glad to do it. I would appreciate it if at some point the committee, perhaps through their steering committee or otherwise, would give me more specific information of exactly what they would like. Engineering procedures cover a very wide field in the Department of National Defence.

Mr. WINCH: I am mostly concerned, Mr. Chairman, with the matter I raised this morning, which was a general survey of engineering, not specifically on each point of construction.

Mr. ARMSTRONG: Yes, I think I understand what you want.

Mr. WINCH: Would you be prepared to give us such a report?

Mr. ARMSTRONG: I would be quite happy to submit a paper to the committee explaining our procedures.

The VICE-CHAIRMAN: I would like to take a moment off to welcome to the committee Mr. Legault of Nipissing and Mr. Leblanc, member for Montreal Laurier, who have been added to the committee. I am sure they will make a great contribution to the work being done by this committee.

Some hon. MEMBERS: Hear, hear.

Mr. Henderson has some comments to make on paragraphs 81 and 82 of the 1962 report, and I will ask him to do that now.

Mr. HENDERSON: Paragraph 81 outlines the financial assistance to the town of Oromocto. We did have a brief discussion of this on June 9, at which time I explained how attention was drawn to the loans and the level of the town's operating cost which, as you can see, in 1961 totalled $1,602,000 while its revenues only amounted to $81,000, including tax revenues of $27,000 and provincial government grants and subsidies of $9,000. I pointed out that there seems very little likelihood of the town being able to operate normally in the foreseeable future.

The Department of National Defence alone owns 1,900 housing units in the town, which represents about 90 per cent of the value of all the town property.

Dr. McMillan and Mr. Harkness spoke to this subject, you will recall, but it was left over until we had Mr. Armstrong with us today. I do not know what is the outlook for the recovery of some of these advances but, as I indicated, it does not seem very bright.

The VICE-CHAIRMAN: Have you finished with that clause, Mr. Henderson?

Mr. HENDERSON: Yes.

The VICE-CHAIRMAN: I wonder whether Mr. Armstrong has some comment to make on paragraph 81 for the enlightenment of the committee.

Mr. ARMSTRONG: This, Mr. Chairman, is a rather complicated subject. I realize the committee perhaps do not want lengthy statements on this, so I would first of all agree with the Auditor General that the town of Oromocto is predominantly dependant on the Department on National Defence. While there is some private investment there which is increasing gradually as the years go by, it would seem self-evident, I think, that it is going to be predominantly a national defence town for a good many years to come. It now has a population of, I think, about 12,000 to 13,000 and it is largely dependant upon revenue from the department.

The VICE-CHAIRMAN: Mr. Francis.

Mr. FRANCIS: Mr. Chairman, I notice that grants by the province for municipal purposes appear to be in the order of $9,000. That appears to be very low. Is there any reason why the province has not undertaken a more usual type of municipal grants program in these circumstances?

Mr. ARMSTRONG: The province, I think, makes the standard municipal grants and they are subject to a couple of factors which result in their being low. They have not seen fit to provide a portion of a grant that is normally paid to municipalities, that is based on these special grants from the federal government in respect of the Atlantic area. That results in the grant being somewhat lower than a normal municipality would receive.

I believe there are some other factors in terms of population which have an effect on this. For example, in terms of population, the census had not been brought up to date and we have grown very rapidly in the last four or five years, and this has resulted in grants being a little lower, too.

Mr. FRANCIS: I wonder whether the fact that the crown owns so many of the dwellings has something to do with it. This would perhaps influence the private assessment. I wonder whether the department has considered the policy of sale of some of those dwellings or a proportion of them to private persons with the object of increasing the amount of assessment which would not be government of Canada assessment.

Mr. ARMSTRONG: There are about 1,900 units there which are crown owned, and the question of sale is a question of market. These houses are occupied by individual servicemen who are there for three or four years and then move out again.

Mr. FRANCIS: Surely, Mr. Chairman, there must also be a local service trade and so on in the community which would provide the facilities and services which the community needs on a continuous basis.

Mr. ARMSTRONG: There are also privately owned homes for those people, but we do need 1,900 units; and, in fact, we are building more now to accommodate service people.

Mr. WINCH: May I ask a question of Mr. Armstrong?

I had the privilege last week of being in Gagetown and, therefore, in Oromocto, Oromocto is a town outside Gagetown. It is dependent entirely upon the army station, who will be there for all time, I presume, and who are doing a wonderful job, if I may say so, Mr. Armstrong—a wonderful job. The information which I discovered last week is that at Oromocto there is a council to which some members are appointed by the provincial government and some by the federal. As it is a town outside the federal establishment itself, could you tell me why in its administration the taxes are not sufficient to cover the general administration and, therefore, why we have to spend these additional sums every year?

Mr. ARMSTRONG: The boundaries of the town of Oromocto encompass, as you recall, that camp area.

Mr. WINCH: The boundaries surely do not encompass Camp Gagetown?

Mr. ARMSTRONG: Yes, Camp Gagetown is within the municipal boundaries of Oromocto, and the housing area occupied by military men and their families is within the municipality of Oromocto, so that Camp Gagetown is encompassed by that municipality, established by special legislation of the province of New Brunswick and controlled by a board of commissioners made up of seven, four of whom are appointed by the governor in council here and three by the province. All of that area is part of that municipality and within that town boundary.

Mr. WINCH: Mr. Chairman, the point I am trying to make is this. In view of the fact moneys are paid in respect of Camp Gagetown in lieu of taxes, and in view of the fact that the federal government has paid for the construction there including sewers and lights and water facilities, why is Oromocto not a self-sustaining town? I understand there is a great deal of private and surplus housing in the area.

Mr. ARMSTRONG: Perhaps I could explain the situation in this way. As you know, there are seven schools in existence there, the cost of which is part of this budget. In fact, half of the budget of the town of Oromocto is represented by the cost of operating these schools.

Mr. WINCH: I realize that fact.

Mr. ARMSTRONG: This represents a good part of the total budget. Our children occupy virtually all of the schools and represent almost the total school population. All the streets you saw throughout the housing area are being maintained by the town of Oromocto. All the attendant services provided represent part of the total budget. If these costs were not paid by the town of Oromocto as part of the town costs we would, at any rate, have to pay that portion, associated with the operation of our establishment. We would have to pay the cost of operating the schools for our children.

Have I answered your question?

Mr. WINCH: You have answered it only in part. I made a visit to this area and found it very interesting. How do you answer the criticism of the Auditor General as contained in paragraph 81?

Mr. ARMSTRONG: As I understand the situation, the Auditor General's comments here point out to the members of this committee that at this stage after roughly seven or eight years of operation the town is still predominantely

operated by national defence and there has not been sufficient build-up in the civilian community to even represent a small segment proportion of the cost of operating the town. This is the fact and there is no question about it. As I say, I do not see any likelihood of this changing for a good many years, and under these circumstances the town will be dependant to a very large extent on federal government sources of money, particularly from the Department of National Defence.

Mr. WINCH: Mr. Chairman, obviously I have not made my question clear. I understand the houses in the town of Oromocto are either rented or purchased. I should like to know why, whether the houses are owned by the Department of National Defence or by private individuals, the town has to be supported by general government subsidy?

Mr. ARMSTRONG: The houses are owned by the Department of National Defence and are occupied by our people as married quarters. The number occupied by these individuals represents the greatest number of houses in the area. These houses are not subject to tax.

Mr. HENDERSON: There is no taxation in this regard, Mr. Winch.

Mr. WINCH: Are you suggesting the houses in Oromocto are not taxed?

Mr. ARMSTRONG: Those houses owned by the Department of National Defence are not subject to taxation. Privately owned houses are being taxed.

Mr. HENDERSON: I think Mr. Harkness made this point, Mr. Winch, in a statement to the committee at the last meeting. He pointed out that even the shopping centre which is the chief business end of the town, is owned by a crown corporation, but the title to it is under the Department of National Defence. He then went on to say:

> Therefore you have nothing to tax in the normal sense except this very small amount of privately owned property. And this grant which has been made was made as being the equivalent to what would be granted, let us say, to the city of Ottawa or to any other city where DND property exists, in lieu of taxes.

As you will see in the note here, in 1955, when this proposition had its origin, the Department of National Defence proceeded, with government approval, to develop the proposed town and in due course it was incorporated by an act of the province of New Brunswick.

Mr. WINCH: Will you tell me why, whether applied to housing or anything else, rent does not include an amount of money to cover required taxes?

Mr. HENDERSON: I presume that the government has taken the position, and I would ask Mr. Armstrong to correct me in this regard if I am wrong, that in view of the substantial amount of help being given, there was no necessity for them to make any grant in lieu of taxes. Is that correct?

Mr. WINCH: Perhaps I could ask Mr. Armstrong why, if my understanding is correct, the rents in respect of stores or houses owned by the department have not been designed to include anything in the way of taxes, but which in turn are being paid by the Department of National Defence?

Mr. ARMSTRONG: We pay the difference between the operating costs of the town and its revenue received from either private taxes, grants from the provincial government or any other source. The Department of National Defence in fact makes up the difference. Municipal grants or grants in lieu of taxes are not paid in that particular area. There was a belief originally that the town might develop after four or five years, to a point where grants in lieu of taxes would be paid. However, as the town is still dependant on the Department of National Defence to the extent of something in the neighbourhood of 90 per cent, the circumstances were not really propitious for

paying grants in lieu of taxes. There is such a relatively small tax base in respect of the private sector that consequently the Department of National Defence continued to operate on the basis of direct grants. As a result of the fact that the federal government appoints four of the seven commissioners it does have representation and an opportunity of making an impact on the town budget, keeping control over the over-all expenditures.

Mr. WINCH: Perhaps I could ask one final question, Mr. Chairman.

The VICE CHAIRMAN: Yes.

Mr. WINCH: I should like to ask Mr. Armstrong, as a result of the information he has just given, why in a town such as Oromocto, or for that matter anywhere else, the Department of National Defence should allow a rental basis to exist in respect of commercial operations involving an amount less than that which would cover the cost of included taxes.

Mr. ARMSTRONG: I am not sure I understand your question, but we are not doing that. We are not allowing a rental basis in so far as housing is concerned which we own and, if you wish to phrase it this way, we rent. Servicemen and their families occupy the housing we own on the basis of standard married quarters in respect of which there are certain allowances not paid when those individuals occupy housing of this type.

Mr. WINCH: In respect of commercially occupied and Department of National Defence owned property in Oromocto, do you charge rent on a commercial tax basis?

Mr. ARMSTRONG: We are not engaged in a commercial operation.

Mr. WINCH: There are some properties of that type in existence.

Mr. ARMSTRONG: Yes, but not in operation by the Department of National Defence. Those are represented by private operations.

The VICE CHAIRMAN: If I may be permitted, I think what Mr. Winch is trying to understand is, in the case of property rented for commercial operations by people other than the national defence department, do you include in your rental charges an amount which would normally cover the cost of taxation if normal taxes were charged. Is that the information you require, Mr. Winch?

Mr. WINCH: Yes.

Mr. ARMSTRONG: That situation does not exist, but if we did rent property on the basis of a commercial operation we certainly would include taxes in the rental charges.

The VICE-CHAIRMAN: I have Mr. Wahn next on my list of questioners followed by Mr. Fane, Mr. Regan, Mr. Ryan and then Mr. Cardiff.

Mr. RYAN: In order to clarify something you said in answer to a question asked by Mr. Winch, did I understand the Auditor General to say that the Department of National Defence does in fact own the property which is being operated as a shopping centre?

Mr. ARMSTRONG: We do not own that property.

Mr. HENDERSON: A crown corporation owns that property, according to Mr. Harkness, although I am not certain which crown corporation it is.

Mr. ARMSTRONG: It is not actually a crown corporation which owns that property. There is a corporation known as the Oromocto Development Corporation which owns the property.

Mr. WINCH: I think Mr. Ryan's question is of utmost importance, because if this is a crown corporation it represents the government of Canada.

Mr. ARMSTRONG: If I might say so, it is not really the government of Canada, although the financing, in fact, really has come out of the government of Canada in that it made available through appropriation moneys that could

be provided through the commission to the Oromocto Development Corporation for developing the town. That corporation, in fact, did build the shopping centre. They run the buildings there. I do believe they are prepared to sell them, although I do not think anything has been sold up until now. They also run some other operations. I believe they have a housing development and, perhaps, some other things.

Mr. WAHN: Who owns the development corporation?

Mr. ARMSTRONG: I believe that is established under the companies act of the province and really is an emanation of the town of Oromocto.

Mr. WAHN: I gather from the figures given here that the operating costs are running at about $1,600,000 a year. Would you recover this amount through the rents which you charge directly or indirectly to the tenants of the 1,900 housing units? If not, to what extent do you recover through rents?

Mr. ARMSTRONG: We would recover not nearly this amount. Our average rent on housing, in round figures, would run perhaps approximately $90 a month, somewhere between $90 and $100 on the average. Now, if one calculates the investment in the houses, the depreciation, the cost of operation and so on we certainly would not begin to pay this kind of cost if we attached it to the housing.

Mr. WAHN: Then these really are highly subsidized houses?

Mr. ARMSTRONG: Oh, yes. But, I would suggest that you normally would not expect these housing units to bear the full cost of operating.

Mr. WAHN: Has any comparison ever been made by the department in respect of the cost per person of providing housing in this way as compared with the cost per military person in providing housing in other areas of Canada? It seems to me this has been started as a rather interesting experiment which obviously has cost considerably more than anticipated, and there is no indication it will cease costing a considerable amount of money. Has the department learned anything from this particular experiment?

Mr. ARMSTRONG: I believe there have been comparisons made but I do not recall exactly what they produced. However, I do not think there is any question but what you say is so, that this is more expensive that a normal military station development at this stage. Possibly at sometime in the future, if the town develops sufficiently and you have a real civilian base there, it would not be more expensive; it might even be a little cheaper. But, I think that would be a long time in the future.

Mr. WAHN: Is there any continuing study under way to see if something could be done to stop this indefinite drain on public funds?

Mr. ARMSTRONG: When you say a continuing study I might say that we do look at this. We obviously look at it on a continuous basis. We have to look at the budget every year. We are aware of the fact that it is expensive and we are doing our very best to keep the costs down. We have had some success in reducing them in a marginal way. But, I do not think we will reduce them in any really substantial way. We are concerned basically with schooling and funds for services.

Mr. WAHN: You mentioned that the rental of units was in the amount of about $90 a month. Would that be a six room house?

Mr. ARMSTRONG: I said I thought they would average that. The units vary a little bit and the rentals or the recoveries we get for them depend on the soldier's rank who occupies them. But, they would run from about a minimum of $80 odd a month up to something in the order of $120 a month.

Mr. WAHN: Would it be a detached house for that amount?

Mr. ARMSTRONG: They nearly all are detached houses. Some are row housing. But, for the most part, in the original development they were detached houses.

Mr. WAHN: Six rooms?

Mr. ARMSTRONG: Yes, predominantly three bedrooms. However, they are not all three bedrooms; there are some with two, some with three and some with four. But, as I say, predominantly they are three.

Mr. WAHN: Well then, there is a considerable rental subsidy involved in respect of the personnel who occupy these houses. Are similar subsidies given to other personnel in other camps throughout Canada?

Mr. ARMSTRONG: There is really a rental subsidy on all our housing for the soldiers—that is, the soldier, the private, the corporal and the sergeant. In respect of the people who have a deduction of, say, $80 to $90 a month, there is not any question that the housing amortized over a reasonable period of time, perhaps 30 years, would cost us more than we get back. I think this applies to all our houses. Now, in respect of those who pay $115 or $120 a month, that amount perhaps would cover the cost. But certainly with the more lowly paid staff, the junior N.C.O.'s and so on, I do not think there is any question that there is a subsidy involved.

Mr. WAHN: Would those men of similar rank who are responsible for finding their own quarters in other locations receive a similar subsidy to equalize it.

Mr. ARMSTRONG: The way I am judging it, a man receives a certain amount of pay and allowances and if he is living out he has to find his own accommodation; if he is living in married quarters he gets so much less, and the amount less that he gets is what I am speaking of in terms of $80 rent. If he is living out we do not subsidize him. He provides the accommodation out of his own pay; he pays for it.

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

Mr. FANE: Well, Mr. Chairman, Mr. Winch and Mr. Wahn have covered many of the questions I was going to put. However, Mr. Armstrong, we did establish that the shopping centre and the apartment block are owned by a corporation which is not a crown corporation and, therefore, it is not owned by the government. We did establish that, did we not?

Mr. ARMSTRONG: Well, that is right. It is not a crown corporation and it is not owned by the government, although actually the money that really went into it came from the government.

Mr. FANE: I see. Does the rental charged for that include enough money to pay taxes on those establishments?

Mr. ARMSTRONG: Yes. There are taxes paid on those establishments.

Mr. FANE: There are?

Mr. ARMSTRONG: Yes.

Mr. FANE: Then, that is not subsidized so much.

Mr. ARMSTRONG: Well, it all depends on how you use the word "subsidy". At any rate, they do pay taxes.

Mr. WINCH: I think you should answer this question. I believe there are subsidies because you do not charge commercial enterprises sufficient rent to carry that. Is that not so?

Mr. ARMSTRONG: The answer to that is that I believe they do include enough in the rental to amortize their capital costs and to pay their taxes. But I do not know the operation of the Oromocto Development Corporation in detail. However, I think I am quite correct in saying what I have said.

The VICE-CHAIRMAN: Mr. Regan, you are next.

Mr. REGAN: Mr. Armstrong, I have several questions arising largely out of earlier questions.

First of all, in comparing the camp at Gagetown and, therefore, the existence of Oromocto, to conditions elsewhere in the country I think you will agree that we have to face a very fundamental difference. At Oromocto we are faced with the necessity—and I believe this was the primary purpose—of considering the comfort, morale and services of our own armed forces and, therefore, we were faced with creating an entirely new town. You were faced there with a different situation from most camps. Is that an accurate statement, to begin with?

Mr. ARMSTRONG: Well, I think it is in a sense accurate. We certainly had a new camp from scratch, and we had to build that.

Mr. REGAN: And, a new town.

Mr. ARMSTRONG: On the question of building a new town, obviously when you build a camp of that size you must provide facilities of some kind such as normally are found in a town unless those facilities are available in an adjacent municipality.

Mr. REGAN: As I understand it, the corporation which owns the shopping centre is owned by the town of Oromocto; it is not owned by a group of private individuals who eventually will make a profit.

Mr. ARMSTRONG: That is accurate.

Mr. REGAN: So, it is not a question of someone profiteering. As I understand it, when the town was founded and the camp established it was not sufficiently attractive to private individuals to establish the necessary type of shopping centre that was needed by the men in the area; it was not attractive enough to private individuals, and therefore for the general benefit of members of the armed forces, it was necessary to have this type of commercial establishment or physical building for commercial establishments erected and rented out to individuals. Is that correct?

Mr. ARMSTRONG: I think substantially that is correct. Private enterprise was not prepared to go in and build them on their own.

Mr. REGAN: Starting with the same 1,900 units of private houses owned by the government, I think the experiment in that direction is a very worth-while one. In many other areas you have allowed private interests to build apartment houses or houses for the armed forces personnel on the basis that they were given an approximate guaranteed profit. Do you weel the experiment at Oromocto in retaining government ownership of those houses is a good one.

Mr. ARMSTRONG: Yes. I think definitely we should retain government ownership of the housing.

Mr. WINCH: I am sorry; there are privately owned apartment houses in Oromocto?

Mr. REGAN: I am perfectly cognizant of that; but the government did not put up the money for those privately owned apartment houses, other than the way it is done anywhere else through the National Housing Act.

Mr. ARMSTRONG: That is correct; it is mortgage money. As I mentioned earlier, we need another 300 houses. They are going to be built there and we will build them as government owned houses. I think this answers the question that we consider this in the best way to build houses for the armed forces in that location.

Mr. REGAN: Generally, for the present and the future, the policy is where this type of housing is required that it will be built and the ownership will be retained by the government rather than giving a guaranteed franchise to private individuals.

Mr. ARMSTRONG: I would not go that far: I think this depends in part on the location and the particular situation. If we are in an area where private enterprise is prepared to build houses on a rental basis, we will certainly consider that. As you know, we have a number of these.

Mr. REGAN: Yes. Now, as has been pointed out, in the town of Oromocto there is some privately owned land?

Mr. ARMSTRONG: Yes.

Mr. REGAN: You can buy land and build your own structure, if you so desire?

Mr. ARMSTRONG: Yes.

Mr. REGAN: Are there restrictions in respect of the type of industries which can be established in Oromocto?

Mr. ARMSTRONG: There probably are some, but I am afraid I do not have the information with respect to what the restrictions are. I know they are seeking industry there. I would think that if there are restrictions they would be very limited ones. However, no doubt there are zoning regulations in the town.

The VICE-CHAIRMAN: I would suggest, Mr. Regan, that you are getting away from the paragraph which we are discussing.

Mr. REGAN: Not at all. I am dealing with the situation that if industry could establish there the tax base would be much broader. It is very difficult for a town to operate if its taxes come entirely from residential taxation. I am tying this in. I understand that a certain type of industry likely would be able to establish there.

Mr. ARMSTRONG: Yes; there is private industry there.

Mr. REGAN: Is part of the reason it is necessary to continue to subsidize this town the fact that Oromocto would have difficulty in attracting private industry for a number of reasons; first, because almost all the residents are members of the armed forces, there is not a readily available labour force for private industry in the quantities which would exist in a normal town. Is that accurate?

Mr. ARMSTRONG: I am sure this has a bearing on the situation.

Mr. REGAN: So, the fact is, if this great camp is to exist, there is a need for a possible subsidy to keep this town operating on a break even basis for a considerable period. Is that correct?

Mr. ARMSTRONG: I do not think there is any question about that.

Mr. REGAN: If at the present time you were to pay taxes on all those 1,900 units owned by the government, or if the government were to pay a grant in lieu of municipal taxation in the same amount, this would not remedy the situation because the lack of industrial taxation revenue still would leave the town unable to break even. Is that accurate?

Mr. ARMSTRONG: Of course, this depends on the tax base.

The VICE-CHAIRMAN: I do not wish to stop you asking questions, Mr. Regan. I know you did not agree with me when I told you you were getting away from the clause we are discussing. I do not want to act as a brand new chairman sweeping everything clean; but you are making far more statements than you are asking questions. May I respectfully ask that you confine yourself to asking questions.

Mr. REGAN: I shall do so. Thank you Mr. Chairman. Mr. Armstrong, I think I have pretty well covered all I wanted to say, at any rate—or wanted to ask.

An hon. MEMBER: You were right the first time.

Mr. REGAN: At the present time you have a projected expansion of 300 units. Is it expected that this town will continue to grow, and that therefore the amount of the subsidy being paid at present will also grow somewhat?

Mr. ARMSTRONG: The town will grow somewhat on the military side. We are putting in those additional units and need some more houses there. Of course, the school population is growing. I think we have to build another school. All this adds to the cost. On the other hand, the civilian part of the town also is growing.

Mr. REGAN: The schools are operated at the cost of the town?

Mr. ARMSTRONG: Yes.

Mr. REGAN: You merely provide the school.

Mr. ARMSTRONG: In fact, the town provides the school. We provided some of the original ones and turned them over to the town.

Mr. REGAN: I would like to say that I feel this is a very worth-while experiment in public ownership and I am quite surprised to see Mr. Winch opposed to it.

Mr. WINCH: I am not, sir; I am not opposed to it. Last week I was there, and Oromocto itself is the most marvellously planned town I have seen anywhere in Canada.

The VICE-CHAIRMAN: That establishes the fact that you are not against it, and we appreciate that.

Mr. WINCH: No. I wanted to know the relationship of the federal government in paying its subsidies to the town of Oromocto.

The VICE-CHAIRMAN: If you will hold that for a moment, we will have Mr. Ryan and then Mr. Tardif.

Mr. WINCH: It is a wonderful town; I have seen it.

Mr. RYAN: Is the Municipal Grants Act which is referred to in this paragraph an act of the provincial government, or of the federal government?

Mr. ARMSTRONG: An act of the federal government.

Mr. HENDERSON: It was the federal government.

Mr. RYAN: At the time that this municipality was set up it appear to have been set up as a joint federal-provincial-municipal experiment. It seems at that time there were expectations of receiving a lot higher grants than have developed. Why would there be a letdown of these expectations that the original plan seemed to foresee?

Mr. ARMSTRONG: I do not believe there was expectation of higher grants. There was anticipation at the outset that after the first three or four years the town would in fact receive federal support through the Municipal Grants Act, but this has not happened, and the grants are paid directly through appropriations of the Department of National Defence.

Mr. RYAN: Are there not provincial grants paid as well?

Mr. ARMSTRONG: Oh, yes, there are provincial grants.

Mr. RYAN: According to the second paragraph of item 81 there were $9,000 provincial grants in all; what would the federal grants be?

Mr. HENDERSON: They are listed in the table on page 33.

Mr. RYAN: Oh, yes. These are not paid under the Municipal Grants Act, are they?

Mr. HENDERSON: No, they are paid under the vote.

Mr. ARMSTRONG: I could give you a couple of figures to illustrate it. In 1956, which was the first year, the grants from the department were $75,000.

They have gone up to $1,736,000. The provincial subsidy in that first year was $5,430; but it has now gone up to $121,610. Then there are a few more provincial grants for other specific purposes which amount to about $24,000.

Mr. RYAN: Would they be for education? Would it be included in these additional provincial grants of $24,000?

Mr. ARMSTRONG: No, I doubt if it covers education. I think the total covers education.

Mr. RYAN: Is there anything received specifically from New Brunswick for education?

Mr. ARMSTRONG: Let me see if I can pick it out for you.

Mr. RYAN: We can get it later. Let me go on. You spoke of the fact that Camp Gagetown is entirely within the boundaries of Oromocto. May I take it from that, that at the time of the incorporation of this new municipality all the land within its boundaries was turned over from the municipality, and that there have been transfers effected since?

Mr. ARMSTRONG: Any land that departmental buildings are on has not been turned over; but all the land for roads, sewers and certain other land has been made available.

Mr. RYAN: Is the land which forms Camp Gagetown itself still owned by the crown in the right of Canada?

Mr. ARMSTRONG: Yes.

Mr. WINCH: It is not apart.

Mr. ARMSTRONG: Yes, it is within municipal boundaries.

Mr. WINCH: I would like to get this clear: that there is nothing on the ground of Camp Gagetown, such as officers' quarters, N.C.O.'s quarters and everything else which is not strictly military at Gagetown.

Mr. ARMSTRONG: Yes, I would agree with you.

Mr. RYAN: Why, then, have we had this situation brought before the committee in the case of Gagetown when we do not have anything similar in the case, let us say, of Camp Borden in Ontario?

The VICE-CHAIRMAN: Perhaps Mr. Henderson could answer that.

Mr. HENDERSON: I shall ask Mr. Millar to answer.

Mr. B. A. MILLAR (*Audit Director, Office of the Auditor General*): I think the answer to that is that this was a special establishment, and that it differed from any other that was in existence so far as the Department of National Defence was concerned.

Mr. RYAN: Does the department also have to carry a heavy burden for Camp Borden in respect of operating costs?

Mr. MILLAR: I am not sure that I can answer that.

Mr. ARMSTRONG: In respect of what?

Mr. RYAN: Does the Department of National Defence have to carry certain operating costs for Camp Borden, let us say?

Mr. ARMSTRONG: Oh, yes, we pay all the costs of operating Camp Borden.

Mr. RYAN: I would ask Mr. Henderson if Gagetown is any different, and if so, why?

Mr. HENDERSON: Because I am explaining here how the town itself was formed, and about these operating grants having to be made to the town, and how they have exceeded original expectations. You will notice, if you look at the table, that there have been $4\frac{1}{2}$ million of capital assistance, loans,

made to this town, on which interest has been charged by the Department of Finance. The only repayment of these loans that has been made has amounted to $423,000; in other words, they have only paid back 10 per cent of the loan; the rest is still outstanding, and the remaining balance of $4 million is still sitting there as an advance by the federal government to the town of Oromocto as such.

Mr. RYAN: Are you looking for a write off.

Mr. HENDERSON: I wonder. Here we have an investment, and we are carrying the assets on our balance sheet in the amount of $4 million. If you look at the financial statement of the town of Oromocto you will see that they have expenses of $1,600,000 with revenue of $81,000; so I suggest that the repayment prospect is not a very bright one. That is why I drew the attention of the house to this worsening situation. I do not know what the answer is. I think some good ideas have been brought out this afternoon, and I think that Mr. Armstrong has given us a great deal of background. But I do not suppose there is any ready solution for it. Whether the federal government will ever be able to recover its $4 million of loans outstanding, I cannot say; but I felt that it was necessary that the members should know about it.

Mr. RYAN: There must have been other cases in the past where the government has poured capital into army camps.

Mr. HENDERSON: The bases at Borden and at Camp Petawawa are different in that they are wholly creatures of the Department of National Defence.

Mr. ARMSTRONG: Yes, basically the costs are paid by the Department of National Defence. Occasionally at Borden, in the army portion of it, you have some investment; for example, there would be the Maple Leaf Services which might build a shopping centre; but by and large the investment is entirely that of the Department of National Defence.

Mr. RYAN: And it is carried over from year to year as an expense?

Mr. ARMSTRONG: That is right; it is shown as an expense.

The VICE-CHAIRMAN: We have had quite a good discussion on this paragraph. We have a few more questions to come from Mr. Cardiff and Mr. Southam. Might I request that they be made as short as possible so that we might terminate the examination of Mr. Armstrong today?

Mr. CARDIFF: My questions have already been partly answered, but I would like to have a little clarification of what proportion of the cost of operation since this town has been formed has been paid by the town, and what portion has been paid by the Department of National Defence.

Mr. WINCH: That is a good question.

Mr. ARMSTRONG: Perhaps the best way to give you this is for me to run through very quickly the revenue side of the financial returns from the town.

In 1956 the total revenue, contributions, grants and subsidies was $80,430, of which the federal government paid $75,000, and there was $13,000 paid in taxation, plus $8,000 in interest. Do you want me to go into this year by year?

Mr. CARDIFF: I think it would be more enlightening to the committee if you gave the figures year by year.

Mr. ARMSTRONG: I have them all there. I could also produce a short statement and give it to the committee.

Mr. CARDIFF: Yes, it would be a better idea.

Mr. HENDERSON: Can I just make one statement, perhaps to wind up this discussion and to answer in particular the point made by Mr. Ryan? If you look on page 77 of my 1962 report you will see there paragraph 142. This is

also headed, "Loans to the town of Oromocto". I direct your attention to the last paragraph which explains very clearly why I brought it forward. It reads as follows:

> In the circumstances described in paragraph 81, where it is noted that the operating costs for the calendar year 1961 amounted to $1,602,000 while revenues totalled only $81,000, it seems unrealistic to continue to treat the loans to the town as an asset item for purposes of the statement of assets and liabilities.

That is to say on our balance sheet of the government of Canada.

> This view was previously put forward in the report for 1959 at which time the outstanding loans stood at $2,943,000.

In other words, this is a type of asset which is surely very dubious in view of the circumstances in which the town finds itself today, and I am hoping that that comment might commend itself to the Department of Finance perhaps to give it a different treatment, although I agree with them that they would like to see some of the money repaid.

Mr. WINCH: You do not think it is possible to have it repaid at all? As the Auditor General and as an accountant you would like to see it treated in such a way that it is wiped out? Is that your view?

Mr. HENDERSON: I do not think it is an asset.

Mr. SOUTHAM: Mr. Chairman, I would like to ask Mr. Armstrong a question on the basis of the personnel stationed in these 900 housing units. Did I understand you to say you had appraised their rental on the basis of about $90 a month?

Mr. ARMSTRONG: I was giving an offhand guess of the average.

Mr. SOUTHAM: On the basis of the ranks housing these units, how does the rental compare with the rental they pay in other places in Canada, such as in Ottawa or in Winnipeg? I wish to follow up on the discussion we had this morning when you mentioned the figure of $115 a month.

Mr. ARMSTRONG: What we mentioned this morning was the average termination of leases. The rental of houses which are owned by the department and occupied by members of the forces is uniform across the country wherever they are.

Mr. SOUTHAM: How does this compare with a member of the armed forces having to rent privately some place else?

Mr. ARMSTRONG: It is lower by and large.

Mr. SOUTHAM: I was trying to find a partial solution to this problem so as to make it equitable across Canada. If you take these 900 housing units on the basis of $90 a month and raise the rental to $115 a month, which to me would appear more reasonable, it would bring us a revenue of about $570,000 extra. This would possibly liquidate a third of this $1,602,000. I think that possibly there is an inequity here as far as rental is concerned. What comment would you have to make on that?

Mr. ARMSTRONG: This is a point. We raised the amount that we paid to a man when he was living out a couple of years ago, with the last pay increase. It is conceivable that some adjustment is again due in this. We would normally make it, I think, if we came to the conclusion that we should do so, at the time of a general pay increase for the forces.

Mr. SOUTHAM: The implication of my question is this, if personnel stationed here at Camp Gagetown were to get preferential treatment in relation to other members of the armed forces who had to live out by renting premises

from a private landlord, the taxpayer of Canada would, in other words, be subsidizing this particular group who are fortunate enough to live in Camp Gagetown.

Mr. ARMSTRONG: This is a rather difficult balance to get at, the right adjustment between the man living in and the man living out. I think I am right in saying that the man living in, by and large, tends to be a little better off than the man living out. On the other hand, he is depending on the camp, he is asked to go and live in a quarter on a camp which may not necessarily be the most pleasant way to live, and so on. These are therefore some offsets to this.

Mr. WINCH: Anyone who objects to living in Camp Gagetown is foolish.

Mr. ARMSTRONG: Camp Gagetown is very pleasant, I agree.

Mr. CAMERON (*High Park*): Is this $1,602,000 paid out of the consolidated revenue fund?

Mr. HENDERSON: No, that is paid by the town of Oromocto, those are its operating costs.

Mr. CAMERON (*High Park*): I know, but we were contributing, in 1961-62, operating grants of $1,049,000.

Mr. HENDERSON: It is the operating grant which puts the town in funds to pay those expenses.

Mr. CAMERON (*High Park*): Where is the accounting of revenue that the Department of National Revenue gets for these houses so that we can see what they are doing with it?

Mr. HENDERSON: That goes into the consolidated revenue fund.

Mr. ARMSTRONG: Perhaps I might explain that the amount that is paid by the department to the town is provided by an appropriation which is in the Department of National Defence estimates each year. As far as the houses are concerned, we do not in fact collect anything for them, we simply pay people less money. When a man occupies a house, he is receiving less money than if he were not, so that there is no revenue in that sense.

Mr. CAMERON (*High Park*): Would it not be more accurate and would the committee not understand it better if that were shown, because this actually is not a loss? It could be a lot less than that.

Mr. ARMSTRONG: This would not be shown. You are looking at the town budget. They have nothing to do with the renting of these houses as such.

Mr. CAMERON (*High Park*): But there is a compensating advantage that the department are getting by the fact that they are paying these men less money. If that compensating advantage were set off against the $1,602,000 it might give a different aspect to the picture.

Mr. ARMSTRONG: We can produce a picture of that kind for you. It does not normally come out in the books.

Mr. CAMERON (*High Park*): I think it might be better.

Mr. REGAN: Mr. Armstrong, I have a short question arising out of Mr. Southam's question. I want to suggest to you that you take under consideration that no rent increase be applied in that area, or in any other area, to any of the lower ranks until such time as you give a pay increase which would give better recognition to the lower ranks than last year's did. I think you should not consider increased rents for any of the lower ranks of the armed forces at the present time.

The VICE-CHAIRMAN: Your question is interesting but it has nothing to do with the 1962 report.

Mr. Winch has a short question.

Mr. WINCH: Yes, my question, sir, is very short. It is my understanding that the town of Oromocto has now a population of approximately one third of the capital city of New Brunswick. On what basis is its revenue only $81,000?

Mr. ARMSTRONG: The reason for this, of course, is that the town is predominantly Department of National Defence. In 1963, the taxes of the town were $36,000 on the private property in the town. Revenue from licences and permits came to $7,917; various revenues from rents were $1,603; fines, $3,345; interest on the investments and taxation penalties and so on, $13,972. Grants of various kinds amount to $145,000 roughly, and all the rest came from the federal government—$1,736,071. The reason for that is that it is predominantly Department of National Defence.

Mr. WINCH: What did you pay in your department in the same year?

Mr. ARMSTRONG: We paid $1,736,071.

Mr. WINCH: Oromocto is a private town. Why did you not collect back from this town, which is outside the military establishment, the rents that would cover that $1 million? That is the point I am trying to arrive at. Why did you not collect back in your rents or licences, or whatever you do, that $1 million odd?

The VICE-CHAIRMAN: Because, I would suggest, Mr. Armstrong, the rents would be prohibitive.

We have obtained a great deal of information from this paragraph and I know we are all anxious to know what happens in paragraph 82. I am therefore going to ask Mr. Henderson to tell us what happened in paragraph 82.

Mr. WINCH: You mean that I will not find out why we lost a million dollars?

Mr. CHOQUETTE: It is contained in the report.

Mr. HENDERSON: Mr. Chairman, this relates to my comments on the unauthorized use of crown owned vehicles, and I would refer you to paragraph 82, page 33 of the 1962 report and to paragraph 66 on page 38 of the 1963 report. They both deal with the same subject.

My comment here describes the damages required to be paid to a civilian to the extent of $14,500, when a national defence vehicle was being driven without authority. As the note explains, the driver of the vehicle was reprimanded and he had to reimburse $250 to the crown, this being the maximum amount recoverable under existing regulations in cases where vehicles are driven without authority on official business. Where vehicles are driven without authority, the Department of National Defence Act does provide for imprisonment up to two years or "to less punishment". However, there is no regulation indicating what is to be recovered from the serviceman when the crown incurs a loss in such cases.

We dealt with this matter on June 9 when there was some discussion in the committee, Mr. Chairman, and I do not know to what extent the members would like to question Mr. Armstrong about it.

The VICE-CHAIRMAN: Mr. Armstrong may want to make a statement upon this.

Mr. ARMSTRONG: I do not particularly want to make a statement unless you would like the background of the case.

The VICE-CHAIRMAN: It might save some time if you were to make a brief statement.

Mr. ARMSTRONG: The problem here as far as we are concerned is that this was an *ex gratia* payment; in other words, the crown decided to reimburse the

person who was hurt or pay the damages on an *ex gratia* basis. It is a prerogative of the crown to decide to do so.

We in the department do not have any legal way of imposing that payment on the driver who was involved. In this particular case, the driver struck a woman in England and caused her very serious injury, permanent damage, which crippled her. The amount that was paid was $14,500. The man who was involved was a corporal in the air force who had five children and no assets. There was really no possibility of recovering anything from him in any event. He was charged in the civil court and paid a fine of £19.17s. 6d. He did reimburse the crown to the extent of $250.

There are two problems. The first one is the legal problem of our inability to recover from him in terms of a payment that we make on an *ex gratia* basis. The second is the simple problem that he does not have the resources to pay in any event.

Mr. WINCH: May I ask one question?

The VICE-CHAIRMAN: After Mr. Hales.

Mr. HALES: Have any new regulations been formulated to take care of this situation? It would have to be a legal authority, I suppose, to collect indemnity from the driver in future cases?

Mr. ARMSTRONG: We have examined it but we have no new regulations. Our own legal authorities tell us we simply do not have a legal claim when it is an *ex gratia* payment.

The VICE-CHAIRMAN: Mr. Winch.

Mr. WINCH: Mine is perhaps a curious question. I have noted something of this nature from the Auditor General's reports over the years. Because of my reading over the years of the reports of the Auditor General that it almost always concerned a member of the armed forces taking a vehicle without authority—in other words, stealing it—I would like to ask the deputy minister if these people are ever charged with theft.

Mr. ARMSTRONG: They can be charged with theft and they might be, but as you know—and the Auditor General referred to the National Defence Act—the man may draw a maximum penalty of two years imprisonment, but in most of these cases the circumstances are really not those of theft. In this particular case the man had been driving a vehicle on duty at a week end. In these circumstances he was allowed, overnight, to take it to his home which was in the vicinity of where he had driven the individual on duty. A friend of his telephoned him and said that his car had broken down and asked if he could please come and help him. He made the mistake of taking the national defence vehicle to go and help his friend, and in the course of that journey he became involved in this accident. That is what happened, and I do not think one can regard this as stealing; it is a mistake in judgment.

The VICE-CHAIRMAN: Has Mr. Henderson any comment to make on that?

Mr. HENDERSON: Mr. Chairman, what I would like to ask the committee here is whether or not they would agree with our view in the audit office consideration should be given to this matter to the end that there may be uniformity in the penalties imposed in like circumstances on all persons using crown owned vehicles without authority. That is to say, should we not have uniform penalties across the board?

If you look at my 1963 report note on page 39 you will see that I say that during the year 1962-63 there were three instances of accidents involving crown owned vehicles driven by employees of the Department of Transport—and that is another department entirely—while not acting within the scope of their duties. These cases came before the treasury board, which directed that the employees concerned reimburse the crown to the same extent that is provided

by the regulations in a case where an employee is considered as having been on duty at the time of the accident and to have been negligent to other than a minor extent, and the result was that there were assessments of one third of the total costs in two cases and one fifth in the third. That is to say the total cost to the crown.

When giving its ruling in respect of the third case, the treasury board agreed to deal with it on the same basis as applied to the two earlier cases. It was of interest to us that the treasury board expressed deep concern in this matter and instructed the department in like cases in the future that full recovery was to be made from the employees involved.

This was our experience in 1962-63 and I would submit to you that this supports our view, I think, that consideration should be given to this matter to see whether it is possible to at least bring some uniformity to the penalties imposed in like circumstances in respect of persons using crown owned vehicles without authority.

Mr. ARMSTRONG: Mr. Chairman, I wonder whether I may be allowed to add a word to the comment made by the Auditor General?

We do collect damages to our own vehicles. When a driver takes a vehicle without permission and damages it we collect from him the cost of the damages incurred. We have not been able to collect in the case of the crown making an *ex gratia* payment to somebody else, a third party.

My understanding, Mr. Henderson, is that the Department of Transport in respect of those three cases collected the damages to their own vehicles. We also collect such damages.

(*Translation*)

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: If you will allow me I will ask a question in French. It is somewhat alarming to think that anyone can use a vehicle—

The VICE-CHAIRMAN: I wonder if you could start again, Mr. Choquette—

Mr. CHOQUETTE: I consider that $14,500 is quite a substantial amount for an individual who has committed an offence, when all is said and done, at the expense of the taxpayer. But what I do not understand is that you say there is no regulation that provides for getting the money back from a member of the armed forces in cases where the Crown suffers a loss. When someone uses a vehicle belonging to the Crown and he is not on duty, that individual comes under ordinary law. How is it the government are not able to get back not only the amount for the damage done to the car involved but the amount of damage claimed by the victim of the accident? There is responsibility under ordinary law which applies all the more so that the individual who used the vehicle without authorization is no longer on duty, he is not in process of carrying out his duties. So could the government not get back the money he had to pay, that is $14,500 in this case?

(*Text*)

Mr. ARMSTRONG: The problem involved in this regard is that the government paid $14,500, as I say on *ex gratia* basis. Although I think it would be a rather complicated legal process, it might be possible to have the rights of a claimant against an individual transferred to the crown so that the crown could then pursue a claim if in fact it was considered the crown could establish a claim in court. In any event this would be difficult, but in the case in question, as I have pointed out, the man has no assets and it would hardly pay to pursue a case of this kind when there is no chance of collecting even if one is successful.

(*Translation*)

Mr. CHOQUETTE: I do not know whether it would be going too far, but could the government not consider the possibility of insurance against irresponsible behavior of this kind. The insurance would probably cost more than the money that has to be paid for the claims that are made.

(*Text*)

The VICE-CHAIRMAN: It would be much better to carry your own insurance.

Mr. ARMSTRONG: I think you have answered your own question.

Mr. REGAN: Mr. Henderson has asked for our comments in this regard and I should like to find out whether Mr. Armstrong agrees with a view I hold quite strongly, and upon which Mr. Choquette has touched.

The army, navy and air force are large organizations and, as with any large private company, these situations do not involve black and white areas but grey areas as well. An individual may be in possession of a vehicle overnight because he has to do a specific job such as taking an officer somewhere in the early evening. There is indeed a very slight distinction between performing that function and using the car before or after to go down to the corner store, or take the long way home to make a call. Since the situation does not involve the armed forces carrying insurance, I would suggest we are involved in a situation where the armed forces must look after their own claims and accept the fact that there will occasionally be cases of this type occurring. In respect of a private company when a man has the company's vehicle for his own use and becomes involved in an accident, that company would be carrying insurance which would cover the damage. I do not think this type of case involves anything but a usual situation. I think it would be indeed harsh to treat members of the armed forces more severely than is the case at the present time under these circumstances, considering the current insurance aspect.

The VICE-CHAIRMAN: May I ask you now, Mr. Regan, what is your question?

Mr. REGAN: This is not a question.

The VICE-CHAIRMAN: Are you making a statement?

Mr. REGAN: I have made a statement.

(*Translation*)

Mr. CHOQUETTE: I have a question, Mr. Chairman.

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: I have one last question. Did you consult the lawyers before paying the amount claimed and did your lawyers tell you that it was the Crown's responsibility?

(*Text*)

Mr. ARMSTRONG: In the case in question, of course, we consulted our lawyers. This particular accident happened in the United Kingdom and we have a reciprocal agreement under the NATO status forces agreement whereby investigations are carried out by lawyers of the United Kingdom. I do not think there was any question at all about liability. The woman in question was struck while she was crossing a crosswalk. This involved a case of carelessness on the part of the driver.

Mr. WINCH: Perhaps I could ask a further question.

Mr. REGAN: I think Mr. Choquette wanted to make a comment in respect of my question.

The VICE-CHAIRMAN: I think we should wait until we have heard the answer.

(*Translation*)

Mr. CHOQUETTE: Mr. Chairman, my supplementary question concerns the case I have come across in reading paragraph 82 of the report. It seems to me that anyone who uses a vehicle without authorization but while carrying out his duties—and I do not understand how legal advisers could have told you that it was the government's responsibility—the individual himself is guilty of that offence, of having used a vehicle that did not belong to him without authorization. In that case he was not carrying out his duties and I cannot understand why there was not more consultation with the legal advisers of the Department of National Defence who should have advised you not to pay that amount.

(*Text*)

Mr. ARMSTRONG: I agree with you completely, that the crown was not liable because the vehicle was being used by a driver without authority. There was no legal liability on the crown, but the crown decided under these circumstances it was wise to pay this sum to the woman concerned.

(*Translation*)

Mr. CHOQUETTE: Oh yes.

(*Text*)

Mr. HENDERSON: Perhaps I might speak to the point raised by Mr. Regan. I take it from your remarks that you do not agree there is a case for uniformity between dealings in respect of an employee of the Department of National Defence and an employee of the Department of Transport. I told you what the treasury board directed in respect of the Department of Transport. Do you think that the Department of National Defence is different and the practice should not be uniform? Do I understand you correctly?

Mr. REGAN: I think there is a case to be made for uniformity. However, I think Mr. Armstrong made a distinction between collecting the cost of damages to government property and damages to a person or private property.

Mr. HENDERSON: In both cases automobiles were taken without authority.

Mr. REGAN: One involved damage to the automobile itself, which is something quite within reason, while the other involved damage to an individual or private property.

Mr. HENDERSON: I asked this question because these cases are coming along quite regularly, and I think the case which can be made for uniformity is a strong one. You are just receiving an indication of some of the types of cases occurring.

Mr. REGAN: If you are going to have uniformity I suggest it should be on the basis of bringing treatment in respect of the Department of Transport in line with treatment in respect of individuals at the present time in the armed forces. I do not think you should be more harsh in your treatment of these people, because the situations outlined to us do not fall into the category of a man who takes a car, travels to Scotland, gets drunk and drives on the wrong side of the road.

Mr. HENDERSON: But is that not just a different type of accident?

Mr. REGAN: Yes, it is quite a different type. A certain amount of deviation from duty, if human nature is to remain what it is, will always occur, and I do not think we should be more harsh than the department has been at the present time. As I say, the whole answer lies in the fact we do not carry insurance and as it would be more expensive to carry insurance we are receiving more benefit and coverage than if we did carry insurance.

Mr. HENDERSON: I have one other question to put to Mr. Regan.

Mr. REGAN: Do you want me to be sworn in?

The VICE-CHAIRMAN: Mr. Regan appears to be quite familiar with this type of case.

Mr. HENDERSON: Mr. Regan, do you not think it would be a more effective deterrent to accidents of this type if employees knew they were going to be charged with the full cost of their damage?

Mr. REGAN: No. With great respect, I think this is almost a hangman's philosophy. You are confusing criminal punishment or disciplinary action taken by the armed forces with the common law or the civil law and I do not think the two should be confused.

There is no doubt there may be some merit in having some disciplinary measures such as reduction in rank or discharge for a man who deviates seriously from his duty. That is one thing, but you are making the fundamental error of confusing the question of the civil claim with the taking of punitive action for a criminal matter or breach of duty. These are two very different matters. I believe there might be a case for the military people being more stringent in making sure that their personnel do not use vehicles in an authorized manner but this should not be done by putting the burden of a civil claim on their shoulders. Do you not agree that this should be resolved by the taking of military action within the ranks?

Mr. ARMSTRONG: The point I am making, and I may be wrong, is that I had understood from the Department of Transport that in the three cases that were referred to, the damages that were recovered were damages to their own vehicles. We do recover the damage that is caused to our own vehicles. It was the *ex gratia* payment side, the third party aspect, that we did not recover and which I have explained.

If a man is on duty, is negligent, and is in an accident, there is a scale of assessment against him, not necessarily the full amount of damage but a scale of assessment which, I think, is uniform for the government as a whole.

Mr. HENDERSON: Yes, but we are dealing here with unauthorized use and it is a case of uniformity that I am interested in, as is the treasury board, because in the three cases I mentioned—and, I recollect the letters—the vehicles were damaged and other people's vehicles were damaged and there were substantial bills in front of them to deal with. You see how they assessed the three employees in these instances. But, that apparently would not be the case in the Department of National Defence, and that is why I stress the word "uniformity".

Mr. WINCH: Mr. Chairman, I am not going to ask a question but, if I may say so, this is one time in my life that I wish I were a lawyer. After hearing from my friend I would like to know how in the name of heaven you make a civil claim against a civil servant who is operating a government vehicle illegally. I am sure that would be a most fantastic legal discussion.

Mr. REGAN: It does not pose a problem to me.

The VICE-CHAIRMAN: Mr. Armstrong has answered by saying the payment was made not because the government was liable but because this concerns a government that has an installation in a foreign country.

Mr. WINCH: In view of what I understand from the discussion now could I ask Mr. Armstrong whether he will express the view that in any matter concerning civil servants or personnel of the armed forces or others there should be uniformity of charges and responsibilities, and will he go along with that in respect of illegal use of vehicles?

Mr. ARMSTRONG: Yes, I think I would agree that there should be reasonable uniformity.

Mr. WINCH: You agree there should be uniformity across the board?

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

Mr. CARDIFF: I would like to ask Mr. Armstrong a question. Are not these service drivers who drive government vehicles fully licensed?

Mr. ARMSTRONG: They are all fully licensed drivers. They are all qualified drivers.

Mr. CARDIFF: Would they not all come under the insurance?

Mr. ARMSTRONG: Well, this of course took place in the United Kingdom. I am referring to this particular accident, and I do not think our drivers come under it. For example, in Ontario, we do not insure, as you know, and our drivers do not come under the Ontario fund. Federal property does not come under this.

(*Translation*)

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Mr. Armstrong, regarding the second last paragraph of section 82 where the Treasury Board recently drew the attention of the department and government agencies to the instructions that had already been given to be careful that vehicles belonging to the Crown are not used without authorization. The Board insisted that cases be dealt with more severely because of the increasing number of accidents. So you admit that such cases are frequent and as the amounts involved are considerable, $14,500 in the present case, should a member of the armed forces not be suspended when he does something like this, because apart from committing an offence, that is the offence of using a car that does not belong to him, he is guilty of negligence which involves an expenditures of $14,500. Not only does the individual fail in his duties but he is guilty of very serious negligence involving a very considerable amount of public money. It would be preferable to request that such an individual be suspended rather than pay the claim. It would show that the armed forces are concerned if they advise the administration that such an individual should be suspended. Do you not think he deserves to be suspended?

(*Text*)

Mr. ARMSTRONG: Mr. Choquette, of course a man is tried under military law and he may be dismissed for the offence if, in fact, it is considered serious enough to dismiss him. In this particular case, after the man was tried he was reprimanded and he did pay $250.

I explained the circumstances of the case to you. While one cannot go into all the detail that would be necessary to formulate a judgment here there obviously were, I think, some rather extenuating circumstances in this particular case.

(*Translation*)

Mr. CHOQUETTE: Do you know the victim, the author of the accident and the circumstances in which the accident occurred?

(*Text*)

Mr. ARMSTRONG: Yes. As I explained, I do not recall the names but I can get them for you.

As I understand it, this was a corporal driver who had been driving on official duty on the week end. He had the car at his place of residence and, officially, he was permitted to do this. A friend of his called his house and said that he was stuck on the road and could he please come and help him. And, while he should not have done so, because this was using the vehicle for an unauthorized purpose, in fact, he did go to help his friend. In the course of getting to where his friend's car was, he struck a woman who was crossing a crosswalk. This woman was very seriously injured. She had permanent injury

which crippled her to some degree and, as a consequence, it was decided to pay damages, to the extent of $14,500, although the crown was not liable because he was driving the vehicle without permission.

(*Translation*)

Mr. CHOQUETTE: Now, did the accident happen because of a mistake or because he was drunk?

(*Text*)

Mr. ARMSTRONG: My recollection is that there was no evidence of alcohol.

The VICE-CHAIRMAN: Did you get your answer?

Mr. RYAN: Mr. Chairman, I would like to ask either one of the witnesses whether, in these four cases, a judgment was obtained directly against the drivers of the vehicles who worked for the government?

Mr. HENDERSON: I do not know, Mr. Ryan, whether there were judgments. The cases came before the treasury board and it was a question of determining how much should be assessed against the employees of the department who were responsible.

Mr. RYAN: I do not see how you can expect to have any unification whatsoever unless the man has been properly assessed by the court for responsibility for the accident; otherwise you would have a department saying "Our man is not at fault".

Mr. HENDERSON: I think we are safe in saying the matter had been through the courts and that judgment had been handed down. It was a question of whether the crown or the employee responsible was to pay the money. This is how the treasury board squared off with the employees, taking all the circumstances into account.

Mr. RYAN: In other words, you say, "We will pay it for you and you pay us back in full."

Mr. HENDERSON: They make a variety of arrangements. Inasmuch as Mr. Armstrong told the committee he agrees there is a case for uniformity, perhaps some progress can be made in the direction of levelling this off in respect of treatment of civilians on the one hand, and national defence personnel on the other.

Mr. RYAN: What about the case of a man who becomes responsible for a judgment in the amount of $100,000?

Mr. HENDERSON: They have to approach it realistically. If the man does not have money, then the crown will make the best deal it can expect which may not be very favourable; but, on the other hand, there may be a number of cases where something could be paid.

The VICE-CHAIRMAN: Mr. Francis.

Mr. FRANCIS: Mr. Chairman, I would like to say in my opinion I think we have explored this about as far as we can, I have nothing I feel I want to criticize the department for, because I think the number of cases which arise are not too great.

Mr. WINCH: I would like to thank Mr. Armstrong for his answer in reply to my question, do you believe unification would be good, when he said yes. That was exactly the point brought to our attention by the Auditor General. Mr. Armstrong says he agrees.

Mr. HENDERSON: I was very pleased to hear that.

The VICE-CHAIRMAN: The next paragraph is 115, non-productive payments.

Mr. HENDERSON: Under paragraph 115 there are nine cases of non-productive payments arising in the Department of National Defence. In my 1963 report, where the non-productive payments are listed in an appendix, there are six. I do not know to what extent you would wish to go into the detail of the non-productive payments, but presumably you might have some questions. I think a number we have here actually are attributable to Defence Construction (1951) Limited, and I do not know whether Mr. Armstrong would be sufficiently briefed to deal with those. We grouped them under the heading Department of National Defence for this purpose.

The VICE-CHAIRMAN: I do not wish to stop you, Mr. Henderson, but I am wondering whether members of the committee who are interested in one clause or another might ask questions which could be answered either by you or Mr. Armstrong.

Mr. HENDERSON: Indeed. Would you like me to run through these very briefly, and you can stop me on any item in which you have an interest?

Mr. HALES: Mr. Chairman, we might have sort of a discussion on the whole matter. In reading over these items, I notice that in most cases they appear to be as a result of poor drawings, a poor decision on somebody's part, or a lack of decision. Each one of them hinges on these particular things I just have mentioned.

Now, I think we come to the point, who is responsible; what do we do so that it does not happen again, and continue year after year.

Mr. WINCH: In other words, because we see this year after year, would Mr. Armstrong perhaps give us some general information in respect of what is going to be done so far as possible to see that we do not have these items occurring again?

The VICE-CHAIRMAN: If the committee agrees, that is an excellent idea.

Mr. WINCH: Mr. Henderson's view is before us. Let us hear Mr. Armstrong now.

Mr. ARMSTRONG: Mr. Chairman, it is rather difficult to give a general view. All these are specific cases. As I believe you have noted, in every case something has gone wrong which has resulted in the cost being more than was originally estimated.

When this occurs in the department, so far as we are concerned, we examine the cases very carefully, and if there are changes in our arrangements, or procedures, which will prevent this happening again, we certainly take those steps. I am afraid I would be an optimistic man were I to say to this committee there will not be others in the future, because I think there will be.

In the volume of business we do, and with the great variety of circumstances which apply, there almost certainly are going to be cases where things happen in the course of an undertaking which will cause it to come out a lot differently to what we thought it would when we started. I can assure the committee we certainly examine all these things carefully. We endeavour to correct any mistakes of the past, and avoid their recurring in the future.

Mr. HALES: Would Mr. Armstrong give us one or two examples where this has happened in his department, and where it has been traced down to a poor drawing, we will say, and where you have placed the responsibility on one individual. Then, would you tell us in what way the individual was handled; was he demoted, released, or what form of punishment, we will say, took place?

Mr. ARMSTRONG: I do not think I can give you out of hand any specific cases that would produce the kind of information you are seeking. While there have been cases where individual errors of this kind might have been

such as would result in some specific action such as a reduction in rank, that does not happen very often. Obviously, if a man does not operate efficiently and it comes to attention, it does get on his record, and would be taken into account in considering him for future jobs. These are not necessarily army or military personnel who are involved in this. There may be some of them, of course, naturally.

Mr. WINCH: How do you explain our getting this kind of report year after year?

Mr. ARMSTRONG: I can only explain it in this way: with the volume of business we do, with the number of contracts we have, and with the varied circumstances under which they are undertaken, they do give rise to situations, some of which are of the nature of those before you.

Mr. WINCH: Shall we go back to some of the things we had this morning when there was bad engineering in your department?

Mr. ARMSTRONG: I do not suppose you want to go back to the case we discussed this morning. I do not agree that it was bad engineering, myself. The survey was not adequate to determine exactly what was involved, and the contract cost more.

Mr. WINCH: How about these cases here? Were they due to bad engineering also?

Mr. ARMSTRONG: Which one?

Mr. WINCH: You may take any one of them.

Mr. ARMSTRONG: All right.

Mr. WINCH: You pick any one out.

Mr. ARMSTRONG: Look at the first one. This resulted eventually in our making an *ex gratia* payment. When you say it was bad engineering, it was a consequence of a contract which resulted in the final work being done later than we anticipated when we made the contract with the gas company. Consequently we did not have the boilers ready, and we were not able to take the gas.

Mr. WINCH: Was that bad engineering, or what was it?

Mr. ARMSTRONG: It was really a delay here in getting the design done which had been contracted out. When you ask if that is bad engineering, I would say that I had every hope that the design would be ready sooner. The company who did the design said that they would get it out as quickly as they could; but perhaps we were at fault in assuming it could be done sooner than was the case.

Mr. WINCH: Are you jumping from one to three and five?

Mr. FANE: I want to ask a question on one.

Mr. HALES: It says in number one, that Mr. Armstrong has been speaking about, about half way down:

> ...but no date was specified by which the plans and specifications were actually to be produced by the consultant.

Would that not lead us to believe that someone in the Department of National Defence slipped up and failed to have a date specified when these plans were to be ready?

Mr. ARMSTRONG: Let me run over this for you.

Mr. HALES: I wish to stay with this one question.

Mr. ARMSTRONG: I am talking about your question. We requested consultant services on March 25, 1956, when we asked Defence Construction Limited to arrange for consultant services. A consultant's contract was awarded

on June 5, 1959. A contract was then awarded to another company for the supply of the fabrication and the erection of the boiler on September 28, 1959.

Specifications for that contract called for the boiler manufacturer to supply the foundation drawings for the boiler within two weeks after the contract award, and to provide shop drawings and complete installation as soon as possible.

That information was necessary for the consultant to design the actual extension to the central heating plant. In fact, the foundation drawings were not provided until February 15, 1960, and the shop drawings only became available in March, 1960.

Mr. WINCH: They were about seven months late.

Mr. ARMSTRONG: Yes, they were considerably late.

Mr. WINCH: About seven months late.

Mr. ARMSTRONG: Well, five to six months. The contract was awarded to the Poole Construction Company on September 8, 1960, and work commenced on October 1. Foundations for the boiler were ready on January 3, 1961, and we finally took over the building on July 4.

In the terms that you have asked me the question on the contract itself, in the terms of the contract requiring production of drawings at a given date, in order to accomplish what we wanted to have done, we had to have the complete design by about December, 1959. That is what they meant about the company providing the foundation and shop drawings, and the need to complete them in four to five weeks time. This was regarded as not being an unreasonable length of time for that particular job.

If all of that had happened we might have had the plant extension completed by the fall of 1960 when we wanted to have it done.

Following all this there was a review of the contractual documents pertinent to the matter. The legal officers felt there would be little or no chance of success in claiming an action against the contractors for delay. In supporting it they referred to the fact that the specifications for the contract with the boiler manufacturer called for him to supply foundation drawings for the boiler within two weeks after the contract award, and to supply the shop drawings and the complete installation as soon as possible.

While there might be little doubt that there was delay in the production of those drawings, the contract itself with the boiler manufacturer did not include a penalty clause, and the contracting agency, that is, Defence Construction Limited, did not feel that it would have an adequate case to prove that there was unreasonable delay.

So in the light of the two factors it was considered that there was no claim that could be enforced against the contractors.

You say: How does this happen? Well, there you have a set of circumstances. It happened perhaps in part because our own engineers were too optimistic, or it certainly turned out that they were too optimistic. It probably happened, in part, that the contractors themselves did not do the job expeditiously enough, or perhaps also that the contract itself was not drawn precisely enough in terms of the dates involved. So there you have a number of factors which contributed to this, and which resulted in the final heating plant extension being delayed, with the result that the gas supplier lost a considerable sum of money through no fault of his own, and the government finally paid him an *ex gratia* payment on that account.

Mr. WINCH: Could I ask one question? I am more and more amazed at the inefficiency of the engineering department. I understand that your assistant deputy minister is in charge of engineering construction.

Mr. ARMSTRONG: He is in charge of it for me. Of course, each service has an engineering department.

Mr. WINCH: If I heard you correctly you have just said that there was a five months delay in one case. Did your assistant deputy minister in charge of engineering construction draw to your attention in any way at all the reason for the five months delay which finally resulted in an extra payment having been made?

Mr. ARMSTRONG: I do not think it was drawn to my attention at the time, but I did not mention that when I went through that list of items during this period there were many efforts to get those drawings under contract; that it was not simply forgotten about during the five months.

Mr. WINCH: How do you handle a contractor who was five months in delay in supplying what your department has ordered?

Mr. ARMSTRONG: In the final analysis you must handle them through a contract.

Mr. WINCH: In the final analysis it strikes me you pay him for his delay.

Mr. ARMSTRONG: The people who are concerned with the administration of the contract itself are of course Defence Construction Limited, that is a branch of the government which must deal with the contract and the processing of any claim under the contract.

Mr. WINCH: I have no more questions. I just want to make one suggestion because I think we had a most interesting discussion this morning and this afternoon. I believe the committee perhaps might like some time to get the Department of National Defence and the Department of Defence Production together before this committee, and then perhaps we can get another viewpoint as to the reasons for the delay and the extra cost.

The VICE-CHAIRMAN: Before asking Mr. Cardiff and Mr. Regan to put their questions I was wondering whether the committee would give us permission to sit tonight at eight o'clock. Mr. Armstrong said he could make himself available to the committee. We have a number of paragraphs on which we would like to ask questions. Next Thursday there is an arrangement for Mr. George Scott, assistant acting deputy minister of the Department of Transport, to come here as you are all anxious to see him. If the committee agrees, we will sit at eight o'clock tonight, and Mr. Armstrong has kindly said he would make himself available to the committee. It is agreed.

Mr. CARDIFF: My question is not on this first paragraph. Have we passed that?

The VICE-CHAIRMAN: We are on item 115. There are many paragraphs in that item.

Mr. CARDIFF: I have something to say on paragraphs 3 and 4. In both of these cases it was the defence personnel who were at fault for the delay. It cost you $11,371 in paragraph 3 and it cost you $66,591 in paragraph 4. In both those cases, as far as I can read this report, the personnel who hired the contractor was at fault. Whose fault is that? In both cases there are delays but not owing to the contractors.

Mr. ARMSTRONG: Unfortunately, I did not bring with me all the details of these particular items. I could give you a very brief assessment of this. We have a standard list of colours for houses from which the selection of colour schemes may be made. It appears that in this particular case the people concerned wished to have some brighter colours than that, and the contractor agreed to put some different colours on at the request of the people at the site and did not at the time say that there would be any additional costs involved. The contractor subsequently put in substantial extra claims for

this, and after it had been investigated by both Defence Construction Limited and our own department, an additional claim was paid on this account. I agree with you this is a thing which should not have happened. It is something which we should not have done.

Mr. CARDIFF: The same thing happened in the case of paragraph 4. This was a different kind of contract entirely. They were putting in sewers and electrical systems at the starting point in the contract and it took them away from their main work. They had to use extra equipment. That cost you $66,591. That again was a case which should not have arisen.

Mr. ARMSTRONG: I agree with you it should not have happened, and I think it happened because of inadequate control of the job on the site. Certainly it is understandable that the Royal Military College where they have classes going on are somewhat concerned about the noise and so on, but with adequate liaison between the supervisor of the project and other people who are concerned in it, it might have been possible to avoid this. As far as I am concerned and the department is concerned, I do not see it at all until a claim is presented through Defence Construction Limited saying that all this has happened. Unfortunately, that is a little bit too late to deal with. I think this kind of problem is one that has to be dealt with on site. I think it perhaps would be improved if we eventually reached a position where there is no separation of responsibility between the contracting branch, Defence Construction Limited, and ourselves on the supervision of the contract. This I think would give a direct line of communication that might assist in at least reducing this kind of claim.

Mr. CARDIFF: Would there not be an over-all overseer who would supervise contracts to start with?

Mr. ARMSTRONG: There is generally an overseer, and he is provided by Defence Construction Limited. Mind you, there is good liaison but it would work better if you had one authority and no separation.

Mr. HALES: In connection with this panting job, in line with Mr. Cardiff's question, regarding this additional $11,370, some one in the Department of National Defence would have to O.K. that payment. Who would that be?

Mr. ARMSTRONG: Actually the responsibility for making a payment of this kind, which would be an extra payment on the contract, is Defence Construction Limited, not the Department of National Defence. However, since more money is involved in it they would normally come back to us and say, "We have to have more money". We would have an opportunity then at that point of examining the extra claim.

Mr. WINCH: On a point of order—

Mr. HALES: Wait a minute—

The VICE-CHAIRMAN: Mr. Hales.

Mr. HALES: Would you, as deputy minister, sign that O.K. to pay that extra money?

Mr. ARMSTRONG: I would not in this particular case, but the provision of the extra money would be signed by an officer of my staff.

Mr. HALES: What authority would he have to pay this extra money on this contract?

Mr. ARMSTRONG: Eventually the authorization here. Defence Construction Limited do the negotiating. They determine that an extra will be paid on the contract. It is their responsibility. They would come back to us, perhaps, to consult us before they finally determined that or they might say, after having arrived at a decision, "We need more money than the contract demand you have given us because there is an extra." At that time we would find out what was the basis of the extra. However, the responsibility for dealing

with the contract is theirs as well as for determining the amount of the extra. They would then, depending on how much is involved of course, have to have that approved by the treasury board.

Mr. WINCH: On a supplementary, Mr. Chairman—

The VICE-CHAIRMAN: Mr. Regan.

Mr. WINCH: This is strictly supplementary, Mr. Chairman.

Do I understand from what you have said, Mr. Armstrong, that defence production or defence construction can make all the mistakes and that your department is the goat in having to authorize payment?

Mr. ARMSTRONG: I do not recall having said that.

Mr. WINCH: No, I am saying that. That is basically what you mean?

Mr. ARMSTRONG: I do not think that is what I mean.

The VICE-CHAIRMAN: The witness cannot agree with you. Rephrase your question.

Mr. CHOQUETTE: Or drop the question!

Mr. WINCH: Do I understand from what you have just said that the actual work and construction is not under your authority but if mistakes are made and extra money is required you are the ones who have to give the necessary authority for a payment for mistakes that have been made by departments not under your direct jurisdiction? Is that a fair way of putting it?

Mr. ARMSTRONG: Let me put it in this way. We specify what we want. If we want a building or painting, or whatever the job is, we provide the specification. We pass that over to Defence Construction Limited with a contract demand which says that we have the money to pay for this up to whatever the cost is. Defence Construction Limited have the responsibility for letting the contract. If they are able to let the contract within the sum of money we have provided, they obtain authority of the treasury board and go ahead and let the contract. If it turns out that our estimate is too low, they would come back to us and say, "We have sought bids on this and cannot get a bid within your estimate"; and we would have to look at it again and decide whether or not to provide more money. Once the contract is let, they have the responsibility for administering the contract and they provide site supervision. They have the responsibility for making adjustments to the contract or approving extras on the contract.

The VICE-CHAIRMAN: Mr. Regan.

Mr. WINCH: No, Mr. Chairman, I wish to follow on.

For a non-productive matter do they come back to you for providing money?

Mr. ARMSTRONG: Yes, we provide the money. We are the only source.

Mr. WINCH: After they have lost the money for you they then come back to you?

Mr. ARMSTRONG: I would not say they have lost it.

Mr. HENDERSON: Perhaps I could round this out for the benefit of the committee from our own notes.

The Defence Construction Limited file here on the case of the exterior painting at Camp Shilo indicates there was inefficiency in carrying out the job. The contractor claimed for extra payments, but the army refuted his claim; and the correspondence continued for a year from October, 1960.

I have here a whole list of the contractor's arguments made to Defence Construction Limited. The army refuted these arguments in a long letter in reply, dated December 28, 1960, to Defence Construction Limited and detailed their reasons. They are very lengthy, but very briefly the officials say the full

responsibility for administering the job was delegated by the contractor to a foreman of works who formerly had been with the R.C.A.F. and whose basic trade was that of a carpenter. It was evident very soon after work started that this man did not possess sufficient detailed knowledge of the painting trade to enable him to direct a job of this nature and magnitude.

The number of available experienced painters in the district at the time was very low. The quality of workmen employed was brought to the attention of Defence Construction Limited but later it became, along with other matters pertaining to this project, the subject of an inquiry by the Department of Labour. The men on the job received very little direction from their foreman and the quality of work was of such a low standard it was necessary to have an A.W.S. inspector on the job full time.

Mr. WINCH: What is an A.W.S.?

Mr. ARMSTRONG: An army works service inspector.

Mr. HENDERSON: An A.W.S. inspector is an army works service inspector. An A.W.S. inspector was required on the job full time to ensure a job of acceptable quality.

Finally, a more experienced man arrived on the scene to supervise the work to the completion of the contract.

Labourers instead of painters were employed on the very important and extensive preparation to services required on the houses.

There is a certain amount of argument about the colour and the way in which the colours were chosen. This letter concludes with a summary of the reasons for the losses incurred on the job in this way:

(*a*) incompetent on the site supervision of this contract with special emphasis on the 1959 operation;
(*b*) the employment of inexperienced low productive tradesmen;
(*c*) the necessity of carrying over the project to 1960 resulting in the additional expense of returning to the site and reorganizing the work and additional supervisory costs;
(*d*) supervisors attitude towards meeting the standard of work specified resulting in costly corrective action.

The following amount was arrived at for work beyond the scope of the contract. There are several things listed here such as average extra of $6 per window opening for 1,465 window openings amounting to $8,790; increased paint costs; transportation to collect paint, repainting after carpenter work; cutting in around door frames—$1 per house; travel to Ottawa to discuss claim and overhead costs, amounting to a figure of $11,371.63, which was finally paid to the contractor on November 20, 1961, under change order No. 3 which is the authority of the Department of National Defence.

Mr. WINCH: I have one final question, Mr. Armstrong. You yourself in your department are not responsible for the incompetence but you are responsible for paying for the incompetence; is that right?

The VICE-CHAIRMAN: That is not always the case.

Mr. ARMSTRONG: I think you have to come to the conclusions in this respect. I cannot say that.

Mr. WINCH: I am asking you the question. You are not responsible for the incompetence in respect of certain work ordered by your department but you are responsible for paying for that incompetence in the work under your direction; is that right?

The VICE-CHAIRMAN: I think you are now referring to clause 3, Mr. Winch, because it has not been established that all of these clauses resulted from incompetence. I assume you are now referring to clause 3.

Mr. WINCH: I am now referring to the information just given to us by the Auditor General and I should like to place responsibility for this incompetence.

Mr. Armstrong, you are firstly responsible for the work that you request and which is directed to the Defence Production Limited, but we have now heard a great deal about incompetence which is not your responsibility although you have had to pay for the extra cost resulting from that incompetence; is that right?

Mr. ARMSTRONG: It is true that if an extra to a contract of one kind or another is finally established the Department of National Defence is the source of payment for that extra. That is true.

The VICE-CHAIRMAN: I think we will entertain one question from Mr. Regan and then adjourn until eight o'clock tonight. While I am referring to our adjournment may I remaid members to bring back their reports at eight o'clock because there is a shortage.

Mr. REGAN: Glancing over these items one must conclude that you will always refer to this type of thing in your report year after year, and I have particular reference to that category indicated by No. 5 in respect of which there is a disagreement about interpretation. In attempting to cut down on the number of these things appearing in the Auditor General's report each year surely you must be making a comparison with similar circumstances occurring in private industry of a reasonably similar magnitude. It may well be true there are more of this kind of error being made than in private industry but I do not think you can ever completely eliminate such things as this unless you are able to engage paragons of perfection rather than human beings. There is an old saying in Nova Scotia that the man who never makes a mistake will never achieve or get anything done. In the meantime do you agree that you can never expect, in an operation of this magnitude, to completely eliminate this type of incident?

Mr. ARMSTRONG: I am forced to agree with you although I must say, in reference to your statement in relation to comparing these things with similar circumstances occurring in private industry, that I do not really have access to information that would enable me to make such comparison. I do not know about all the mistakes made in private industry.

(*Translation*)

The VICE-CHAIRMAN: A very short question from Mr. Choquette.

(*Text*)

Mr. CHOQUETTE: I have one very short question, sir.

(*Translation*)

In French. Because...

The VICE-CHAIRMAN: Just a minute please, Mr. Choquette.

(*Text*)

Mr. CHOQUETTE: The translation system may not be working.

(*Translation*)

I see here that you paid a few thousand dollars more for the translation, to get the French version of the Canadian Army's participation in the second world war. Three thousand copies were printed in French according to the section we are discussing. Let me congratulate you, and I hope you will also do it for the participation of our men in Cyprus, and also in Korea. Could you tell us, or do you know exactly how the 3,000 copies were distributed throughout Canada, in the public libraries?

(*Text*)

Mr. ARMSTRONG: I do not have distribution with me but I will get it for you. Of the 3,000 copies I am sure some have gone to libraries. There would be a number kept by the queen's printer, for example, but I will be glad to get you the actual distribution.

The VICE-CHAIRMAN: We will now adjourn until eight o'clock tonight, gentlemen.

EVENING SITTING

TUESDAY, July 14, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum.

The paragraph that is now under study is number 64 of the 1963 report, national defence administrative regulations and practices.

I think Mr. Henderson would want to give some explanation in respect of these paragraphs.

Mr. HENDERSON: Mr. Chairman, these paragraphs outline instances observed where in the opinion of myself and my officers the application of administrative regulations relating to the armed forces have resulted in needless or uneconomical expenditure, or were otherwise unsatisfactory from the audit point of view.

We drew all these cases to the attention of the department.

Mr. WINCH: Is this the 1963 report?

Mr. HENDERSON: It is paragraph 64 of the 1963 report at page 35.

In accordance with past practice we drew the attention of the department to these and the services concerned have taken appropriate action to obtain amendments of the regulations or otherwise correct the situation except in the cases which are listed here, on which, in our opinion, action has been overdue. However, I am pleased to be able to tell you that in many of the cases here action has been taken by the departments since my report was tabled in the House of Commons.

I am going to ask Mr. Millar, my audit director in charge, who is here with me, if he would just tell you what action has been taken in respect of each of the paragraphs here excluding, of course, the one on lease termination payments, which we discussed this morning.

Mr. MILLAR: In regard to item 1, rehabilitation leave for former members of British and other commonwealth forces, on questioning this, we were informed that the services have proposed that in any such case in the future the period of rehabilitation leave, on which entitlement is based, should be reduced by the period of termination leave granted on completion of the previous service.

The Queen's regulations were amended, effective January 22, 1964, in the form of the proposal outlined.

In respect of item 2, release from service through purchase, the Queen's regulations since have been amended to provide for "other ranks" in the army to purchase their releases according to the rates prescribed. Thus, the army practice is now consistent with that of the other services.

In respect of item 3, removal expenses—mobile homes, the services issued movement orders in 1963 providing for safeguards designed to prevent abuse. The department stated in December, 1963, that these revised procedures would have to be tested and it was estimated that a year's experience would be required before their effectiveness could be assessed. Consequently, a new system designed to regulate claims for the movement of mobile homes will not be introduced until these procedures have been tested.

Item 4 deals with rehabilitation leave, misconduct and inefficiency releases. The Queen's regulations were amended in January, 1964, in regard to the reasons for release. The department considers that the regulations as amended will prevent further likelihood of conflict between the reasons stated by the services themselves and that established by the services pension board. Time will tell whether this is a correct assumption.

Item 6 deals with medical examination of militia recruits for the national survival training program. On April 3 it is understood the surgeon general issued instructions that payments would be limited to $100 for any one day.

Item 7 deals with excessive payment of foreign service allowances. This was an isolated case, I might say, and it was reported as an instance of unnecessary expenditure. All services were advised by the deputy minister, in March 1964, to take the necessary steps to ensure that postings of this nature are authorized only where the arrangements are such that additional costs to the department are not incurred.

Item 8 deals with clothing credit allowances. The departmental file shows that in April, 1964, the associate minister directed that amendments be made to the regulations to preclude the crediting of these allowances during rehabilitation leave. However, such amendments have not, so far as I know, been promulgated to date.

Mr. WINCH: I have only one question to ask the minister in this respect. Under item 8, why is it the order has not been promulgated?

Mr. ARMSTRONG: Well, this is in the process of being drafted and the appropriate regulations developed. Although I cannot say precisely I think it will be promulgated very shortly. This involves an amendment to the Queen's regulations which has to go to the governor in council for approval.

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

Mr. HALES: I have a question in respect of item number 3 of page 35 of the 1963 report. Half way down the paragraph it says:

> A test examination of accounts during the year disclosed a number of instances where, through the submission of fraudulent receipts and the concealing of inadmissible costs, servicemen had been substantially overpaid,...

Could the Auditor General or Mr. Millar give us the most glaring example in this case, and what do you mean by the words "substantially overpaid"? I realize it might take some time to look that up.

Mr. MILLAR: Yes, we will look it up.

The VICE-CHAIRMAN: While Mr. Millar is looking that up, if any other member would like to put a question I will entertain it at this time.

Mr. BERGER: Mr. Chairman, I have one question in respect of item 1, rehabilitation leave for former members of British and other commonwealth forces.

For my own benefit and the veterans in my riding who are mostly French —although this is not a question which pertains to French or English—I would like to know if the same system prevails today as did during the war. For instance, a friend of mine was a lieutenant in Canada and when he left Canada and when he went overseas he went down to a corporal. I want to know if there is a new system in existence now which provides that when a Canadian officer is commissioned in Canada it is valid all through the commonwealth. I do not know whether or not I have made myself clear. I have received many complaints to the effect that they leave here as majors and land over there as lieutenants. Although the reverse may happen it does not happen very often. As I say, I would like to know, when officers are commissioned in Canada and they go to Cyprus or Egypt, if their commission is valid. Is it valid anywhere?

Mr. ARMSTRONG: When they are commissioned in the Canadian forces their commission is valid anywhere.

Mr. BERGER: But, this problem occurred before during wartime. There were cases where officers left here as captains.

Mr. ARMSTRONG: During the war, of course, some of the officers reverted in rank in order to go overseas. That was the situation that applied during the war, but it does not apply in peacetime.

Mr. BERGER: I know that and I can understand it. Returning to item No. 1 —I have the French version here and I am a lot more familiar with French—

(*Translation*)

The VICE-CHAIRMAN: You may speak in French if you wish.

Mr. BERGER: Yes. Because I have the article in French here. The rehabilitation leave for former members of the British forces and other Commonwealth forces is something I appreciate very much, but I do not quite understand to what extent our own officers are protected. I would like to know. I know they are protected, but have the regulations that existed in wartime been changed so that in peacetime our officers, whether they are French, English, Italian or other Canadians, are protected to the same extent, enjoy the same advantages in any Commonwealth country under section I. Is my question clear enough or do you think I should add further explanations?

(*Text*)

We had to suffer from that before, and that is why I wanted to know how we are protected and who is protected. I am not anti-British, but it is just the phrase "British or other commonwealth forces" which mixes me up a little bit. I am speaking only of Canada.

Mr. ARMSTRONG: This applies, of course, to men who are members of the Canadian forces. It simply provides that if they had service in a commonwealth force as a member of Her Majesty's forces, then that service under certain circumstances may be computed towards their rehabilitation leave. The same thing applies in terms of pensions. Under the Pension Act they may count certain service; but here, of course, under these regulations this applies to the members of the Canadian forces and we do not govern what happens if a Canadian joins a force of another country?

Mr. BERGER: That is what I had in mind. I was just speaking as a true Canadian. I have an answer to my question. These are not just French, Italian or British; all are covered in this.

Mr. ARMSTRONG: Yes.

(*Translation*)

The VICE-CHAIRMAN: Mr. Rondeau, please.

Mr. RONDEAU: On section 2, release on forfeiture, we are shown that the Army, the Navy and the Air Force got $100,000 back on advance payments. Lower down—and we are not told whether it is for the Army, the Air Force or the Navy—there are amounts that have not been recovered in the same circumstances. We are told about amounts that have not been recovered, but we are not told what amounts should have been recovered but have been lost.

(*Text*)

Mr. ARMSTRONG: These regulations provide that a man, if he requests release in the course of an engagement, is required to pay a certain sum of money. During the Korean war in 1950 the army dropped that regulation because they did not want to have a provision whereby a man could buy his way out of the service. Periodically since, they have reviewed this and up until the present time they have not thought it advisable to reinstate it.

I might give you an example which I think would be of help in answering the question. In 1963, there were 325 men who paid for their release from the air force. There were 693 who left on request, but who were not required to pay for their release. At that time, in the army, because they did not have in force the purchase of release, none was released on payment. There were 409 released on request who did not pay. In the Royal Canadian Navy, four were released on purchase and 69 on request who did not pay.

In dealing with this regulation governing a release by request, if the circumstances are such that it is felt that it is in the interest of the service to accept the release, perhaps on compassionate grounds or on a variety of other grounds, the services would release a man without payment. However, if they feel the circumstances are such that they should not release a man before his engagement expires and he nevertheless wishes to be released, and was not on active service, or in an emergency, then he can buy his way out. That would be applicable in respect of the 325 cases in the air force. In the army, however, of course they do not permit any to do this, and none was released on that ground. Does that answer your question?

Mr. BERGER: Do I understand from what you have said that from now on this matter of buying your way out is not applicable?

Mr. ARMSTRONG: No. Mr. Millar said that from now on all three services would apply these regulations. He is just a little ahead of me on this. I had not thought the final decision had been made. It is under consideration, I think undoubtedly the army from now on will decide to apply the regulation.

I would like to make clear that the reason they have not applied this regulation was that they did not want to make it available to men in the service to buy their way out. They preferred not to do this and, as you see, the actual number of releases in the army in total in 1963, by request, are less than in the air force, although perhaps the circumstances are different.

(*Translation*)

The VICE-CHAIRMAN: Have you finished Mr. Rondeau?

Mr. RONDEAU: The amount of $100,000 recovered from members of the Air Force or the Navy includes the total amount received from those who paid to be discharged.

(*Text*)

Mr. ARMSTRONG: That is right. The regulation dealing with this provides that if release is applied for within three months of an initial engagement or subsequent re-engagement, the man will be required to pay $100. If his release is applied for after three months of an initial engagement, or subsequent re-engagement, he is required to pay $340, reduced by $5 for each month in excess of 12 months that have elapsed on his engagement. Therefore, he has a minimum of $240, or a minimum of $100 when he requests his release if he wishes to buy his way out. Of course, the significance is that in essence the man has a right to get out by payment of that amount. This does not apply in an emergency; in an emergency he does not have that right.

(*Translation*)

Mr. RONDEAU: Have your department suggested to the Army—you express a doubt here, at the end of paragraph 2—that they should use the same procedure. You say you do not understand why the Army have not yet applied the same regulations?

(*Text*)

Mr. ARMSTRONG: I am sorry if I gave you that impression. I said that the army did not apply it. They did not apply it because they did not wish to have the provision in the regulations which gave the man the right to buy his way

out. This decision was taken, as I have said, during the Korean emergency, and one could well understand why it would not be applied at that time. In subsequent reviews, having regard to the requirements of the various United Nations' forces and so on, they confirmed that decision. But at the present time it is being reviewed again. While a decision may have been taken, Mr. Millar —I checked on it just recently, and while it appeared that the army had now come to the conclusion that it would recommend reinstating it—I was not aware that it had actually been reinstated. This is a regulation, incidentally, which is approved by the minister.

The VICE-CHAIRMAN: Now, Mr. Choquette.

(*Translation*)

Mr. CHOQUETTE: Mr. Armstrong, under item 3 concerning removal expenses, it is stated that some military personnel who submitted false receipts and concealed unacceptable expenses received considerably more than they were entitled to. Have the amounts that were dishonestly obtained been recovered?

(*Text*)

Mr. ARMSTRONG: In many cases they have. Each of these schemes has been or is being investigated. In a number of them the fact that the claim has been fraudulent has been established, and in those cases recovery has been made. There were some in which it was not established, and recovery was not made in those cases. And there are a few which are still being investigated.

The VICE-CHAIRMAN: Now, Mr. Henderson.

Mr. HENDERSON: Mr. Hales asked a question earlier similar to the one which Mr. Choquette just posed. I have here a list of some of the types of cases I think he was asking for. Do you wish me to give you a quick run down of them?

Mr. HALES: If it is not too long.

Mr. HENDERSON: It deals with the cost of towing mobile homes. Disciplinary action has been taken against a number of servicemen and commands.

In the first instance it had to do with a move from Victoria to Ottawa, the cost of which was $1,550.

My officers felt, in examining this case, that the weight of the trailer was understated, thereby inflating the cost of movement of furniture and effects—in other words, the cost of movement was more than offset. This lead to the recovery of $618.30, and the serviceman was awarded a disciplinary caution.

The next case involved a move from Picton, Ontario to Ottawa at a cost of $315. My officers questioned this claim, whether or not the mileage rate charged was in agreement with filed tariffs of the company. Investigation showed only $40 and $50 had been paid for packing and towing. This led to the recovery of $245, and the serviceman was sentenced to a reprimand.

The next case was a move from Calgary to Valcartier at a cost of $1,660. Here again my officers questioned the weight, on the basis that the average weight for a serviceman with three dependants is 4,500 pounds. Investigation revealed that the mover was paid only $1,000. The Quebec command is being directed to take disciplinary and recovery action.

Another case involved furniture and effects weighing 8,760 pounds, which were moved as the contents of a mobile home. No paid invoice or relative weight scale certificate accompanied the expense claim. This led to the recovery again of $340.76.

In the next case the contents weighed over 9,000 pounds. Investigation showed that a receipt from the mobile home hauler was procured showing a rate ten per cent in excess of the rate per mile normally charged. The officer was again assessed a fine of $50, and $270 was recovered.

The next categories I have are those in which fraud was not suspected, and no disciplinary action was taken.

The first claim was for $997.06. This we questioned, but investigation showed it to be a realistic weight, and below the allowable cost.

Another case was the moving of a mobile home from Greenwood, Nova Scotia to Cold Lake, Alberta, with a claim for $1,419. Again the weight was questioned, but no fraud was suspected.

There are several more cases of a similar nature under this heading.

The next category is where there is a lack of concrete evidence which prevented further investigation in a number of cases. I shall not bore you with the particulars of them, but it does perhaps serve to show the type of verification which we seek to bring in our test examinations.

I have a list of other cases which are still under investigation. Does that furnish you with the type of information you seek?

Mr. HALES: May I ask Mr. Armstrong whether in view of all these cases which have been brought to our attention, they have changed or tightened up their regulations?

Mr. ARMSTRONG: As Mr. Millar said, we have issued a revised set of regulations covering the movement of home trailers and furniture. We believe that those are satisfactory. I have gone over them very carefully myself, and I think they are very sound. But it does not mean necessarily that there may not still be attempts at fraud. We will probably have cases in the future where people endeavour occasionally to claim for more than they should. But I believe the regulations themselves are sound. We shall see in another year of experience how well they work.

Mr. HALES: I have one more question. With respect to this first case in connection with the move from Victoria to Ottawa with an expenditure of $1,550, what officer would O.K. that expenditure for payment?

Mr. ARMSTRONG: The officer who would approve this would be the local commanding officer. But he would have an expert there on moving expense who would deal with that particular case.

Mr. HALES: Would he not make any investigation or any check on it before he would sign the voucher for payment?

Mr. ARMSTRONG: Yes, he should make a check on this case, certainly.

Mr. HALES: But it has been overpaid by $618, so he did not check too closely.

Mr. ARMSTRONG: I suppose it is self-evident, in a sense, that he overlooked this particular case at any rate.

Mr. HALES: Would this particular officer be notified about it?

Mr. ARMSTRONG: Oh, yes.

Mr. HALES: Would he be notified by someone in the department?

Mr. ARMSTRONG: Oh, yes, he would be made aware of this case. In fact part of the investigation would encompass him. I have a copy of the regulations as they stand today, and if the committee are interested in them I would be very glad to leave them. These are the new ones which have been issued.

The VICE-CHAIRMAN: If the committee wishes they can be tabled and included in the report. Is it agreed.

Agreed.

Mr. FRANCIS: In connection with item No. 2, "Release from Service Through Purchase", does this relate to people who have taken training, for example, under the university training program?

Mr. ARMSTRONG: No. This applies to members of the regular forces. This applies to men, not to officers, who are engaged for a period of time, three

years, or five years, and if they wish to be released from their engagement before the expiry of the engagement.

Mr. FRANCIS: I notice this was an ancient practice of the armed forces but I was not aware it was still prevalent to this degree.

Mr. ARMSTRONG: As you see from the statistics that I gave you, the majority of release on request are not by purchase, even though the regulation applies.

Mr. FRANCIS: Is there any reason to believe that there will be uniformity of practice between the services in the future?

Mr. ARMSTRONG: If I might answer that, there will be uniformity of practice, but the point that I wanted to make here was that in so far as the army was concerned there was a reason for not applying this namely, this practice lasted throughout the Korean war and their release thereafter. I think it was a valid reason, that it was preferable, in their circumstances, not to have a regulation under which a man was entitled to buy his way out of an engagement. It did not mean he could not get out on request if the army agreed that the circumstances were such that it was appropriate to let him go, but he did not have the right to buy his way out.

Mr. FRANCIS: I missed the point at that time, that apparently by not engaging in the practice the army was able to exercise more restraint.

Mr. ARMSTRONG: That was the object in removing the application of this regulation.

(*Translation*)

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: Under item 5, amounts refunded to military personnel for cancelling a lease, it is stated that an amount of $500,000 is paid each year for cancelled leases. It is also mentioned that the R.C.M.P. use the formula of 30 days' notice of cancellation and that the Public Accounts Committee of 1961, at paragraph 52, suggested that this maximum period be used, that is that the maximum period should be reduced to 30 days' notice—one month—and at the bottom of the fifth paragraph I see that the general practice was continued. What is this general practice of paying three months rent to cancel a lease when it had been suggested that leases should be cancelled on one month's notice.

The VICE-CHAIRMAN: That matter has been discussed several times this afternoon, Mr. Rondeau, but I think Mr. Armstrong would nevertheless like to explain it to you.

Mr. RONDEAU: I am sorry, I would...

The VICE-CHAIRMAN: That is all right, I have no objection, please continue.

Mr. CHOQUETTE: If my honourable colleague will consult this afternoon's evidence...

(*Text*)

Mr. WINCH: We entered into this discussion this afternoon in great detail.

Mr. RONDEAU: I am sorry. I will read the answer you gave this afternoon on this item.

The VICE-CHAIRMAN: The next paragraph is paragraph 65, which reads:

> 65. *Educational costs incurred by the Department of National Defence.* In the 1962 report (paragraph 75) comments were made regarding costs incurred by the Department of National Defence, under executive authority, for the education of children of servicemen and entitled civilians residing in publicly-owned quarters. It was mentioned

that, although the educational costs for each fiscal year are not reflected as such in the public accounts, the department prepares statements on a memorandum basis for calendar years. The statement for the calendar year 1962 shows a total expenditure of $16,365,000, offset by provincial grants received to a total of $2,811,000, or a net expenditure of $13,554,000. The expenditure total includes $1,276,000 of outlays for new construction but does not include the cost of transportation by service vehicles, furniture and equipment provided from service stocks and maintenance supplies and services provided from service resources, nor any portion of the cost of headquarters administration.

It was noted last year that the over-all pupil-teacher ratio in the departmental elementary schools was about 22 to 1—well below the average ratio for such schools in Canada generally—and the comment was made that the department had undertaken to make enquiries into the pupil-teacher ratios at schools where the ratio was less than 25 to 1. A test examination of the pupil-teacher ratios for the 1963 fiscal year indicated that there had been only slight improvement during the year in this regard.

Audit examinations at selected departmental schools in Ontario indicated that there had been unsatisfactory control over the computation of grants recoverable from the provincial department of education and in some cases claims had not been made in respect of outlays which were eligible for grants. It was also observed that, in certain cases, expenditures for such items as transportation and textbooks exceeded amounts considered by the department of Education as adequate. It was suggested to the Department of National Defence that the matter be reviewed in order to ensure that all grants to which it is entitled are recovered and to establish a means whereby claims for grants may be adequately controlled to avoid losses in the future. We have been informed that such a review is currently taking place.

Our audit also disclosed that dependent children of servicemen stationed at the R.C.A.F. station, Bagotville, Quebec, and living in nearby communities, attend departmental schools located on the station as the local governments do not provide educational facilities for the tuition of the children although the servicemen pay taxes, and they and their families constitute significant elements of the communities. In consequence, the department is absorbing education and transportation costs for an estimated 192 pupils living "off base", and this situation was drawn to the attention of departmental officers. It was noted after completion of the audit that a submission to treasury board in August 1963 for authority to enlarge the station schools by six additional classrooms to provide accommodation for these dependent children living "off base" was not approved pending further discussions with the provincial authorities with a view to obtaining their participation in providing and meeting the cost of the six classrooms required.

(*Translation*)

The VICE-CHAIRMAN: Would my French-speaking colleagues like me to read this in French, is it necessary?

Mr. BERGER: No.

The VICE-CHAIRMAN: Because I would have to look for the report in French if you want to have it in good French.

Mr. BERGER: On a point of order, Mr. Chairman, I agree that the established procedure should be followed because, as a newcomer, I may be somewhat inexperienced, but it seems to me that at 5:50, at the end of a meeting, we were dealing with a matter that interests me more than the others, with

section 115 of Mr. Henderson's report for the financial year 1962. We dealt with it briefly, and I thought we would revert to it this evening because I have some questions I would like to ask. Have we finished with that matter? If we have I will not mention it again.

The VICE-CHAIRMAN: I think so. Maybe we have not, but I think we finished it at 5:50.

Mr. BERGER: With all of section 115?

The VICE-CHAIRMAN: I think so. If that is not the case I could—

(*Text*)

Mr. BERGER: I did not want to ask the questions then because everyone wanted to leave the committee, so that when my friend, Mr. Choquette, asked his questions, I stopped at that point. I thought we would revert to that paragraph when we came back. However, it is not that important. I will ask Mr. Henderson my questions after the meeting or at another time. That will save time. It is just information I need for printing purposes.

The VICE-CHAIRMAN: We are now on paragraph 65.

Mr. HENDERSON: This paragraph, Mr. Chairman, deals with the subject on which I have commented in my 1962 report regarding costs incurred by the Department of National Defence for the education of children of servicemen and residing civilians in publicly-owned quarters. My comment here is not so much a criticism of the departmental practices as it is designed to provide information showing the size of this particular expenditure and at the same time the low average ratio of attendance in the schools. We made selected test examinations of departmental schools and, as I indicate at the top of page 38, we did have some suggestions to make to the department in order to ensure that all grants to which it is entitled are recovered and to establish a means whereby claims for grants may be adequately controlled to avoid losses in the future. We understand that such reviews are taking place.

We then have a further comment that we make concerning the R.C.A.F. station at Bagotville. I do not know whether Mr. Armstrong would like to add anything to this comment.

The VICE-CHAIRMAN: Maybe Mr. Armstrong would like to answer questions if there are any. Are there any questions on this?

We will go on to paragraph 67 because paragraph 66 was taken up this afternoon together with paragraph 82 of the 1962 report.

Paragraph 67 reads as follows:

> 67. *Assistance to provinces by the armed forces in civil emergencies.* Section 35 of the National Defence Act provides for the employment of the armed forces when the governor in council has declared that a national disaster exists. Although the act makes no provision for the use of the forces in emergencies not thus declared national disasters, the Department of National Defence, on a number of occasions over the years, has rendered assistance to provincial authorities in circumstances not rated as national disasters. It is the general policy in such cases to grant assistance upon written request by the premier of a province, or by any member of his cabinet authorized by him for this purpose, with the province entering into a formal agreement to reimburse the government of Canada for all expenses to be incurred (except regular force pay and allowances) and to release the crown from liability for any loss or damage that might arise out of the rendering of assistance.
>
> On four occasions in the summer of 1961 assistance was given to one province in fighting forest fires. In three of these instances provincial ministers signed agreements but in the fourth, contrary to the established practice, an agreement was not executed. In the course of these fire-

fighting operations the department incurred recoverable expenses in the sum of $410,000, including a charge of $59,000 for the use of a helicopter which was, in fact, lost in the course of one of the operations. The claim was not submitted to the province by the department until January 1963 and recovery has not yet been effected from the province.

In the course of our inquiry into this situation it was also noted that billings for smaller amounts in the case of two other provinces, relating to similar assistance in earlier years, had not yet been paid.

(*Translation*)

Mr. CHOQUETTE: Before going on to 67, could we find out what...

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Could we find out how many children, children of military personnel are getting their education at the expense of the Department of National Defence. Could you give us that figure?

(*Text*)

Mr. ARMSTRONG: The total number of pupils in Canada is 31,437, and overseas it is 7,411.

(*Translation*)

Mr. CHOQUETTE: Would you have the exact number for each province. Of course we are particularly interested in the province of Quebec. I would like to point out that this is important especially as it is being stated so forcefully that education is under the exclusive jurisdiction of the provinces; in that case this field of jurisdiction is being invaded by the federal government.

(*Text*)

Mr. ARMSTRONG: I have a breakdown here and I can pick it out for you quite readily. Regarding the schools in the province of Quebec, specifically at Valcartier camp, there are 202 Protestant pupils.

(*Translation*)

The VICE-CHAIRMAN: Just a second please. Mr. Choquette, do you want to have that information separately?

Mr. CHOQUETTE: No, I would like to have the total figure for Quebec.

(*Text*)

Mr. ARMSTRONG: I can add them up for you. I have them by schools here.

(*Translation*)

The VICE-CHAIRMAN: Perhaps Mr. Armstrong could add that up and give you the figure a little later on.

Mr. CHOQUETTE: Yes, that would be fine, if . . .

(*Text*)

Mr. SOUTHAM: May I ask a supplementary question on this paragraph, Mr. Chairman?

I note Mr. Henderson mentions here that the over-all pupil-teacher ratio is about 22 to one, and he then makes the comment that this is well below the average ratio for such schools in Canada generally. Have you any idea what ratio this is? I am asking this just for information.

Mr. HENDERSON: I do not know that I have the precise rate to hand. We understand it is well below the average rate.

Mr. SOUTHAM: You make the comment "well below the average ratio for such schools in Canada generally." I was just wondering what this was; I am seeking information in order to keep this comment in perspective.

Mr. MILLAR: I think the average is 22 to one.

Mr. SOUTHAM: As I understand it, that is the average in the service schools but it is said that this is well below the Canadian average.

Mr. ARMSTRONG: The current average in national defence schools in Canada is 23.6, with the exclusion of British Columbia, and in British Columbia that province, as you know, operates our schools for us; and there it is higher, it is 25 to one.

Mr. HENDERSON: We understand the average rate for Canada to be in the order of 35 to one.

(*Translation*)

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: To what do you attribute the difference between the schools of the armed forces and the average of other schools. Have your department discovered the reason why there is such a difference?

(*Text*)

Mr. ARMSTRONG: I have not heard the figure of 35 to one. It surprises me a little, but perhaps that is the average. In most of our schools, the rooms are built to accommodate about 30 pupils. However, there are certain special problems in the Department of National Defence in the sense that at some of our stations the number attending schools is relatively small and, therefore, it is difficult to maintain a maximum ratio or maximum desirable ratio of teachers to pupils. The lowest ratio we have is at a school in British Columbia, where the ratio is one to seven. They only have seven pupils at that school. In a number of our schools on the Pine Tree line the number of pupils is in the area of 60, 70 and something of this order. Consequently, the pupil-teacher ratio tends to be high. This is also true in the secondary schools where it is necessary to provide teaching of a number of specialized subjects in the high school curricula, and the number of pupils tends to be small and therefore the ratio of pupils to teachers tends to be lower than one would find in a large elementary school in a city, for example a city such as Ottawa.

Mr. BERGER: Mr. Armstrong, may I be allowed to pursue what you have just said? Following your remarks and the recommendations that have been made in this report and the preceding ones, what is the departments' idea—and perhaps this is too personal a question—with regard to the practicability? Do you think it will work out eventually in the way in which it is mentioned in the report? I would just like to have an assurance on this. It is said here that it is being studied. May I have an idea of your personal view of the outlook of things?

Mr. ARMSTRONG: May I say in the first place that the department welcomes the audit review by the Auditor General. He has pointed out a number of things in connection with the operation of our schools that have been of real assistance to us. Following that survey we appointed an officer in the department to investigate our own system of handling things, and we are making certain changes. In particular, we are bringing together the administration of the system in our own headquarters. Before it had been distributed among the navy, the army and the air force. We do not think we have been getting, through this system of administration, as good a direction as is possible, and we hope this will improve.

We also have in the course of preparation a series of directions that should be of assistance to various school committees in ensuring that they claim appropriately where it is possible to obtain grants from provinces to assist in the educational costs. The ideal situation from our point of view in running these schools would in fact be to turn them over to the provinces, as we do in the province of British Columbia. We have an agreement with the

province of British Columbia under which we pay the average cost of education in that province.

Mr. BERGER: Are you sure, Mr. Armstrong, that this would not create new problems?

Mr. ARMSTRONG: It might create some new problems, but if the provinces were able to handle this, in our view that would be the best method of handling the situation. Not all provinces are able to handle it because their system of education differs, but as far as we are concerned the system in the province of British Columbia is ideal. They run schools for us and we pay them the average cost of the education of the pupils in that province, which amounts to $25 per month, and they assume the responsibility. If this were possible in every province, I think we would certainly welcome it. Unfortunately, it has not worked out to be practicable in every province although we have asked every province to examine this possibility.

Mr. RYAN: Could we have a breakdown of the total expenditure of $16,365,000 by provinces and also a breadown of the provincial grants received to a total of $2,811,000—by provinces?

Mr. ARMSTRONG: I do not have with me that information broken down in that way. I would have to get it, unless the Auditor General has it.

Mr. HENDERSON: I am afraid we have not that information here, Mr. Ryan, but it could be obtained and laid on the table for the minutes of the next meeting if you so wish.

Mr. RYAN: I would welcome it.

(Translation)

Mr. CHOQUETTE: Could that not be included in the report, because Mr. Ryan asked for the amounts spent in each of the ten provinces concerning the education of servicemen's children.

The VICE-CHAIRMAN: I think that could be added to the report. Did we ever ask it in the report?

Mr. CHOQUETTE: Then the details relating to each province could be included in the report?

Mr. BERGER: One additional question. Could each of the provinces be included?

The VICE-CHAIRMAN: One moment, please. Before we answer that question—

(Text)

Would it be possible for you, Mr. Armstrong, to add these figures for the province?

Mr. ARMSTRONG: The figures I was going to obtain for Mr. Choquette would merely show the number of pupils; it would not show the cost.

The VICE-CHAIRMAN: But Mr. Ryan would like to have added to that the amount of money expended in each province.

Mr. RYAN: Expended and received per province.

Mr. CHOQUETTE: What could be added also is the number of pupils.

Mr. ARMSTRONG: In each province?

Mr. CHOQUETTE: Yes, not only the amount expended but the number of pupils.

(Translation)

The VICE-CHAIRMAN: What you asked for originally is...

Mr. CHOQUETTE: The number of pupils and the amounts spent in each of the ten provinces.

The VICE-CHAIRMAN: Mr. Berger.

(*Text*)

Mr. BERGER: My supplementary question is to ask Mr. Henderson if it would be possible to have included originally in the next report the type of information for which we are asking now. That would save a great deal of time because we would not be asking so many questions. Do you think it would be possible to have that information included in the report? The type of questions we are now asking would be unnecessary because we would have the right figures. Is it too much to ask that these be included in the next report?

Mr. HENDERSON: No, we could insert such a table in the report if that is what the committee would like, Mr. Berger. However, I would not ordinarily place such information on the record in my report to the House of Commons unless it were a subject on which I might have some critical comment. This would normally be something, I think you would agree, that the department should furnish. If I may say so, I think the most practical thing is—if Mr. Armstrong agrees or if we could obtain the figures—for us to bring to the next meeting a schedule breaking down the total expenditure by provinces and perhaps in another column show the number of pupils.

Mr. BERGER: That would be satisfactory information for the committee members.

Mr. HENDERSON: Yes, and that information could be tabled as an appendix to the minutes.

Mr. BERGER: That would suit me very well.

Mr. FRANCIS: Mr. Chairman, I should like to refer again to paragraph 65 and the note therein that there was a submission in August of 1963 for authority to enlarge station schools by six additional schoolrooms at Bagotville, Quebec. I am curious to know what happened in this regard. I understand there are 192 pupils and presumably this submission was not approved. What has happened since that time? Are these children not going to school or are they in overcrowded classrooms?

Mr. ARMSTRONG: I should be able to answer that question. Obviously, we have made some temporary arrangements for accommodation. In Bagotville we now have an agreement with the Roman Catholic school board whereby we are reimbursed the costs in relation to these pupils who are living in Bagotville and paying rent.

Mr. FRANCIS: Was this agreement negotiated subsequent to the report being prepared?

Mr. ARMSTRONG: This is not mentioned in the report but it perhaps was negotiated subsequently. We do not have any arrangements in respect of Protestant children because there is no school board in that particular area for that purpose. I do not know that we will be successful in making any arrangement which will work. These children of course go to school on our base.

Mr. FRANCIS: Is this a unique situation?

Mr. ARMSTRONG: I think it is an exceptional situation but I would not say offhand that it is a unique situation because we may have somewhat similar circumstances existing in one or two other places.

Mr. FRANCIS: The reason I ask this question is that of my concern in the event there is any substantial number of children possibly being deprived of educational opportunities.

Mr. ARMSTRONG: Do not misunderstand me, Mr. Francis. No children on our bases are being deprived of educational opportunities because we would make arrangements in one way or another to accommodate them.

Mr. FRANCIS: That is the answer I was seeking.

The VICE-CHAIRMAN: You will realize that we unconsciously reverted to paragraph 65. I am going to allow Mr. Henderson to make one further comment in this regard and then proceed to paragraph 67 which has been called.

Mr. FRANCIS: You are a little bit quick in pointing that out, Mr. Chairman. You will excuse me if I have not quite kept up to you, but I did want to ask that question.

The VICE-CHAIRMAN: If there is one statement on the record that should not be there because it is incorrect it is the statement that I am quick.

Mr. FRANCIS: We are old associates.

Mr. HENDERSON: I should just like to say that on June 24, or less than one month ago, a request for additional classrooms to accommodate the off base students was withdrawn. The R.C.A.F. had requested authority from the treasury board to build eight new classrooms to replace the present eight temporary classrooms and the Bagotville and surrounding communities have acknowledged their responsibility for the cost incurred of educating the children of R.C.A.F. parents residing in their community. I thought I might mention that information for the benefit of the members of this committee.

The VICE-CHAIRMAN: Thank you, Mr. Henderson.

Can we now move to clause 67 again, assistance to provinces?

Mr. HALES: In respect of paragraph 67, I note it involves the department of National Defence rendering assistance to provinces in the event of a national disaster such as forest fires. I note the Department of National Defence helped one province on four different occasions and that it is customary to have the minister sign an agreement on each occasion. In this case the department failed to have one agreement signed. I should like to know first of all the name of the province involved and, second, why was the claim not submitted until two years later, in 1963, and why the money has not been paid by that province as of this date.

Mr. HENDERSON: Mr. Millar has the information available, Mr. Hales, and I will ask him to give it to the committee.

Mr. CROUSE: Mr. Chairman, apropos of that question, there is a note appearing in this paragraph to the effect that billings for smaller amounts in the case of two other provinces, relating to similar assistance in earlier years, has not yet been paid. Would you also give us the names of those two provinces?

Mr. MILLAR: The first item involves Nova Scotia in November, 1958, during the second emergency at Springhill and amounted to $17,070.30. Item 2, September, 1960 involved Shelburne forest fires and amounted to $60,102.30.

Item B involved Prince Edward Island in August, 1960 and was in respect of forest fires and amounted to $43,014.10. Item C is in respect of Newfoundland, occurring in the summer of 1961, in respect of forest fires involving an amount of $66,149.36. Item No. 2 occurred in the summer of 1961 in respect of forest fires and involved an amount of $344,245.97.

Mr. HALES: Why would your department omit to have one of these agreements signed, and why was the claim not submitted until 1963, two years later?

Mr. ARMSTRONG: There were two agreements here that were not signed. One involved Prince Edward Island in August of 1960, and the other involved assistance in respect of forest fires in Newfoundland in the summer of 1961.

In the first case involving Prince Edward Island, we did receive a telegram from the appropriate provincial authorities asking us to provide assistance. When the agreement was subsequently put to them they declined to sign it.

In the case of Newfoundland, the government was asked to provide assistance but the agreement when it was put forward was not signed.

Mr. HALES: Why was the claim not submitted until two years later?

Mr. ARMSTRONG: I think there were one or two reasons in this regard. As I recall it, in that particular situation one of the helicopters being used was destroyed in the course of rendering the assistance requested. We did take some time considering the appropriate policy to be applied in this respect. We finally came to the conclusion that the best arrangement would be to charge, for an aircraft of this kind, and include in the flying hour charge an element against attrition, so that a province would not be billed for the total cost of an aircraft that happened to have an accident and destroyed in a particular situation in which it was involved. That consideration took a considerable period of time, but eventually bills were submitted in 1963.

Mr. HALES: The $410,000 includes the cost of the helicopter; is that right?

Mr. ARMSTRONG: That figure does not include the cost of the helicopter but includes in the cost a factor for attrition.

Mr. HALES: This case happens to be one for which you did not have a signed agreement; is that right?

Mr. ARMSTRONG: We do not have a signed agreement in that regard, no.

Mr. HALES: You are not now in a position to claim that money without a signed agreement; is that right?

Mr. ARMSTRONG: I do not think it necessarily follows that we are in no position to claim the money because we were requested to provide the assistance.

Mr. HALES: If we take a legal point of view and you cannot produce a signed agreement you will not be able to collect the money; is that right?

Mr. ARMSTRONG: This, of course, would be something one would have to decide by recourse to law, but I feel that would not be the case.

Mr. HALES: The amount involved is quite sizeable. Does this type of thing happen very often, whereby federal government accounts are not paid by provincial governments?

Mr. ARMSTRONG: These are the cases listed and the only ones outstanding. We have not been successful in collecting them but have referred them to the treasury board for direction.

The VICE-CHAIRMAN: Mr. Hales, this appears to be a delinquent account because an official request has been made to the appropriate authorities.

Mr. HALES: The department does not have a signed agreement in this regard.

The VICE-CHAIRMAN: The department does not have a signed agreement, but if a request is made by a responsible person such as the premier of a province, to the Prime Minister of Canada, I would assume that would be equivalent to a signed agreement. Are there any further questions in respect of paragraph 67?

Mr. WINCH: Just one. Although I never have understood this I am most intrigued by it. Is there a definite policy established whereby in the event of necessity a province asks the assistance of the federal authorities and the use of armed forces, as was the case in respect of a forest fire that happened three or four months ago in Port Alberni, the province is charged for the use of those armed forces?

Mr. ARMSTRONG: We have a definite procedure and all the provinces understand it. The charges that are made in these cases represent, in effect, the out of pocket costs. We do not charge, for example, the regular pay and allowances that we would be paying in any case. But, if it involves the use of equipment, gasoline, oil, materials and so on, or paying extra allowances of one sort or another, we charge the province for it.

Mr. WINCH: Would that apply in the case of Port Alberni? I am referring to the wave caused by the earthquake, at which time you had to move in a battalion of engineers from Chilliwack to Port Alberni.

Mr. ARMSTRONG: Yes. They will be charged for that. There is no question but that they would be charged but, offhand I do not know the details of it.

The VICE-CHAIRMAN: If there are no further questions we will move to paragraph 68, pension awards effective at early age.

> 68. *Pension awards effective at early age.* For some years it has been observed that servicemen are being retired with immediate annuities at early ages—in some cases under 30. In such cases the amounts of the annuities are small due to the short periods of service, but the potential cost is substantial because of the long expectancy of life. In the year under review, 201 servicemen aged 40 and under were retired with immediate annuities.
>
> The Public Service Superannuation Act provides for deferred annuities payable at age 60 where persons retire prior to the specified minimum retirement age—except in cases of disability, when immediate pensions are awarded. The department has been conducting a general review of benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act.

The VICE-CHAIRMAN: Would you care to comment on this paragraph, Mr. Henderson?

Mr. HENDERSON: I drew this situation to the attention of the house on previous occasions in my reports.

In 1962, the royal commission on government organization referred to it. As you will see from the note, the Public Service Superannuation Act provides for deferred annuities payable at age 60 where persons retire prior to the specified minimum retirement age, except in cases of disability, when immediate pensions are awarded.

The Department of National Defence, as I understand it, has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act.

Perhaps Mr. Armstrong is in a position to bring the committee up to date on this matter.

Mr. ARMSTRONG: Mr. Chairman, we have been reviewing the existing provisions of the Pension Act, including the question of whether or not we could provide a deferred annuity. So far in this review we have developed a couple of possible alternative plans which would enable us to do this; but, the cost of these plans would be more than the cost of the existing plan. In the one case, where we examined the possibility of providing a deferred annuity which would become payable at the normal retirement age of the person or man concerned, the cost, I think was about 3 per cent higher than the present cost, looking at it on the basis of a deferred annuity that would be payable at age 60, which is the same age as the superannuation act, and the cost, I think, went up about 1½ per cent. Now, we are continuing this examination. We feel that the present cost of the pensions, which run in total about 20.4 per cent based on the last actuarial report to which the individual serviceman contributes 6 per cent, is high enough and we are attempting to find solutions if, in fact, we can, which will hold the cost at the present level.

(Translation)

The VICE-CHAIRMAN: Mr. Berger.

Mr. BERGER: Mr. Armstrong, in view of the quite radical changes contemplated by the present government and the minister and associate minister of National Defence, for the integration of the three services will not section 68 —allocation of pensions—include perhaps rather radical changes which it might be useless to study thoroughly at the present time in view of the procedures now under way? In order to be more precise, do you contemplate more complicated problems than those you have had until this moment? In my humble opinion, there seems to be nothing wrong with this section, but I am wondering if we should study it in relation to the proposed legislation, which seems to deal with the three services, or shall we proceed from the armed forces and the pensions which are extended to a fairly late age? In your opinion, should this matter be studied more thoroughly, or do you think that radical changes will be proposed?

(Text)

Mr. ARMSTRONG: I do not think the steps that are being taken now toward integration in themselves would affect the basic considerations in the pension plan. As has been indicated, there will be some retirements on account of reductions in establishments. Of course, those men will be retired under the existing provisions of the Pension Act. There has been one amendment made to those provisions, which you dealt with in the house the other day, which removed a penalty that applied to men with fewer than 20 years service. The general principle has been followed in dealing with pension acts in the past, that by and large new provisions would not apply to the people who are under the existing pension plan in any event.

Mr. BERGER: I thank you for your answer. I have some problems in my own constituency which I very gladly will submit to you personally when the time comes.

The VICE-CHAIRMAN: If there are no further questions in respect of paragraph 68 we will proceed to paragraph 70, overlapping of pension benefits.

Mr. HENDERSON: There is paragraph 69, discretionary awards of service pensions?

The VICE-CHAIRMAN: If you had noticed I called this paragraph twice and several people told me to proceed to paragraph 70.

Mr. FRANCIS: You are a little quick on that.

Mr. CROUSE: It is not on the list.

The VICE-CHAIRMAN: That is right; it is not on the list. Apparently it was left off the list but should have been included. Perhaps Mr. Henderson would care to give us a comment on this.

> 69. *Discretionary awards of Service pensions.* From the examination of the relative files it is apparent that, in determining pension awards, every possible consideration is given to the welfare of the individual serviceman and it is sometimes questionable whether a reasonable balance is struck between fairness to servicemen on the one hand and economy of public funds on the other. The following paragraphs illustrate the situation.
>
> Two servicemen who had requested voluntary release before having qualified for pensions (in which event only refunds of contributions would have been payable) were refused. However, when the minimum period of service required to qualify for annuities was reached the men were retired compulsorily. In one of these instances, where contributions

had amounted to $1,777, the capital value of the annuity awarded was $29,900; and in the other, where contributions had amounted to $2,320, the capital value was $26,900.

In four instances where servicemen were awarded pensions, having been retired compulsorily as "medically unfit", information on file indicated that this reason was of secondary importance to others which, had they been assigned officially, would have resulted in substantially reduced annuities, with total capital values lower by more than $27,000.

Two instances were observed where servicemen with essentially similar rank, service and military records were retired with materially different benefits. In one of these instances the serviceman, aged 40, was unable to resolve his domestic and financial problems and was considered by his unit to be unemployable. As no improvement resulted after repeated warnings, his discharge for misconduct was recommended, with pension benefits having a capital value of $35,000. However, he was actually released "to promote economy and efficiency" on the basis of a decision by the service pension board and this decision established the man's entitlement to an immediate annuity with a capital value of $53,700. In the other case, the serviceman, aged 43, regarded as an "administrative nuisance" because of his inability to control his personal finances, was awarded only a return of contributions amounting to $4,111.

Under section 10(9)(c) of the Canadian Forces Superannuation Act "a female contributor who resigns or is compulsorily retired from the forces by reason of her marriage shall be deemed to have retired voluntarily from the forces", and such a contributor is then entitled to a return of contributions only. A case was noted where an airwoman with ten years' service was released in January 1962, the reason for pension purposes being finally determined as "to promote economy and efficiency" with the result that she became entitled to an immediate annuity. The original reason for the release had been determined by the service pension board as "misconduct", in which case a reduced deferred annuity would have been payable—and this had the concurrence of the treasury board. However, the service did not agree and made representations for a more generous annuity, the service pension board finally deciding that the reason for release was "to promote economy and efficiency", as mentioned above. The marital status of the airwoman changed when she married during the period of rehabilitation leave, yet this fact was not recognized in determining her final benefits, the department taking the position that the reason for release crystallized on the last day of service prior to rehabilitation leave. Consequently, instead of a return of contributions of $1,950, she received an immediate annuity with a capital value of $12,015.

Mr. HENDERSON: Paragraph 69 refers to cases which, in our opinion, represent questionable decisions; that is, whether or not reasonable balances can be said to have been struck toward payments to servicemen on the one hand and the economy of public funds on the other. Subject to your views on this particular reference to the case cited you may wish to question Mr. Armstrong about the matter.

The VICE-CHAIRMAN: Are there any questions in respect of paragraph 69?

Mr. FRANCIS: I find it hard to believe that an airwoman who is discharged with 10 years' service and gets married on her discharge should be entitled to the type of annuity in the amount which she received. I do not know what

your feelings are in this respect. Do you feel this is a correct position to take and are you prepared to defend this decision?

Mr. ARMSTRONG: The law provides that a female member of the forces who marries and is discharged because of marriage would receive the benefits that are payable on voluntary retirement; in other words, she would not get a pension. However, the pension board, which is set up by statute, determines the reason for retirement. This woman was not married at the time that reason was determined by the pension board and consequently the law which applies to a woman who is married did not apply to her. The reason for her discharge in these particular circumstances, as cited by the pension board, I think was to promote economy and efficiency under the law, and retirement on that ground results in a pension. I think I would agree with you, Dr. Francis, that in these particular circumstances it hardly seems to be in the spirit of the law as written in respect of married women, but this was the law.

Mr. FRANCIS: I appreciate that, but I wonder as a matter of policy whether the pension board could make a decision, say, at the end of rehabilitation leave, or make its decision effective at such a time in an effort to prevent what has been a circumvention.

Mr. ARMSTRONG: I do not think as a general policy that this would be good, because it is better to determine the pension arrangement before a person actually is dependant on the pension; in other words, before the end of the rehabilitation leave. In a case of this kind, obviously, I think one could deal with it by amending the law.

The VICE-CHAIRMAN: Are there any further questions on paragraph 69?

Mr. CROUSE: May I have a little further explanation of this statement at the bottom of page 40:

> However, he was actually released 'to promote economy and efficiency' on the basis of a decision by the service pension board and this decision established the man's entitlement to an immediate annuity with a capital value of $53,700.

I must confess that I am not entirely familiar with that term "immediate annuity with a capital value". Would you explain that?

Mr. HENDERSON: That is what the pension was calculated to cost over the expected life of the man, based on actuarial tables.

Mr. CROUSE: That is a payment of how much a year?

Mr. HENDERSON: I do not know how much the pension is per annum. It would be in the order of $2,000 or $2,400.

Mr. CROUSE: He served for how many years?

Mr. HENDERSON: He was age 40, so he would have a life expectancy of 30 or 35 years.

Mr. CROUSE: But how many years had he served?

Mr. HENDERSON: His pension would be based on that. I do not see it here.

Mr. ARMSTRONG: I think in this case he had 18 years service, if I have the right case.

Mr. SOUTHAM: In this paragraph there is the statement:

> Two instances were observed where servicemen with essentially similar rank, service and military records were retired with materially different benefits.

This is the one Mr. Crouse mentioned. One was awarded a pension having a capital value of $35,000 and the other was awarded a return of contributions amounting to $4,111. I would like to ask Mr. Henderson why there was such a variation in the benefits when the two had essentially the same service?

Mr. HENDERSON: I show these two cases to illustrate the point of the paragraph. In the first case you have the serviceman aged 40 who was considered by his unit to be unemployable, and his discharge for misconduct was recommended. However, actually he was released to promote economy and efficiency on the basis of a decision by the service pension board and, as you see, this decision established the man's entitlement to an immediate annuity with a capital value of $53,700.

Mr. RYAN: We should find out who is responsible for that.

Mr. HENDERSON: In the other case the serviceman aged 43, regarded as an administrative nuisance because of his inability to control his personal finances, was awarded only a return of contributions amounting to $4,111.

Mr. ARMSTRONG: I have a very brief report which might help to clarify the thinking on these two cases. In the first case where a pension was awarded—I think this will help to explain the reasoning of the pension board—the individual was a well qualified tradesman. He was living in a common-law wife relationship and was faced with a court order of $200 a month for the support of his legal wife and two children. He owed $1,500 on a car, and was in arrears on his rent. While he was a good tradesman, in view of his domestic and financial entanglements, he could only be employed in Ottawa. This restriction was not acceptable to his service, and it was decided, consequently, that he should not be offered a re-engagement. On the expiration of his engagement he was released. At that time he had completed 18 years and 265 days service. He did not request his release and did not refuse to re-engage.

In the light of those circumstances, the pension board concluded the retirement was compulsory and, while the circumstances made it desirable that the man should be released, those circumstances did not amount to inefficiency or misconduct, and accordingly, they determined that the reason for retirement was for the purpose of promoting economy and efficiency in the services. That was the reason for his retirement on which his pension was based.

In the other case, the man formally applied for release. His reason was that owing to his medical category he could not be promoted and that he had financial problems which he could not solve in the service. The files of his record indicated that his service was satisfactory and that his financial problems did not interfere with the performance of his duties, although his poor financial situation did cause him to be somewhat of an administrative nuisance to his unit.

This man had 20 years and 225 days service, and was 43 years of age. The factual situation was that since he had requested his release, the release was voluntary, and the service pension board had no alternative but to determine that the fact of his release was voluntary and in that case he was not awarded a pension but received a return of contributions.

The VICE-CHAIRMAN: Are there any further questions?

Mr. RYAN: If this latter man had misconducted himself, then I take it he would have been able to get a pension of around $35,000 in capital value, or $53,700 in capital value; that is all he had to do. Is this so in the services?

Mr. ARMSTRONG: If he is discharged for misconduct, he does not have an entitlement to pension.

Mr. RYAN: But if he has enough influence, apparently he can have it described in another way.

Mr. ARMSTRONG: We have a pension board established by statute that is there for the purpose of going through all the circumstances that apply to release, and to establish the reason for release; that is their function. I suppose

it is conceivable that a man who is determined to do so could so conduct himself that he might be released and obtain a pension. I do not say that this is not possible.

But the presence of the pension board and the review system is to make an effort to establish appropriate reasons for release. That is the method which is established by the law in order to do this.

The VICE-CHAIRMAN: Now, Mr. Berger.

Mr. RYAN: These facts are too bold, in your opinion?

Mr. ARMSTRONG: I have given you the facts as the pension board saw them. The two cases were different. In one case the man in fact requested to be released.

The VICE-CHAIRMAN: Now, Mr. Berger.

(Translation)

Mr. BERGER: Mr. Chairman, I wish to congratulate the Auditor General, Mr. Henderson, and Mr. Armstrong, for the complete reports they present us; however, I am slightly worried, but not unduly, when I see all the precautions that are taken to examine a problem such as the one we had a while ago and which seem incompatible with the numerous problems which are brought to me by the veterans of my riding who, in my opinion, are honest people and would be entitled to receive a pension, but do not get any. That is what worries me; I would like my question to be in order, but I would like to know if the department intends to examine those matters. Perhaps some have received too much in comparison with those who would be entitled to receive something. This question may not be relevant to the business of the committee, but is the government contemplating a complete revision of the pensions system so that those who, in my opinion, are entitled to draw a pension could obtain at least some degree of justice. I have constituents who would be satisfied with part of the capitalized values of $35,000 and $15,000, but do not receive anything; some veterans in my riding face similar problems, which are sometimes studied. That is what worries me. Some people, in spite of their misconduct and their inefficiency, receive higher amounts than those to which they would be entitled normally; I do not say that the administration could be improved, but at least those cases could be examined. Is the department contemplating a new study of the whole system of pensions, including the problems which face us at present and those which I will humbly submit.

Mr. ARMSTRONG: As part of the study to which I referred earlier, one of the directives given to the group that made the study was to endeavour to achieve a system under which the entitlements to pensions were specific, and we could eliminate, if this were possible, the considerations of the pension board. They are specific now in many cases. If a man is retired on account of age, this is perfectly clear. If he is retired because of medical grounds, this is clear. But there are those cases where the man is retired for inefficiency or in order to promote economy and efficiency, where there are some questions of what is the real reason for retirement. And in such cases the pension board really determines after examining all the facts what that reason is.

Mr. BERGER: I could be more precise, if you wish.

Mr. ARMSTRONG: Under the system, with the exception of one or two cases such as misconduct, subject to the appropriate service and the reason for retirement, the man is entitled to pension and he has a legal right to it under the law.

Mr. BERGER: I have two cases in my own riding right now where people are asking how come they were so anxious to get me in, and then when I am in I have to prove that I am not fit, and then they throw me out.

Mr. ARMSTRONG: I do not know the individual cases, but if the people concerned had sufficient service, there must be a minimum of ten years' service in order to establish a pension. If they were discharged upon medical grounds, then they would be entitled to pension. But if their service was fewer than ten years, then no pension is payable.

Mr. BERGER: That answers my question. The next time they come to see me I shall send them to the national shrine at Ste. Anne de Beaupre.

The VICE-CHAIRMAN: If there are no more questions on paragraph 69, let us now turn to paragraph 70.

> 70. *Overlapping of pension benefits.* Two members of the Royal Canadian Mounted Police retired on pension in 1952 and were engaged in the forces on short-service commissions. They continued to draw their pensions of $1,584 and $1,347 per annum, respectively, in addition to their service pay and allowances. After some nine years of temporary service they were granted permanent commissions in the Forces whereupon they became contributors under the Canadian Forces Superannuation Act. They then surrendered their mounted police pensions, and elected to count the years of service on which these pensions were based (some 20 years in each case) towards their pensions from the forces on eventual retirement. After one further year of military service, both officers were retired on full pensions of $4,127 and $4,900, respectively, based on their combined service in the mounted police and the forces (35 years in one case and 32 years in the other). However, they were allowed to retain the annuities which had been paid to them under the Royal Canadian Mounted Police Superannuation Act during their nine years of temporary service, amounting to $15,092 and $12,048 respectively. Thus they will eventually have received two pension benefits for the same period of service.
>
> We have been informed that, in the opinion of the legal officers of the department, the action taken conforms to the provisions of the Canadian Forces Superannuation Act. If this is so, we are of the opinion that consideration should be given to amending the act.

Mr. CROUSE: In paragraph 70, without reading it all, because we have the pages before us, my question to Mr. Henderson or to Mr. Armstrong is this: Why were these two mounted policeman not required to repay their first pensions?

Mr. ARMSTRONG: The reason they were not required is that the law does not require them to repay it. These men were under a section of the Royal Canadian Mounted Police Act which was amended in 1949. Before that the man did contribute towards his pension. But under the Canadian Forces Superannuation Act he has the right to elect within one year of becoming a contributor under that act, to count his service in the R.C.M.P. if he wishes to. They must surrender their pensions when they do this for the future.

These men came into the navy as short service commissioned officers and they were not put under the Canadian Forces Superannuation Act. Then they became regular force officers and as such they became eligible as contributors under the Canadian Forces Superannuation Act. They both elected at that time to contribute for their R.C.M.P. service; but the law requires that they surrender their pensions, and they did surrender them from then on; and they paid in respect of the service in the mounted police a contribution at six per cent of the salary they received during that period. The law does not require them to pay back their pensions.

Mr. CROUSE: I understand this from reading the account that Mr. Henderson has on page 41; but it seems like strange law to me to permit these two R.C.M.P. policemen to draw pensions of $1,584 and $1,347 per annum re-

spectively for a period of some nine years when they served in the Canadian navy, and then having drawn those pensions as well as their salaries they thereupon apparently realized it was to their material benefit to elect for the pension plan of the navy, and so in fact they have become entitled now to two pensions for the period of the service which they rendered in the R.C.M.P. Would you not agree, this being the case, that here is a law which definitely should be amended?

Mr. ARMSTRONG: Yes, I would agree with you. I have made a note of it, and when we amend our act, certainly this will be brought to attention. I have had it checked, and I do not think there are any other similar cases which come under that section of the Royal Canadian Mounted Police Act, so I do not think you have any worries in respect of other cases.

Mr. CROUSE: You are telling the committee that this law will be amended and that we will not in the public accounts committee at some later date have a similar recurrence?

Mr. ARMSTRONG: I am telling the committee that I have taken a note of it and that I shall bring it to the attention of the ministers when they come to amend the act.

Mr. CROUSE: You are saying that there will not be any requirement for these men to repay this amount of money which they had received over a period of some nine years, in one case amounting to $15,092 and in the other case to $12,048?

Mr. ARMSTRONG: I was not suggesting an amendment which would make these men repay at this point. After all, they made the decision having regard to the law as it applied at that time, and I do not think it would be reasonable for us to pass a law retroactively to require them to pay this back.

Mr. CROUSE: I am thinking of the inequity that is evidenced here. If, for instance, someone unintentionally obtains old age assistance at 65 and then suddenly, when they become 70, it is realized that their income during those five years in which they received old age assistance was higher than they originally declared, then the federal government, instead of paying these elderly citizens $75 a month, withdraws the amount owing by a deduction of $10 a month until such payment is returned to the federal treasury. This is what we do to our senior citizens. This looks like very special treatment.

Mr. ARMSTRONG: The point I was making is that these men have been dealt with in accordance with the law applied at the time the decision was made. Whether or not they would have elected to count that service at all had they been required to pay back $15,000, I do not know, but it would seem to me to be somewhat unreasonable at this point, when they made a decision under the law, to attempt to change it in so far as they are concerned.

The VICE-CHAIRMAN: Are there any further questions?

Mr. RYAN: In this case apparently they surrendered the amount of pension.

Mr. ARMSTRONG: Yes.

Mr. RYAN: Did they surrender it for all purposes or was this a temporary suspension?

Mr. ARMSTRONG: For all purposes. Their pension in the future is the one that is determined under the Canadian Forces Superannuation Act, including the service they rendered to the R.C.M.P.

Mr. RYAN: Who would make the arbitrary decision that they could be reinstated and allowed to retain these annuities?

Mr. ARMSTRONG: This is not an arbitrary decision.

Mr. RYAN: It is a compassionate one.

Mr. ARMSTRONG: The law permits them to retain their Royal Canadian Mounted Police annuity when they are pensioned whether they work in the public service or in the armed forces.

The VICE-CHAIRMAN: Are there any further questions?

Mr. Henderson wishes to make a short statement before the meeting is adjourned.

Mr. HENDERSON: Mr. Chairman, this brings us to the concluding points on which you may wish to question Mr. Armstrong, and these have to do with the non-productive payment list for 1963 which you will find at page 148, appendix I, in this report. Here you will find listed some 37 cases of non-productive payments, and the ones which relate to the Department of National Defence, primarily those relating to Defence Construction Limited which we were discussing this morning, total altogether six in number, Nos. 2, 8, 9, 10, 11 and 12, as follows:

2. CONSTRUCTION OF AMMUNITION LIGHTERS. In September 1953 a shipbuilding concern was awarded a firm price contract by the Department of Defence Production, for the construction of two ammunition lighters for the Navy. At the time tenders were called the estimated period of construction was to be nine months. However, the actual time required was 37 months due largely to delays beyond the control of the contractor inasmuch as specifications were inadequate, the design was not firm and components to be incorporated into the vessels were not delivered on time. In the year under review, the shipbuilding firm was paid $68,925 in settlement of its claim for additional costs attributable to the delays.

   An almost identical situation arose in connection with a contract for construction of another ammunition lighter, awarded by the department to another shipbuilding firm also in September 1953. In this case the actual period of construction was 42 months, the prolongation of the contract being in large measure attributable to delays in the approval of drawings and in the delivery of machinery and equipment and associated drawings under a contract placed independently by the department. The shipbuilding firm claimed for additional costs occasioned by the delays and, during the year under review, was paid $12,817 in settlement of its claim.

   We are informed by the department that the circumstances giving rise to these payments in 1962-63 occurred in 1953 when the department was struggling to achieve sufficient organizational strength to compete with the tremendous procurement demands being made upon it by the tide of events flowing from the Korean war.

8. CONSTRUCTION OF JETTY SERVICES, SEAWARD DEFENCE BASE, HALIFAX. A contract for steam, water, air, electrical and telephone lines at the Royal Canadian Navy seaward base was awarded in May 1959 by Defence Construction (1951) Limited in the amount of $120,200. After commencement of the work and when progress was gaining momentum, the navy advised that major changes must be made to the design. The time lost while new drawings were prepared and while the materials and equipment called for by the modified design were being procured forced the contractor into winter operations and, as a result, the contractor claimed for additional costs of $21,522. The crown accepted responsibility for five months delay and made settlement in the amount of $12,985 in May 1962.

9. ROADWORK AND LANDSCAPING, CAMP PETAWAWA, ONT. In April 1956 a contract in the amount of $1,572,112 was awarded by Defence Construction (1951) Limited for road work, landscaping, sewers and

watermains at Camp Petawawa. This work was being carried out during a period of major activity in the Canadian Army home station development program and at the time there were 19 separate contracts in progress on the site. The projects were scheduled in such a way that there would be a minimum of interference and interruption in the work being carried out by the individual contractors. However, delays in the delivery of steel and other building materials, a shortage of electrical power, delays by the crown in removing temporary army buildings together with changes in the design and specifications caused the over-all project to fall behind schedule. The contractor for the roadwork, landscaping, sewers and watermains was thus prevented from proceeding with the construction schedule as tendered and additional costs for rented equipment, standby time and repairs to damaged landscaping were incurred.

The contractor claimed for the additional costs occasioned by the above-mentioned delays and was paid $36,604 in December 1962.

10. EXTENSION OF WATER AND SEWERAGE FACILITIES, GREENWOOD, N.S. In April 1960 Defence Construction (1951) Limited awarded a contract in the amount of $225,340 for the extension of water and sewerage facilities to serve 300 permanent married quarters being constructed under another contract at R.C.A.F. station, Greenwood.

The construction schedule called for work to commence by May 10, 1960 and for completion of the project by August 30, 1960, but actual completion was not until December 1960. Because the building contractor, in spite of careful planning, was unable to complete the houses on schedule, the sewerage work was delayed 30 working days. In addition, due to a delay in the availability of electrical power, the contractor was obliged to rent portable generators and pumping equipment in order to provide temporary water supply and sewerage facilities. As a result of these delays, the contractor claimed for the idle time of his equipment and the rental of additional equipment and overhead, and was paid $16,315 in the year under review.

11. CONSTRUCTION OF FOUNDATIONS AND INSTALLATION OF SERVICES, ST. SYLVESTRE, QUE. In October 1961 Defence Construction (1951) Limited awarded a contract in the amount of $127,136 for the construction of foundations and installation of services for 25 mobile homes at R.C.A.F. station, St. Sylvestre. During the progress of the work, sub-surface water conditions, underground springs and substantial rock excavation not originally anticipated impeded the progress of the contract. This, combined with the time required to process necessary engineering and design changes, made it impossible for the contractor to meet the target completion date of December 15, 1961. Consideration was given to deferring the work until the spring of 1962. However, this was rejected due to the prearranged program for manufacture, delivery and erection of the mobile homes under another contract.

Thus the contractor was forced into a winter construction program at substantially increased costs. When the ground thawed in the spring it was discovered that the waterline pipe was broken in many places. A firm of consulting engineers employed to carry out an investigation to determine the cause of the failure reported that movement of the saturated and unstable foundation materials under freezing winter conditions had subjected the pipe to loads in excess of its structural strength. As a result of further engineering studies by engineers of Defence Construction (1951) Limited and the De-

partment of National Defence a number of design changes were made which took into consideration the sub-surface conditions encountered. The remedial work thus occasioned involved the reopening of the entire system and this was carried out in the summer of 1962.

The foregoing delays resulted in an unproductive period of approximately five months. The costs incurred during this period, and for the remedial work, were established at $130,569 by Defence Construction (1951) Limited and agreed to by the department and, as the crown had accepted responsibility for half of such costs, the contractor was paid $65,284.

12. CONSTRUCTION OF ROADS, ETC., AND WATER AND STEAM DISTRIBUTION SERVICES, SUMMERSIDE, P.E.I. In October 1958 a contract was awarded by Defence Construction (1951) Limited in an amount of $1,512,749 for the construction of roads, drainage, grounds development, concrete aprons and taxiways, and water and steam distribution services at the R.C.A.F. station, Summerside.

After the commencement of work under the contract, delays were occasioned by changes in the plans for the work. The most serious delay arose in August 1959 when a change in profile of hangar aprons and taxiways resulted in additional quantities of sub-base material being required, and additional funds to provide for this were not made available in time to take advantage of the fall construction season. Although the contractor continued with the work on a reduced scale until September 1959 he was then obliged to suspend operations. In the schedule for the over-all project it was anticipated that a substantial amount of asphalt would be laid in the fall of 1959 and the contractor had been instructed to move his asphalt plant to the site. However, because of the delay mentioned, only a limited amount of asphalt work could be completed. The contractor claimed for additional costs for rental of equipment, overhead, and supervision and was paid $76,213 in October 1962.

They indicate non-productive payments totalling $288,000 collectively. I do not know the extent to which you might wish to question any of the individual ones, but if you so wish we have documentation here and I would hope we would be in a position to furnish any information.

Mr. CHOQUETTE: Is that the 1962 report or the 1963 report?

Mr. HENDERSON: The 1963 report, page 148, appendix I.

Mr. WINCH: Without going into any detail at all, I think that at least two of these items tie in with the discussion we had this morning relative to faulty plans, faulty engineering and the letting of contracts on improper specifications. If you look at No. 2, you will see that something which should have taken nine months, took 37 months. The specifications were inadequate, the design was not firm, and so on.

Then, if you go on to the following page you will find there were faulty plans. As I said, without going into any details, we have here two items out of five where there were faulty specifications, a faulty plan, and so on, which ties in with our discussions prior to this evening's meeting.

I want to ask Mr. Armstrong if, in view of these continuing reports—we get them year after year—he does not think that there is need for a real check up of the engineering section of his department.

Mr. ARMSTRONG: I do not think one can generalize on these things as you have done, Mr. Winch. If you take item 2, without going into any great detail, there were design changes in the course of the construction of these vessels, but these were not the primary causes of the delays that resulted in the addi-

tional cost. When this was examined by the contract settlement committee, they concluded that the claim was based on delays directly or indirectly attributable to problems related to the delivery of machinery and electrical equipment and associated drawings under a contract placed independently by the department for the construction of the ship.

Mr. CROUSE: May I interject at this point? Were not specifications sent out to these contractors prior to the biddings so that they would know the type of equipment upon which they were bidding and of necessity have that equipment available?

Mr. ARMSTRONG: What I am saying is that there were two contracts here, one contract for the production of the machinery and electrical equipment, and so on. Now, the shipbuilding branch of the Department of Defence Production did come to the conclusion in this case that the delay was occasioned by the problems relating to the delivery of that machinery and electrical equipment for which a contract was placed independently, and consequently the shipbuilder himself had no control over the situation. In essence the problem here is a problem of contract, not a problem of design.

Mr. WINCH: Are you saying that the Auditor General's branch are making a misstatement under No. 2 when they say, "due largely to delays beyond the control of the contractor inasmuch as specifications were inadequate, the design was not firm"? Are you saying that is not a correct statement?

Mr. ARMSTRONG: I agree the delays were beyond the control of the contractor.

Mr. WINCH: I am referring to the words, "specifications were inadequate, the design was not firm". Are you saying that is a misstatement by the Auditor General?

Mr. ARMSTRONG: I am saying that the primary reason for the delay was the separation of the contracts—and I am basing my statement on the conclusions reached by the contract settlement committee—with the result that the prime contractor, who had the contract for the construction of the ship, could not control the delivery of the machinery and other items that had to go into that ship. This resulted in lengthy delays and it also resulted in additional cost.

Mr. CROUSE: May I ask a supplementary question to Mr. Winch's question?

Are we in this committee to believe that, owing to delays in design, approval of drawings and the delivery of machinery and equipment, the construction of one ammunition lighter was delayed for a period of three and one half years? The figure quoted here is that of 42 months. As one who comes from a shipbuilding area in Canada on the east coast, I find this very difficult to believe. That is a period of time in which any piece of equipment, whether it be engines or generating systems or electrical equipment required in a barge or a lighter, should certainly be supplied.

Mr. WINCH: In three years—

Mr. CROUSE: and one half.

Mr. RYAN: It sounds like the Toronto fire boats.

Mr. CROUSE: This I find very difficult to believe, Mr. Chairman. Certainly there is something wrong in a department that issues plans and specifications when this happens. Someone should answer for an error of this kind which has cost the taxpayer an additional sum on one contract of $68,925 and, in another, $12,817. If this is the best that can be done by way of specifications, I submit that they should be thoroughly investigated in order to speed up the program.

Mr. ARMSTRONG: When you say they should be thoroughly investigated, this, as you know by the top of the Auditor General's comment, refers to a

contract that was let in September, 1953. This is a long way back. It was at a time when both the Royal Canadian Navy and the contracting side of the Department of Defence Production were involved in substantial shipbuilding programs as a result of the expansion that was taking place at that time. There is a vast difference today in the procedures that are used both on the contracting side and on the planning side for these items.

(Translation)

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Respecting item 11, in 1961, a contract was awarded to the Defence Construction Limited to the extent of $127,136. Two years later, it was announced that the radar station located at St-Sylvestre would be closed, after a contract for $127,000 had been awarded. When that contract was awarded, had it not been foreseen that the radar station at St-Sylvestre would eventually be closed?

(Text)

Mr. ARMSTRONG: No, sir, there was no plan to close this. This was two years in advance of the closure. There was no plan at that time for closure of St. Sylvestre.

(Translation)

Mr. CHOQUETTE: At that time, the closing of the radar station could not be foreseen? Military science was not sufficiently developed, or had the higher hierarchy decided that the small radar stations would be closed immediately?

(Text)

Mr. ARMSTRONG: I do not know whether one attributes this to military science or not. All I can say is that in fact there was no decision to close that station at that time. Hindsight is always a good thing. Whether, looking back now, one could come to the conclusion that perhaps a decision could have been made in 1962, I do not know. However, certainly it was not made at that time and there was not a thought at that time, I think, of closing the station in 1964.

(Translation)

Mr. CHOQUETTE: In item 11, also, the contractor is mentioned. Who is that contractor mentioned in the second paragraph of item 11? Is it Defence Construction Limited, or is he one Nadeau of St-Sylvestre, county of Lotbinière?

(Text)

Mr. ARMSTRONG: I do not have the contractor's name. I am sure Mr. Henderson would have it there.

Mr. HENDERSON: The contractor was Nadeau et Frères.

(Translation)

Mr. CHOQUETTE: Nadeau et Frères! They were the contractors?

Mr. FRENETTE: That is correct.

(Text)

Mr. HENDERSON: Yes, they were the contractors.

(Translation)

Mr. CHOQUETTE: Then I see on the last line of section 11 that the Crown admitted its responsibility respecting half the costs. Was this discussed extensively, or was it not through the former minister of Defence Production who intended to show his magnanimity toward one of his subscribers?

(Text)

Mr. ARMSTRONG: As I mentioned earlier, contract settlements of this kind are the responsibility of Defence Construction Limited not that of the Department of National Defence.

Mr. CHOQUETTE: You mean to say that is under the jurisdiction of the Department of Defence Production?

Mr. ARMSTRONG: The settlement is, yes.

Mr. WINCH: How about the plans and engineering?

Mr. CHOQUETTE: If you do not mind, Mr. Winch, we will get through this now because it is very interesting.

The VICE-CHAIRMAN: First Mr. Choquette, then Mr. Rondeau, Mr. Hales and then you, Mr. Winch.

(Translation)

Mr. CHOQUETTE: Once more, Mr. Armstrong, how is it that in the first paragraph it is said that the contract was awarded to Defence Construction Limited, and in the second paragraph the contractor is stated as being Nadeau et Frères?

Mr. FRENETTE: That is not what is said there; Defence Construction awarded the contract.

Mr. CHOQUETTE: Then Defence Construction awarded a contract to Nadeau et Frères, who were the contractors. Then . . .

Mr. FRENETTE: That is right; Defence Construction awarded the contract to Nadeau et Frères.

(Text)

Mr. HENDERSON: That is correct.

(Translation)

Mr. CHOQUETTE: Then the amount of $65,284 mentioned in the third paragraph was paid as a supplement, apart from the sum of $127,136? Is that correct?

(Text)

Mr. HENDERSON: Yes.

Mr. ARMSTRONG: Yes, I think that is right.

(Translation)

Mr. CHOQUETTE: Have you any details concerning the agreement which was reached and which granted $65,284 to Nadeau et Frères?

(Text)

Mr. ARMSTRONG: I am not in a position to give you a detailed account of the various items that were included in that settlement. I could give you some information in terms of the reasons for paying an additional amount. In the course of the work unforeseen soil conditions were encountered in various sections of the project. The extent of those conditions was not detectable from preliminary soil test data, nor was there any indication of the subsurface conditions on the contract drawings. In some of the areas sub-surface water conditions were encountered resulting in the formation of soft silty soil material, underground springs with free flowing water presented further problems, while in other areas substantial rock excavation was required over that which had been estimated. All of those unforeseen conditions both impeded the progress of the contract and increased the cost. These are some of the rasons for the resulting increased cost. I do not have that report here with me.

(*Translation*)

Mr. CHOQUETTE: The experts' report, because it is mentioned that a committee of experts investigated on site. Have you the report of those experts?

(*Text*)

Mr. ARMSTRONG: I do not have the report.

(*Translation*)

Mr. CHOQUETTE: You do not have the report. Is it possible to obtain it some way or other, or . . .

In other words, I will tell you exactly what I want, Mr. Deputy Minister; this will probably make you understand better. One could not say that it is evident, but it may be suspected that if an amount of $65,000 was granted, then the government admits its guilt respecting half the damages. There is something strange in this, and one can suspect that it was through the former Minister of Defence Production, who then was the member of Parliament for Lotbinière, and also through some co-operation with the contractor Nadeau et Frères, who is one of the ex-minister's subscribers. Then, without a more detailed agreement, how can the government recognize its guilt respecting this amount of $65,000? There is something strange about this, and I would like to clear up this matter.

The VICE-CHAIRMAN: Mr. Choquette, since that information is not available at present, I wonder if Mr. Armstrong could not send it for the next meeting.

Mr. CHOQUETTE: Yes.

The VICE-CHAIRMAN: Is this satisfactory?

Mr. CHOQUETTE: Then, Mr. Deputy Minister, would it be possible to obtain, at the next meeting of the Public Accounts Committee, the complete report of the engineers who investigated on site? Secondly, would it be possible to obtain a copy of the agreement, which produced the regulation referred to, that is, to the effect that the government and the contractor agreed to share equally the damages which resulted from such works? Therefore, if it is possible, I would like to obtain the engineering report and the details of the agreement which was entered into between the government officials of that time and the contractors, Nadeau et Frères?

(*Text*)

Mr. ARMSTRONG: I do not have that report but I should think it is possible to obtain it.

Perhaps I could elaborate a little in the explanation I gave you regarding the unusual conditions which were found there. Because of those conditions it was in fact necessary to make certain design changes to meet the conditions of the subsoil surface. This resulted in the contractor having to work through the winter, which, of course, involved some additional changes.

After the thawing out period in the spring it was found in the course of pressure testing that the water line pipe had broken in many places. An independent firm of consulting engineers, Piette, Andy, Lepinay and Bertrand was employed to carry on an investigation to determine the cause of the failures. Their report indicated that movement of the saturated and unstable foundation materials under freezing winter conditions had subjected the pipe to loads in excess of its structural strength and the pipe was consequently broken.

As a result of further engineering studies by the engineers of the department of construction and the department it was determined that the tolerance of the design for underground surfaces could not be adapted to the unforeseen subsurface soil conditions which existed on site. A number of design changes were therefore made calling for cast iron pipe on a crushed rock bedding with

mechanical joints in lieu of the original specified asbestos water sewer pipe on a bed of sand. That remedial work involved reopening the entire system, was carried out during the summer of 1962 and finally was advanced sufficiently to permit the prefabricated houses to be put on footings by the middle of August. That explains the rather major changes that did take place during the course of the contract.

(*Translation*)

Mr. CHOQUETTE: The government decided to pay $65,000, on the advice of the experts or upon the specific recommendation of the Minister of Defence Production. If it did so on the advice of the experts, would it be possible to obtain a copy of the letters or the correspondence addressed by the latter to the government officials and which would show the reasons why the contractor shares equal responsibility with the government? Have you a copy of that correspondence?

(*Text*)

Mr. ARMSTRONG: The contract settlement was worked out by Defence Construction Limited and not by the Department of National Defence.

Mr. CHOQUETTE: It was not worked out by the Department of National Defence?

Mr. ARMSTRONG: I presume that material is in their files somewhere but I do not have it.

Mr. CHOQUETTE: You would not have that information?

(*Translation*)

The VICE-CHAIRMAN: In that case, it might have to be asked on the Orders of the Day.

Mr. CHOQUETTE: The Orders of the Day of the House?

The VICE-CHAIRMAN: Yes.

Mr. CHOQUETTE: This is my last question, Mr. Armstrong. Can you state categorically that in October 1961 it was not already contemplated to close the radar stations located at Parent, Edgar and St-Sylvestre? Was that question not already being studied in October 1961?

(*Text*)

Mr. ARMSTRONG: I am not aware of that and would have to go back and check further to be absolutely certain. I am sure it had not been or we would not obviously have done this construction.

(*Translation*)

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: Mr. Armstrong, in sections 8, 9, 10, 11 and 12, not to mention others, we always see the name of "Defence Construction Limited 1951". I assume that it is a Crown corporation?

(*Text*)

Mr. ARMSTRONG: Yes it is a Crown corporation.

Mr. RONDEAU: It is. I will now move to item No. 4.

(*Translation*)

Section 4 states that in 1960-61 (without precise date) it was decided to build a penitentiary at St-Pie, county of Bagot.

(*Text*)

Mr. HENDERSON: This is not the Department of National Defence, Mr. Rondeau. Penitentiary construction is under the jurisdiction of the Department of Justice.

Mr. RONDEAU: I realize that but I am permitted to ask questions in this regard at this time.

Mr. HENDERSON: Indeed you are but I doubt whether Mr. Armstrong will be able to reply.

(*Translation*)

The VICE-CHAIRMAN: This does not fall under Mr. Armstrong's department, and he surely cannot answer that question. It falls under the Department of Justice.

Mr. BERGER: He is so able that we wish to ask him questions about everything.

(*Text*)

Mr. HENDERSON: We could and will pick this subject up as we continue our work in respect of the 1963 report. We will pick up these paragraphs in respect of other departments, of which this is one, but we are now only picking up those which pertain to the Department of National Defence.

Mr. RONDEAU: I will defer my questions until we reach a consideration of those paragraphs.

Mr. HENDERSON: If I may say so, Mr. Chairman, that would be the right thing to do, if Mr. Rondeau does not mind. I can give him such information as we have in this regard but we may well have another witness at the time of our consideration of these paragraphs.

The VICE-CHAIRMAN: I think we should wait until then, Mr. Rondeau.

Mr. RONDEAU: That is fine.

Mr. HALES: In respect of most of the cases where the specifications were inadequate, were late in being produced or where designs were not confirmed, who prepared these specifications and designs?

Mr. ARMSTRONG: They were prepared by the Department of National Defence.

Mr. HALES: They were prepared by the Department of National Defence. How many employees would there be in your department in the design, construction, or whatever you call that department?

Mr. ARMSTRONG: Are you speaking of building construction.

Mr. HALES: Yes. I am speaking of those who draw all these designs and specifications.

Mr. ARMSTRONG: Yes. I think perhaps I ought to clarify this. The Department of National Defence is responsible for the design and specification of any item that we request the Department of Defence Production or defence construction to contract for us. Now, in building construction most of the design, in fact, is done by contracts awarded to consulting firms. We do the basic design to determine what we require but the detailed design is let out to contract. But, we in the Department of National Defence nevertheless are responsible for that design.

Mr. HALES: So, these cases we run into here, where specifications were inadequate and so on, are the responsibility of the Department of National Defence.

Mr. ARMSTRONG: Yes.

The VICE-CHAIRMAN: Or, some consulting firms?

Mr. ARMSTRONG: Well, the responsibility for design and what we seek in the way of equipment and the specifications for it rest with the Department of National Defence.

Mr. HALES: All right; that is what I want to establish. I wanted to establish where the responsibility lies for the specifications and designs, and the responsibility rests with your department if these are not ready in time or if they are wrong and incomplete.

Mr. ARMSTRONG: Yes, I think I would agree that that is our responsibility.

Mr. HALES: All right. As you realize, this crops up very often in respect of these things and I just wanted to place the responsibility. I have one other question and then I am through. When a contract is let and there is an additional payment to be made and any additional payment is made by defence construction or defence production, who are doing the buying, do they consult your department by saying that they need some extra money and ask you to O.K. these payments? I asked this afternoon if you O.K'd these extra payments as deputy minister and you said no, that some other official in the department did. Would you not agree with the committee that any amounts over and above the contract price—that is, any overpayment—should be O.K.'d by the deputy minister of the department.

Mr. ARMSTRTONG: We have responsible men as assistant deputy ministers to do this job. I think you will agree with me, Mr. Hales, that if you ask a deputy minister to sign too many things he will not get the job as well done as would be the case if he had some experts who are able to do the work, are trained for the job, have the capability of doing it, and can handle the volume. There are a tremendous number of things, as you appreciate, that go on in the Department of National Defence and the deputy minister just cannot see them all. It is not practicable. But, I would like to make the point again that the responsibility for settlement of a contract claim is the contracting department, not the Department of National Defence.

Mr. HALES: Well, these overpayments are such an important matter so far as the taxpayer's dollar is concerned. I think it would be the general opinion of this committee, from what we have been told and what we have examined, that this is getting out of bounds and these overpayments will have to be clamped down upon in some form or another, and I am just trying to establish which is the best way to do it.

Mr. ARMSTRONG: Mr. Hales, the question of whether these types of payments are out of bounds is a matter of judgment and a matter of standards. We have looked today at a number of contracts which have involved adjustments in respect of things which have gone wrong. But, we deal with expenditures on contracts of one kind and another in excess of $500 million in a year. When you look at the number of cases that are here in respect of the volume of the contracts, then I think there is some question whether or not they are out of bounds. I do not like to see these things any more than you do, or any more than do any of the other officers in the Department of National Defence. Certainly, we take all the measures of caution that we can take to avoid these things. There are occasions when circumstances happen that are, in fact, quite unforeseen which you cannot avoid at all. In fact, there are occasions when new developments arise after a contract has been let, or after a specification has been provided where it would be uneconomical not to do something about it, even though it involves a change in that contract; this may be as a result of a change in information, a change in needs, or other things. Therefore, these are not avoidable in their entirety.

I am afraid, in a department such as ours, there will be some things happen which probably cannot be avoided. Many of the things which do happen really are not avoidable in a real sense of the word.

Mr. HALES: As was said before, ever since I have been on the public accounts committee, this has been going on and does not seem to be improving. This is the point I am making. What is to be done to improve the situation?

We do not seem to have come to this point. At this hour in the evening it is too late to go into this; but our committee will have to come up with some pretty firm recommendation on this point.

Mr. ARMSTRONG: I believe there are many things in this respect which have been improved. In the shipbuilding field the changes which have appeared since 1953 have resulted in real improvement in terms of the contracting and in terms of the method of doing business which brings us better value for our money. I am in a difficult position in appearing before the committee, because these things are complicated and take a good deal of explanation. However, I assure you there are improvements.

Mr. WINCH: Mr. Chairman, I was going to ask some question in respect of No. 12, but any questions I could ask in this regard and any answers I would receive I think would be almost identical to what has been going on all day; so, I will pass.

Mr. CARDIFF: I learn a little more by keeping quiet and listening than by asking questions. I have come to the conclusion that your biggest trouble lies in the fact that there is an overlapping in responsibility from the Department of National Defence to the Department of Defence Construction; there is no person on whom you can pin the responsibility. You shift from one place to another until we cannot find out who is responsible or who is not. That is my conclusion. However, it is the government which has to pay the bill.

A good deal of money is involved here. In five different items in the 1962 report, I figured it up and there was an amount of $95,886 which was spent by way of negligence on the part of somebody. I am not blaming the deputy minister any more than the fact that there is some overlapping of responsibility; but it should be pinned down to somebody and should be corrected.

(*Translation*)

The VICE-CHAIRMAN: Mr. Frenette.

Mr. FRENETTE: I would like to revert to paragraph 11 concerning the installations at St. Sylvestre. You told us a while ago, Mr. Armstrong, that when plans are designed by the Department of National Defence, they are sometimes prepared by the engineers of Defence Construction, and sometimes by a private firm. In the case of St. Sylvestre, were the plans and specifications prepared by the engineers of Defence Construction or by a private firm?

(*Text*)

Mr. ARMSTRONG: You may have misunderstood me. The plans are not prepared by defence construction engineers. They would let a contract to a private consulting firm for the preparation of the plans; they do not prepare the plans themselves.

I do not think I have the information here with respect to the St. Sylvestre. I do not know if Mr. Henderson would have it or not.

(*Translation*)

Mr. CHOQUETTE: Could I ask, Mr. Chairman . . . Were any public tenders called for?

(*Text*)

Mr. ARMSTRONG: I think Mr. Henderson may have this information. I do not have it here.

Mr. CROUSE: Shall we meet tomorrow?

The VICE-CHAIRMAN: We are going to finish this tonight. We do not have any place to go anyway.

Mr. CROUSE: We have to get up and go to work in the morning. We are not like you people.

(*Translation*)

Mr. CHOQUETTE: Would it be possible to have that contract translated? Mr. Chairman, in view of the fact that I suspect a shady manoeuvre—I do not pull any punches—in the awarding of the contract to Nadeau et Frères, for the building of the foundations at St. Sylvestre, two years before it was announced that the radar station would be closed, could I obtain leave to request production of a copy of this contract? Is it possible to produce such documents, particularly those which were signed by Defence Construction?

The VICE-CHAIRMAN: That would have to be tabled through the Orders of of day?

Mr. CHOQUETTE: The Orders of the day?

The VICE-CHAIRMAN: It must be produced if you request it through the Orders of the day. You may ask any question you wish of Mr. Armstrong.

Mr. CHOQUETTE: Yes.

The VICE-CHAIRMAN: He does not know the answers, anyway.

Mr. CHOQUETTE: No.

The VICE-CHAIRMAN: This is what you will be told: have all documents tabled in the Orders of the day.

Mr. CHOQUETTE: I trust Mr. Armstrong's honesty and great ability.

The VICE-CHAIRMAN: You are right.

Mr. FRENETTE: Then, Mr. Chairman—

The VICE-CHAIRMAN: Yes, Mr. Frenette.

Mr. FRENETTE: In order not to hold up any further the work of the committee, and if I request additional information, I can arrange with Mr. Choquette—

Mr. CHOQUETTE: Certainly.

Mr. FRENETTE: And then we will consult one another.

Mr. CHOQUETTE: Is it possible to obtain the number of that contract, tonight maybe?

(*Text*)

The VICE-CHAIRMAN: Can you give him the number of the contract?

Mr. HENDERSON: I have the details here, Mr. Chairman. The contract was for the construction of foundations and the installation of services for mobile homes and two-storey units at St. Sylvestre. The contractor was Nadeau et Frères Limités. The cost was a firm price one of $127,135.75, as stated in my notes. Now, with regard to tenders, the information I have here indicates that as this was a classified project, tenders were invited from six Canadian firms considered best qualified to carry out this type of work, but only one tender was received, and that was a tender from Nadeau et Frères Limités. This was the only firm that tendered for the work. Its tender has been carefully analyzed and has been considered as fair and reasonable and in keeping with the work to be undertaken.

Mr. CHOQUETTE: Would you give us the names of the six firms?

Mr. HENDERSON: I do not have that information here.

The VICE-CHAIRMAN: You can get it after.

Mr. CHOQUETTE: I can get it. Do you have the number of the contract?

Mr. HENDERSON: The only reference I appear to have is a file number. I believe it may be pertinent to Defence Construction (1951) Limited. The file number is 122-7-12-S-13-24.

The VICE-CHAIRMAN: It would be a lot easier if you asked all the questions you want to ask, Mr. Choquette.

Mr. HENDERSON: This is the number of the file. Mr. Armstrong and I believe that it might be a clue to what you want, Mr. Choquette.

Mr. CHOQUETTE: I will conclude, as did Mr. Cardiff.

(*Translation*)

We do not know who is responsible in such matters. The Crown admits its responsibility to the extent of $65,000, and I state again the suspicions I am entertaining that there was a hidden manoeuvre in the awarding of the contract to Nadeau et Frères.

(*Text*)

The VICE-CHAIRMAN: Now, Mr. Rondeau.

Mr. RONDEAU: No.

The VICE-CHAIRMAN: Mr. Ryan?

Mr. RYAN: Mr. Armstrong, am I right in taking from what you said that the department has its own staff of architects and engineers, and that they are used on most projects; but occasionally you have to bring in consultants?

Mr. ARMSTRONG: I said we normally have our designs done by consultants.

Mr. RYAN: Do I take it you do not have a large staff of architects and engineers?

Mr. ARMSTRONG: We have a considerable staff, I do not have the number here. They have to prepare the working drawings and plans before the consultant can proceed with the details.

Mr. RYAN: These would be the preliminary plans?

Mr. ARMSTRONG: Yes, and of course our people do the detailed drawings on some projects.

Mr. RYAN: When you speak of a consultant, do you go outside to an architect? But most architects employ their own engineers, and therefore you have a contract in each case with an architect as well as with the actual contractor who has the contract for your project.

Mr. ARMSTRONG: Yes.

The VICE-CHAIRMAN: If there are no further questions I wish to thank Mr. Armstrong, both in your name and mine, for having been an excellent witness and for having given the committee a lot of information.

Thank, you, ahead of time, for being on time on July 16 at 9:30 in the morning when we will have Mr. George Scott, the acting deputy minister of transport, to answer questions on the 1962 and the 1963 reports.

Mr. HALES: Further to what you said about Mr. Armstrong as our witness today, I think we all realize it is a pretty tough job for him to be in and to have to answer for all those in his department who have made errors or mistakes, and so on. However, I would think—and I always try to put myself in the other fellow's position—that tomorrow morning I would call in the heads of my engineering department and say, "Gentlemen, if you get me into these fixes next year, there will be some real trouble".

The VICE-CHAIRMAN: The meeting is adjourned.

APPENDIX

ARMY HEADQUARTERS

HQ 5850-4-8(Mov 5)
HQ 1546-75/115 (D Mov)

OTTAWA 4, Ont 27 Aug 63

D MOV BULLETIN NO 63/11

MOVEMENT OF MOBILE TRAILER HOME
(HOUSE TRAILER)

1. The purpose of this bulletin is to outline the revised procedures for the Movement of a Mobile Trailer Home (House Trailer). Manual of Movement 301.31 is cancelled. The procedure in this bulletin is effective 1 Oct 63.

2. Definition—The term Mobile Trailer Home (house trailer) includes all types of mobile dwellings constructed for use as a residence and designed to be moved overland. They may be self-propelled or movable by towing. Baggage, utility, camping or farm trailers are not considered as mobile trailer homes or house trailers within the meaning of this Order.

3. Application—This Order applies to members who are bona fide residents of a mobile trailer home and the benefits prescribed herein shall be applicable only to the move of a mobile home within Canada or the USA. The following certificate is to be completed by the Serviceman before leaving his SOS-ing unit and shall be attached to his claim for reimbursement.

CERTIFICATE TO BE COMPLETED BY THE OWNER
OF A MOBILE TRAILER HOME

I certify that:

a. I have resided permanently in mobile trailer home accommodation for the past ..... months,

b. such mobile trailer home is not ancillary to or maintained in conjunction with other permanent non-mobile accommodation.

c. F&E for which claim for reimbursement is being made does not include any items NOT admissible such as in the list given me or exterior items acquired as a result of residence in a mobile trailer home but not essentially furniture and effects.

(Date) (Signature of service member)
....

Note: A list of non-admissible items is to be reproduced locally and given to the claimant.

4. DND 522—An Order for Carriage or Storage of Furniture and Effects (DND 522) will NOT be issued for the movement of a mobile trailer home.

5. When a member tows his own mobile trailer home with his private motor car or truck, or drives it, if self-propelled, reimbursement shall not be made for the F&E carried therein. Reimbursement may, however, be made for that portion moved under para 6 b. of this order.

6. Subject to QR(Army) 209.84(2), a member who owns and occupies a mobile trailer home and who is authorized to move his F&E to his new place of duty shall be reimbursed for:

a. the actual amount paid for moving the vehicle and contents by commercial road tow or rail and

b. the actual amount paid for moving that part of his F&E by commercial road or rail carrier which cannot be carried in the mobile trailer home due to weight or space limitations.

c. packing and unpacking, not in excess of the CWA rate (for the weight packed), when it is certified by the CO of the SOS-ing unit (or an officer delegated to make such examination) that these services were necessary for the preparing and securing of those items which require protection during the movement. Claims for reimbursement shall include the following certification:

CERTIFICATE OF NECESSITY FOR PACKING/UNPACKING SERVICES

I certify that packing and unpacking services performed—(name of mover)

by .....

were essential for the safe movement and protection of the admissible contents of the mobile trailer home, property of:

(Service No) (Rank) (Surname and Initials) (Unit)

.....

and that it contains only such items as are on the list of admissible items published in service regulations for the (CA(R)) and does not include any items that are built-in in the mobile trailer home. I estimate the weight of the items actually packed to be .... lbs.

(date)

(Signature of SOS-ing Unit CO)

.....

d. additional charges for provincial, state or federal road, bridge and ferry tolls including any special transit permits.

7. Total reimbursement under para 6 above shall not exceed the hypothetical cost which would have been incurred had the entire quantity of admissible F&E been shipped by the most economical means.

8. Claims for reimbursement for interim lodging shall be limited to the number of days that a serviceman and his family are unavoidably separated from their mobile trailer home. Transit time for the move of the mobile trailer home normally shall not exceed the time allowed for travel by private motor car.

9. The member shall be entitled to the benefits of QR(Army) 209.85—Moving Allowance.

10. A member and his dependents shall be entitled to transportation and travelling expenses which would be applicable had they not been residents of a mobile trailer home.

11. Where an entitlement exists for storage of furniture and effects at public expense, F&E must be removed from the mobile trailer home and stored with a recognized storage company. Storage in transit charges are not allowable. No authority exists for the payment at public expense of the costs of storage of a mobile trailer home with or without its contents.

12. Claim for reimbursement shall be supported by:

a. When a move is by commercial road tow—

(1) A copy of a haulers invoice supported by his published tariff or scale of rates;

(2) The original receipt for provincial, state or federal road, bridge or ferry tolls including any special transit permits. Where a receipt is not obtainable, a member's certification of the amounts paid;

(3) If the trailer is weighed separately, a weigh scale ticket showing the gross weight of the mobile trailer home; or

(4) If the tractor is weighed with the trailer, a separate weigh scale ticket showing the gross weight of the tractor alone;

(5) A weigh scale ticket or other documentary evidence from the manufacturer which establishes the tare weight of the mobile trailer home (tare weight is shell weight which excludes the built-in furniture and other contents);

(6) A paid invoice for moving that portion of F&E allowed in para 6 b supported by a weigh scale ticket (or railway waybill);

(7) Certificate of necessity for packing/unpacking services together with a detailed list of the items which required packing.

b. When a move is by rail—

(1) A railway freight bill showing scaling particulars;

(2) A weigh scale ticket or other documentary evidence from the manufacturer which established the tare weight of the mobile trailer home (tare weight is shell weight which excludes the built-in furniture and other contents);

(3) A paid invoice for moving that portion of F&E allowed in para 6 b supported by a weigh scale ticket (or railway waybill);

(4) Certificate of necessity for packing/unpacking services together with a detailed list of the items which required packing.

13. For the purpose of establishing entitlement to reimbursement, the hypothetical weight of F&E which could be moved at public expense shall consist of:

a. the difference between the gross and tare weight of the mobile trailer, and

b. the actual weight of any additional F&E moved by commercial road or rail carrier.

14. If the contents of the mobile home, as determined by 13 *a*. above, exceeds 3,000 lbs., the claim is to be supported by an itemized list of the contents including built-in furniture. The Commanding officer of the destination unit or an officer delegated by him, shall determine whether the individual items listed are admissible and consistent with the total weight claimed. Where the itemized list appears so large as to be unreasonable in relation to the size of the trailer, the CO of the destination unit or his delegated officer should make such further checks as appear necessary.

15. The following items and services are non-admissible:

a. ITEMS

(1) Boats or parts of boats
(2) Livestock, poultry and pets
(3) Perishable foods deep freeze contents
(4) or items requiring heat or refrigeration
(5) Fuel, solid or liquid
(6) Fuel drums
(7) Patio stones, cement blocks
(8) Outdoor barbecues (brick, stone or cement)
(9) Lumber, building materials
(10) Empty bottles, exclusive of preserving jars
(11) Portable buildings, knocked down
(12) Porches, fences.

b. SERVICES

(1) Extra pick-up and delivery
(2) Waiting time, delays
(3) Insurance
(4) Connecting or disconnecting to public utilities, i.e. light, heat, water, sewer.

16. This Order shall not be interpreted as either an additional benefit intended to assist a member in moving his mobile trailer home, which is his own responsibility, or an entitlement to storage of excess F&E; to which he would NOT be entitled were he resident in other than a mobile trailer home.

(M. W. Lawrence),
Colonel,
Director of Movements.

DISTRIBUTION

In accordance with Annex "A" to "D" Mov Bulletin No. 63/1.